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北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 392)

OVERSEAS REGULATORY ANNOUNCEMENT

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

Reference is made to the announcements of Beijing Enterprises Holdings Limited (the “**Company**”) dated 21 April 2015 and 30 April 2015 in relation to the issue of the Bonds (the “**Announcements**”). All terms used herein have the same meaning as defined in the Announcements, unless otherwise defined.

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

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

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

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

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

Hong Kong, 4 May 2015

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

IMPORTANT NOTICE

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

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OFFERING CIRCULAR

Talent Yield (Euro) Limited

(incorporated with limited liability in the British Virgin Islands)

EUR500,000,000 1.435% Guaranteed Bonds due 2020

unconditionally and irrevocably guaranteed by



北京控股有限公司

BEIJING ENTERPRISES HOLDINGS LIMITED

Beijing Enterprises Holdings Limited

(incorporated with limited liability in Hong Kong)

Issue Price: 99.914 per cent.

The 1.435 per cent. Guaranteed Bonds due 2020 in the aggregate principal amount of EUR500,000,000 (the “**Bonds**”) will be issued by Talent Yield (Euro) Limited (the “**Issuer**”) and unconditionally and irrevocably guaranteed (the “**Guarantee**”) by Beijing Enterprises Holdings Limited (the “**Guarantor**” or the “**Company**”). The Bonds will be constituted by a trust deed to be dated 7 May 2015 (the “**Trust Deed**”) made between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch (the “**Trustee**”). The Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer. The Guarantor constitutes an unconditional and unsecured obligation of the Guarantor and will rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor. The Issuer is a wholly-owned subsidiary of the Guarantor.

Interest on the Bonds is payable annually in arrear on 7 May in each year (each an “**Interest Payment Date**”), commencing on 7 May 2016. All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, Hong Kong or the People’s Republic of China (the “**PRC**”) to the extent described in “Terms and Conditions of the Bonds — Taxation”.

Unless previously redeemed, or purchased and cancelled, the Bonds will mature on 7 May 2020 at their principal amount. The Bonds may be redeemed at the option of the Issuer, in whole but not in part, on giving not less than 30 nor more than 60 days’ notice, at the Early Redemption Amount (as defined in the Terms and Conditions of the Bonds). See “Terms and Conditions of the Bonds — Redemption and Purchase — Redemption at the Option of the Issuer”. The Bonds are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time on giving not less than 30 nor more than 60 days’ notice in the event of certain changes affecting taxes of the British Virgin Islands, Hong Kong or the PRC. See “Terms and Conditions of the Bonds — Redemption and Purchase — Redemption for Taxation Reasons”. At any time following the occurrence of a Change of Control Triggering Event (as defined in the Terms and Conditions of the Bonds), the holder of a Bond will have the right, at such holder’s option, to require the Issuer to redeem all, or some only, of that holder’s Bonds on the Change of Control Put Date (as defined in the Terms and Conditions of the Bonds) at 101 per cent. of their principal amount, together with accrued interest to but excluding such Change of Control Put Date. See “Terms and Conditions of the Bonds — Redemption and Purchase — Redemption for Change of Control Triggering Event”.

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

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

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

The Bonds will be represented initially by beneficial interests in a global certificate (the “**Global Certificate**”) in registered form which will be registered in the name of a nominee of, and shall be deposited on or about 7 May 2015 (the “**Issue Date**”) with a common depository for, Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream**”). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

The Bonds are expected to be rated “A3” by Moody’s Investors Service Inc. (“**Moody’s**”) and “BBB+” by Standard & Poor Ratings Group (“**S&P**”). Such ratings do not constitute a recommendation to buy, sell or hold the Bonds and may be subject to revision or withdrawal at any time by either such rating organisation. Each such rating should be evaluated independently of any other rating of the Bonds, the Issuer’s or the Guarantor’s other securities or of the Issuer or the Guarantor.

The Bonds will be in the denominations of EUR100,000 and integral multiples of EUR1,000 in excess thereof.

Joint Global Coordinators and Bookrunners

Deutsche Bank

UBS

Joint Bookrunners

ANZ

Bank of China

Bank of China (Hong Kong)

DBS Bank Ltd.

Offering Circular dated 30 April 2015

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IMPORTANT NOTICE

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

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

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

This Offering Circular has been prepared by the Issuer solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and Deutsche Bank AG, London Branch and UBS AG, Hong Kong Branch (the “**Joint Global Coordinators and Bookrunners**”) and Australia and New Zealand Banking Group Limited, Bank of China Limited, Bank of China (Hong Kong) Limited and DBS Bank Ltd., (the “**Joint Bookrunners**”) and together with the Joint Global Coordinators and Bookrunners (the “**Managers**”) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this document in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds or redemption of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, Japan, Singapore, Taiwan and Hong Kong, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see “Subscription and Sale”.

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

None of the Managers, the Trustee nor the Agents has separately verified the information contained in this Offering Circular, no representation or warranty, express or implied, is made or given by the Managers, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Managers, the Trustee or the Agents. To the fullest extent permitted by law, none of the Managers, the Trustee or Agents accept any responsibility for the contents of this Offering Circular or for any statement made or purported to be made by the Managers, Trustee or the Agents or on their behalf in connection with the Issuer or the

Guarantor or the issue and offering of the Bonds. Each of the Managers, the Trustee, the Agents and their respective affiliates accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Managers, the Trustee, the Agents or any of their respective affiliates undertakes to review the financial condition or affairs of the Issuer or the Guarantor during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor of the Bonds of any information coming to the attention of any of the Managers, the Guarantor, the Trustee, the Agents or their respective affiliates. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

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

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

The Guarantor has prepared audited consolidated financial statements for the years ended 31 December 2013 and 2014, see “Summary Financial Information”. These financial statements were prepared in conformity with HKFRS.

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

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

This Offering Circular contains translations of certain HK\$ amounts into U.S. dollars at specified rates solely for the convenience of the readers. Unless otherwise specified in this Offering Circular, where financial information in relation to the Guarantor has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of HK\$7.7531 to US\$1.00 (the noon buying rate in New York City on 31 December 2014 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System). Further information regarding exchange rate is set forth in Exchange Rate Information in this Offering Circular. No representation is made that the HK\$ amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

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

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

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

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

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

SUMMARY

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

Overview

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

Beijing Gas, in which the Guarantor has a 100 per cent. interest, ranks as one of the largest city natural gas suppliers in the PRC with pipelines in operation in Beijing of approximately 16,931 kilometres and approximately 5.21 million natural gas users as at 31 December 2014. With over five decades of fuel gas management experience and expertise, Beijing Gas’ natural gas distribution network supplies natural gas to residential, industrial and power generation users in the Greater Beijing city area. Consistent with the PRC Government’s objective to reduce coal-fired power generation in the Greater Beijing city area, the Guarantor expects such growth opportunities to help maintain and expand the Guarantor’s leading position through coal-to-gas power plant conversions and increased promotion of natural gas as a cleaner alternative to other power generation fuels.

China Gas, in which the Guarantor has a 22.53 per cent. interest, is a gas operator and service provider primarily engaged in the construction and operation of city gas pipeline infrastructure facilities, gas terminals, storage and transportation facilities, gas logistics systems, transmission of natural gas and liquefied petroleum gas to residential, industrial and commercial customers, construction and operation of gasoline and gas refilling stations as well as the development and application of technologies relating to petroleum, natural gas and liquefied petroleum gas in China.

Yanjing Brewery, in which the Guarantor has a 57.57 per cent. interest, operates one of the largest breweries in the PRC with a diversified brand and product portfolio, a leading market position in Beijing and strong national reputation. Yanjing Brewery produces a wide variety of products designed to appeal to different consumer groups and covering different price points. Through its wide-reaching local production centres, it distributes beer and other beverage products to most parts of the PRC using a three-tier distribution network of distributors, wholesalers and retailers.

Beijing Water, in which the Guarantor has a 43.92 per cent. interest, operates sewage and water treatment facilities in 21 provinces across the PRC. Extensive PRC Government policy directives intended to ensure a safe and reliable water supply throughout the PRC have resulted in opportunities to bundle sewage and water treatment projects, thereby enabling Beijing Water to leverage its design, construction and operations expertise for provincial governments nationally. Beijing Water has developed an integrated business model with design and technical consultancy, construction, ownership and operational capabilities for sewage and water treatment projects. Beijing Water’s extensive project capabilities enable it to capture the entire value chain from project concept and design stages through construction and operation.

Beijing Development, in which the Guarantor has a 50.36 per cent. interest, is primarily engaged in solid waste treatment business after acquiring two solid waste incineration plants in the PRC in the year ended 31 December 2014.

The Guarantor recorded revenue of HK\$35,569.6 million, HK\$42,360.5 million and HK\$47,935.8 million for 2012, 2013 and 2014, respectively, and had total assets of HK\$89,498.6 million, HK\$109,621.8 million and HK\$124,063.9 million as at 31 December 2012, 2013 and 2014, respectively.

Competitive Strengths

The Guarantor believes its competitive strengths include:

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

Business Strategy

The Guarantor's strategies include:

- leveraging natural gas experience and extensive network to exploit new markets;
- promoting natural gas as a cleaner alternative for residential, commercial and power generation uses;
- strengthening national branding and expanding production capacity of Yanjing Brewery;
- striving to derive synergistic benefits from its investment in China Gas;
- re-designing the business model to accelerate expansion of sewage and water treatment projects of Beijing Water; and
- capturing the increasing market potential of the environmental protection industry in the PRC through the strategic transformation of Beijing Development.

THE OFFERING

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

Issuer	Talent Yield (Euro) Limited, a limited liability company incorporated in the British Virgin Islands.
Guarantor	Beijing Enterprises Holdings Limited, a limited liability company incorporated in Hong Kong.
Issue	EUR500,000,000 aggregate principal amount of 1.435 per cent. Guaranteed Bonds due 2020.
Issue Price	99.914 per cent.
Form and Denomination	The Bonds will be issued in registered form in the denominations of EUR100,000 and integral multiples of EUR1,000 in excess thereof.
Interest	The Bonds will bear interest from and including the Issue Date at the rate of 1.435 per cent. per annum, payable annually in arrear on 7 May in each year, commencing 7 May 2016.
Issue Date	7 May 2015.
Maturity Date	7 May 2020.
Status	The Bonds will constitute direct, unsubordinated, unconditional and (subject to Condition 4(a) of the Terms and Conditions of the Bonds), unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all the Issuer’s other present and future unsecured and unsubordinated obligations.
Guarantee	The Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor’s obligations in respect of the Bonds and the Trust Deed (the “ Guarantee ”) are contained in the Trust Deed (and any supplement thereto).
Rating	<p>The Bonds are expected to be rated “A3” by Moody’s and “BBB+” by S&P.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.</p>

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

	The Common Code and ISIN for the Bonds are 122497682 and XS1224976826, respectively.
Listing	Application has been made to the Irish Stock Exchange plc for the approval of this Offering Circular as Listing Particulars. Application has been made to the Irish Stock Exchange for the Bonds to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.
Governing Law	English law.
Trustee	The Bank of New York Mellon, London Branch.
Principal Paying Agent	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent	The Bank of New York Mellon (Luxembourg) S.A.
Further Issues	The Issuer may from time to time, without the consent of the Bondholders, create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated, as further described in Condition 15 of the Terms and Conditions of the Bonds.
Use of Proceeds	See “Use of Proceeds”.
Selling Restrictions	The Bonds will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Subscription and Sale”.

SUMMARY FINANCIAL INFORMATION

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

The summary consolidated financial information of the Guarantor as at and for the years ended 31 December 2012, 2013 and 2014 set forth below is derived from and should be read in conjunction with the Guarantor's consolidated financial statements for the years ended 31 December 2013 and 2014, including the notes thereto, which have been audited by Ernst & Young, and included elsewhere in this Offering Circular.

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

Consolidated Statement of Profit or Loss

	For the year ended 31 December			
	2012	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000	USD'000
REVENUE	35,569,649	42,360,528	47,935,795	6,182,791
Cost of sales	(28,207,604)	(34,023,315)	(39,359,764)	(5,076,649)
Gross profit	7,362,045	8,337,213	8,576,031	1,106,142
Gain on disposal of interests in subsidiaries, net	601,976	25,935	—	—
Gain on deemed disposal of partial interest in an associate	—	581,428	378,843	48,863
Other income and gains, net	897,481	908,099	862,480	111,243
Selling and distribution costs	(2,382,424)	(2,611,439)	(2,595,985)	(334,832)
Administrative expenses	(3,057,777)	(3,345,808)	(3,407,908)	(439,554)
Other operating expenses, net	(319,085)	(197,707)	(482,408)	(62,221)
PROFIT FROM OPERATING ACTIVITIES	3,102,216	3,697,721	3,331,053	429,641
Finance costs	(996,636)	(1,133,744)	(1,172,491)	(151,228)
Share of profits and losses of:				
Joint ventures	(343)	(5,847)	4,827	623
Associates	2,049,495	2,742,612	3,807,092	491,041
PROFIT BEFORE TAX	4,154,732	5,300,742	5,970,481	770,077
Income tax	(557,155)	(545,287)	(564,834)	(72,853)
PROFIT FOR THE YEAR	<u>3,597,577</u>	<u>4,755,455</u>	<u>5,405,647</u>	<u>697,224</u>
ATTRIBUTABLE TO:				
Shareholders of the Guarantor	3,234,992	4,183,878	4,831,678	623,193
Non-controlling interests	362,585	571,577	573,969	74,031
	<u>3,597,577</u>	<u>4,755,455</u>	<u>5,405,647</u>	<u>697,224</u>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE GUARANTOR				
Basic	<u>HK\$2.84</u>	<u>HK\$3.61</u>	<u>HK\$3.78</u>	<u>USD0.49</u>
Diluted	<u>HK\$2.78</u>	<u>HK\$3.54</u>	<u>HK\$3.77</u>	<u>USD0.49</u>

Consolidated Statement of Financial Position

	As at 31 December			
	2012	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000	USD'000
ASSETS				
Non-current assets:				
Property, plant and equipment.....	32,805,468	38,996,767	39,320,530	5,071,588
Investment properties.....	665,144	719,968	703,749	90,770
Prepaid land premiums	1,640,194	1,785,609	1,959,240	252,704
Goodwill	7,549,326	7,659,735	8,832,689	1,139,246
Operating concessions	419,238	606,292	2,021,350	260,715
Other intangible assets.....	19,650	64,120	236,978	30,566
Investments in joint ventures	136,706	217,350	230,722	29,759
Investments in associates.....	15,120,306	29,184,338	33,275,203	4,291,858
Available-for-sale investments	883,170	1,315,859	1,084,098	139,828
Amounts due from contract customers ..	769,559	947,102	316,733	40,852
Receivables under service concession arrangements	505,248	—	992,597	128,026
Prepayments, deposits and other receivables	1,139,600	1,316,771	1,165,546	150,333
Deferred tax assets	552,926	601,056	678,460	87,508
Total non-current assets	<u>62,206,535</u>	<u>83,414,967</u>	<u>90,817,895</u>	<u>11,713,753</u>
Current assets:				
Prepaid land premiums	43,643	53,509	44,860	5,786
Property held for sale	28,511	—	—	—
Inventories.....	5,913,959	5,661,492	5,393,368	695,640
Amounts due from contract customers ..	16,441	28,599	39,895	5,146
Receivables under service concession arrangements	1,007,375	701,582	140,425	18,112
Trade and bills receivables	2,403,154	4,393,374	5,320,835	686,285
Prepayments, deposits and other receivables	3,992,633	4,290,561	6,131,039	790,785
Other taxes recoverable	203,152	219,169	2,232,099	287,898
Restricted cash and pledged deposits	60,953	63,104	58,735	7,576
Cash and cash equivalents	12,236,964	10,795,467	11,207,706	1,445,577
	25,906,785	26,206,857	30,568,962	3,942,805
Non-current asset and assets of disposal groups classified as held for sale	1,385,301	—	2,677,061	345,289
Total current assets.....	<u>27,292,086</u>	<u>26,206,857</u>	<u>33,246,023</u>	<u>4,288,094</u>
TOTAL ASSETS	<u>89,498,621</u>	<u>109,621,824</u>	<u>124,063,918</u>	<u>16,001,847</u>

Selected Financial Information of the Guarantor (Continued)

	As at 31 December			
	2012	2013	2014	2014
	HK\$'000	HK\$'000	HK\$'000	USD'000
EQUITY AND LIABILITIES				
Equity attributable to shareholders of the Guarantor				
Share capital and other statutory capital reserves	20,852,286	29,734,548	30,401,883	3,921,255
Reserves	18,212,882	23,522,995	25,978,176	3,350,682
Proposed final dividend	572,286	763,695	796,297	102,707
	<u>39,637,454</u>	<u>54,021,238</u>	<u>57,176,356</u>	<u>7,374,644</u>
Non-controlling interests	<u>8,030,221</u>	<u>10,046,841</u>	<u>10,874,635</u>	<u>1,402,618</u>
TOTAL EQUITY	<u><u>47,667,675</u></u>	<u><u>64,068,079</u></u>	<u><u>68,050,991</u></u>	<u><u>8,777,262</u></u>
Non-current liabilities:				
Bank and other borrowings	4,224,787	4,519,636	5,559,874	717,116
Guaranteed senior notes	13,853,502	13,866,081	13,879,298	1,790,161
Liability component of convertible bonds	2,259,313	93,501	—	—
Derivative component of convertible bonds	9,428	8,851	—	—
Defined benefit plans	507,148	535,655	672,659	86,760
Provision for major overhauls	29,414	30,544	30,544	3,940
Other non-current liabilities	244,060	361,859	433,447	55,906
Deferred tax liabilities	375,979	233,462	319,441	41,202
Total non-current liabilities	<u>21,503,631</u>	<u>19,649,589</u>	<u>20,895,263</u>	<u>2,695,085</u>
Current Liabilities:				
Trade and bills payables	2,616,491	2,383,225	2,238,403	288,711
Amounts due to contract customers	177,874	325,794	377,784	48,727
Receipts in advance	3,418,479	5,690,597	5,843,713	753,726
Other payables and accruals	6,951,842	9,014,718	7,656,455	987,535
Income tax payables	504,624	378,319	342,499	44,176
Other taxes payable	240,517	821,418	266,372	34,357
Liability component of convertible bonds	—	673,054	84,556	10,906
Derivative component of convertible bonds	—	—	7,639	985
Bank and other borrowings	6,276,941	6,617,031	17,691,435	2,281,853
	<u>20,186,768</u>	<u>25,904,156</u>	<u>34,508,856</u>	<u>4,450,976</u>
Liabilities directly associated with the assets of disposal groups classified as held for sale	140,547	—	608,808	78,524
Total current liabilities	<u>20,327,315</u>	<u>25,904,156</u>	<u>35,117,664</u>	<u>4,529,500</u>
TOTAL LIABILITIES	<u><u>41,830,946</u></u>	<u><u>45,553,745</u></u>	<u><u>56,012,927</u></u>	<u><u>7,224,585</u></u>
TOTAL EQUITY AND LIABILITIES	<u><u>89,498,621</u></u>	<u><u>109,621,824</u></u>	<u><u>124,063,918</u></u>	<u><u>16,001,847</u></u>

RISK FACTORS

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

Risks relating to the Group

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

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

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

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

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

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

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

The Group assesses acquisition opportunities during the course of its business to expand the Group's infrastructure and utilities business and enhance its competitive advantages in the PRC and particularly, in Beijing.

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

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

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

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

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

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

The Group's joint venture partners' interests may conflict with its interests and creditors including, the holders of the Bonds

The Group's joint venture partners may:

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

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

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

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

Increasing competition may adversely affect the Group's profitability

The Group faces competition from international and local companies (including other state-owned companies) with respect to location, facilities and supporting infrastructure, services and pricing. The Group competes with local and international companies in capturing new business opportunities in the PRC. A number of the Group's competitors have greater financial and capital

resources, marketing capabilities and/or brand recognition than the Group. In addition, some local companies have extensive knowledge and business relationships and a longer operational track record in the relevant local markets than the Group whereas international companies are able to capitalise on their overseas experience.

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

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

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

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

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

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

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

According to notices from the Beijing People's Government dated 16 August 2005 and 21 April 2006, respectively and an implementation plan 《北京燃氣有限公司管道天然氣特許經營項目實施方案》 agreed in principle by Beijing People's Government in 2006, the Group has been granted a concession right to exclusively operate the natural gas network in Beijing for 25 years. According to the "Municipal Utility Concession Administrative Measures" (the "**Concession Measures**") issued by the Ministry of Construction in March 2004 and which became effective on 1 May 2004, the concession right of operating a natural gas network in an urban area of a city/county/province has a maximum duration of 30 years. On 22 January 2007, the Beijing Municipal Administration Commission issued the approval document (《北京市燃氣經營許可證》) to the Group for operating the urban natural gas pipeline networks of Beijing.

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

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

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

The Group relies upon the PetroChina Associate Company to produce, in a timely manner, the quality and volumes of natural gas for which it contracts with the Group. In the event that the PetroChina Associate Company does not perform in accordance with its contractual obligations, the

Group may be required to seek alternative sources of natural gas supply. In the event that such supply becomes scarce, whether as a result of lack of supply, extreme demand, political events, natural disasters or otherwise, the Group may be required to pay more to secure natural gas supplies, which would have a material adverse effect on its financial condition and results of operations.

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

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

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

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

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

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

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

The Group faces competition from competing products within the energy industry

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

the Group will be able to compete successfully against existing and potential energy substitutes or that increased competition within the energy industry will not have an adverse effect on its business and financial condition. Any material decrease in the usage of natural gas by the Group's customers may materially and adversely affect its financial condition and results of operations.

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

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

- repeated failure to comply with the obligations under the Group's licences and failure to remedy a significant breach of obligation in accordance with specified procedures;
- total or partial interruption of service for reasons attributable to the Group;
- sale, assignment or transfer of the Group's essential assets or the placing of encumbrances thereon without prior authorisation, unless such encumbrances serve to finance extensions and improvements to the gas pipeline system;
- bankruptcy, dissolution or liquidation;
- gas supplied failing to meet the national standards, and if such failure persists in spite of warnings of relevant regulatory agencies and beyond grace periods, if any;
- ceasing and abandoning the provision of the licensed service, attempting to assign or unilaterally transfer the Group's licences in full or in part without prior authorisation, or giving up its licenses, other than in the cases permitted therein; and
- delegation of the functions granted in such licenses without the prior regulatory authorisation.

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

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

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

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

Although the Group believes it maintains adequate insurance coverage, the Group may not be fully insured against all risks inherent to its business. In addition, there are certain types of losses (such as those arising from wars, acts of terrorism or acts of God) that are generally not insured

against because they are either uninsurable or not economically insurable. If a significant accident or event occurs against which the Group is not insured or not fully insured, the Group's financial condition and results of operations may be adversely affected. In addition, the Group may not always be able to obtain insurance of the type and amount the Group desires at reasonable rates. Over time, premiums and deductibles for insurance policies may increase substantially, and certain insurance policies could become unavailable or available only for reduced amounts of coverage. If the Group was to incur significant liability for which the Group is not insured or not fully insured, such liability could have a material adverse effect on its financial position and results of operations. In addition, any claims made under any insurance policies maintained by the Group may not be paid in a timely manner, or at all, and may be insufficient if such an event were to occur.

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

A variety of general and industry-specific PRC environmental laws and regulations apply to the Group's operations such as damage caused by air emissions, noise emissions, waste water discharges, waste pollution and solid and hazardous waste handling and disposal. Costs and liabilities relating to compliance with applicable environmental laws and regulations are an inherent part of the Group's business operations. These laws can impose liability for non-compliance or clean up liability on the generation of hazardous waste and other substances from the Group's business operations that are disposed of either on or off-site, regardless of fault or the legality of the disposal activities. The Group may also be required to investigate and remedy contamination at its properties or where the Group conducts operations, including contamination that was caused in whole or in part by previous owners of properties. Moreover, environmental laws and regulations are becoming increasingly stringent and may in the future impose onerous obligations on the Group or significant penalties for non-compliance. While the Group intends to comply with applicable environmental legislation and regulatory requirements, it is possible that such compliance may materially restrict the operations of its business and/or result in significant costs for the Group.

In addition to potential clean-up liability, the Group may become subject to monetary fines and penalties for violation of applicable environmental laws, regulations or administrative orders. This may result in closure or temporary suspension or result in the imposition of restrictions on the Group's operations. The Group may become involved in legal proceedings that may require it to pay fines, comply with more rigorous standards or incur capital and operating expenses for environmental compliance. Third parties may sue the Group for damages and costs resulting from environmental contamination from its properties and/or production facilities.

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

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

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

Changes in government policies could affect the Group's business

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

On 31 May 2010, the NDRC adjusted the price-setting mechanism of natural gas. In order to save resources, to adjust the prices of natural gas with other alternative resources and to allocate natural gas resources rationally, the NDRC decided to increase the ex-factory benchmark price of natural gas produced by China and improve the natural gas pricing policies and related measures, which include: removing the “dual-pricing mechanism,” and increasing the ex-factory benchmark price of onshore natural gases produced by China; and increasing the floating range of prices. After combining the first and second tiers of prices of onshore natural gases produced by China, the ex-factory benchmark price may fluctuate up to 10 per cent. of the guidance price with no limit on the minimum price; and business parties may negotiate the actual price within such floating range.

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

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

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

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

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

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

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

As part of the Group’s business expansion plans, it intends to expand its natural gas distribution and transmission network through selective acquisitions or by forming joint ventures. The Group may face unforeseen costs, delays in negotiating terms of agreements, difficulties in obtaining licences

from local government and regulatory authorities and competition from local service providers. Any delays in implementing the Group's expansion plans may divert management attention from daily activities and may have a material adverse impact on its operations, financial condition and results of operations.

Labour disruptions could interrupt the Group's operations

As at 31 December 2014, the Group employed approximately 49,500 employees in the PRC. Some of the Group's PRC employees are currently represented by labour unions. In addition, employees of some of the Group's suppliers, contractors or companies (in each case, especially in the PRC) in which the Group has investments are or may become unionised in the future or experience labour instability. Although the Group enjoys good labour relations with its employees, the Group is unable to predict the outcome of any future labour negotiations. Any conflicts with the Group's employees or contractors and/or their respective unions could have a material adverse effect on its financial condition and results of operations.

Risks relating to Yanjing Brewery's Business

The brewery business is a highly competitive and fragmented market

The brewery industry in the PRC is highly fragmented with over 400 brewers. While the Group maintains a competitive position in the Beijing market, the Group's main competitors outside of Beijing include large local and international breweries, such as the Tsingtao Brewery Group, China Resources Snow Breweries Co. Ltd., and other numerous local breweries, many of whom have better financial and other capital resources and marketing expertise. Competition in the brewery industry is expected to continue to intensify as leading breweries compete against one another to acquire local and regional breweries in order to increase their respective market shares and this is likely to increase price sensitivity, and may have an adverse effect on the Group's business, financial condition and results of operations.

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

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

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

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

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

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

The Group uses the brand names of "Yanjing," "Liquan," "Huiquan" and "Xuelu" and related trademarks for its beer products. The Group believes that the use of such brand names and trademarks is key to establishing its distinctive corporate and market identities. The passing off of products with famous brand names and trademarks in the PRC remains a concern. Although the Group is not aware of any material infringement of its brand names and trademarks, and there are indications that the PRC

government is tightening its control over intellectual property rights infringement, any significant or uncontrolled infringement could have a material adverse effect on the reputation of the “Yanjing,” “Liquan,” “Huiquan” and “Xuelu” brand names and the Group’s financial condition and results of operations.

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

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

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

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

Risks Relating to Beijing Water’s Business

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

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

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

During the year ended 31 December 2014, the Group was engaged in various comprehensive renovation projects for the construction of water infrastructure in the PRC and build-operate-transfer (“BOT”) projects. No assurance can be given by Beijing Water that the construction of the above projects will be completed on time or that these projects will be completed to the requirements and expectations of its customers. Failure to complete projects on time or fully in compliance with the requirements and expectations of its customers, or the delivery by it of defective systems or products, may lead to claims being brought against it by customers and/or termination of its services in whole or in part by Beijing Water has customers prematurely and/or calls by customers for payment of the performance bonds Beijing Water has provided to them. Unsatisfactory design or workmanship, staff turnover, human errors, failure to deliver services on time, default by its sub-contractors or misinterpretation of or failure to adhere to regulations and procedures could result in delays or failures in the construction, testing or commissioning of any water plant. As a result, Beijing Water could experience delays in the recognition of its revenue from such projects and it may not receive payments from its customers, which could adversely affect its cashflow. This, in turn, could have a material adverse effect on its business, financial condition and results of operations. In addition, its reputation may be negatively affected which could negatively affect its ability to obtain new projects.

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

Beijing Water is engaged in sewage treatment and water supply projects primarily on a BOT basis and a transfer-operate-transfer (“TOT”) basis which typically require significant initial cash outlays and have long payback periods. These projects require Beijing Water to make substantial financial investments during the construction phase of the projects, which typically last 12 to 18 months. Beijing Water is responsible for the costs of construction of the sewage or water treatment facilities, and the operation of the facilities during the concession period, which may be up to 30 years, during which period Beijing Water bears all the costs of maintenance and repair of the facilities. After the construction is completed and commercial operations of the relevant facilities have commenced (in the case of BOT projects) and upon obtaining the TOT Operation Right (in the case of TOT projects), Beijing Water receives regular, typically monthly, tariff payments from customers during the concession term.

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

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

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

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

Beijing Water may not be able to secure new construction projects

A substantial part of Beijing Water’s revenue is generated from its construction services for water environmental renovation projects. For 2012, 2013 and 2014, revenue from the construction services accounted for 53 per cent., 59 per cent. and 51 per cent., respectively, of Beijing Water’s total revenue. Although Beijing Water expects its construction projects to provide an increasing portion of recurring revenue in subsequent periods, a customer that accounts for a significant portion of such revenue in a given period may not generate a similar amount of revenue, if any, in subsequent periods. As such, in order for Beijing Water to maintain and increase its revenue and profitability, it needs to secure additional projects from other customers and it may not be successful in doing so.

Beijing Water is subject to risks associated with technological changes

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

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

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

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

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

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

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

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

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

Beijing Water will require significant additional financing to fund capital expenditures and to support the future growth of its business, particularly for its construction projects and acquisition of

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

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

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

Risks Relating to the PRC

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

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

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

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

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

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

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

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

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

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

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. The Guarantor receives a significant portion of its revenues in Renminbi. As a holding company incorporated in Hong Kong, the Guarantor may rely on dividend payments from its PRC subsidiaries to fund any cash and financing requirements of the Group. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Therefore, the Group's PRC subsidiaries are able to pay dividends in foreign currencies to the Group without prior approval from the SAFE. But approval from or registration with appropriate government authorities required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. This could affect the ability of the Group's PRC subsidiaries to obtain foreign exchange through debt or equity financing, including by means of loans or capital

contributions from the Group. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents the Group from obtaining sufficient foreign currencies to satisfy the Group's foreign currency demands, the Group may not be able to satisfy its obligations under the Bonds.

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

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

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

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

In April 2009, the PRC State Administration of Taxation published the "Notice on Issues Relevant to Foreign-registered Chinese-invested Holding Enterprises Determined as Resident Enterprises in Accordance with Actual Management Organization Standard" (the "Notice"). The Notice was effective from January 1, 2008. The Notice provides, among other things, if a foreign-registered Chinese-invested company whose de facto management bodies are located within the PRC and it satisfies the following conditions, it shall be determined as a resident company and be liable to pay corporate tax at the rate of 25 per cent. in the PRC in respect of its global income in: (i) places within the PRC where its top managers and top management departments who are responsible for the production, management and operation of the company, perform their duties; (ii) places within the PRC where the financial decisions (such as borrowing, lending, financing and financial risk management) and the personnel decisions (such as appointment, dismissal and remuneration payment) of the company are made or approved; (iii) places within the PRC where its primary properties, accounting books, company seals, summaries archives of the board meetings and shareholders meetings are kept; and (iv) places within the PRC where one-half or more of the company's directors or top managers having rights to vote shall frequently reside. According to the Notice, a foreign-registered Chinese-invested company shall mean a company that is registered and established outside of PRC in accordance with the laws of a foreign country with companies within PRC as its major share-holding investors, as in the Group's case.

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

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

Under the New EIT Laws, if the Group's entities are deemed a PRC resident enterprise, the interest payable on the Bonds may be considered to be sourced within China. In that case, unless an investor in the Bonds qualifies for a preferential withholding rate under a tax treaty, the PRC income tax at the rate of 10 per cent. would be withheld at source from interest paid by the Group to investors that are "nonresident enterprises" if such "non-resident enterprise" investors do not have an establishment or place of business in China or if, despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Any gain realised on the transfer of the Bonds by such non-resident enterprise investors may be subject to a 10 per cent. PRC income tax if the Group's entities are treated as a PRC resident enterprise and such gain is regarded as income derived from sources within China. Furthermore, if the Group's entities are considered a PRC resident enterprise and relevant PRC tax authorities consider interest the Group's entities pay with respect to the Bonds, or any gains realised from the transfer of Bonds, to be income derived from sources within the PRC, such interest or gains earned by non-resident individuals may be subject to the PRC income tax (which, in the case of interest, may be withheld at source by the Group) at a rate of 20 per cent. It is uncertain whether the Group's entities will be considered a PRC "resident enterprise" and whether in that case interest payable to the Group's non-resident investors, or the gain the Group's non-resident investors may realise from the transfer of the Bonds, would be treated as income sourced within China and be subject to the PRC tax. In addition, if investors are required to pay the PRC income tax on the transfer of the Bonds, the value of investment in the Bonds of the investors may be materially and adversely affected. It is unclear whether, if the Group's entities are considered a PRC "resident enterprise", holder of the Bonds might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

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

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

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

On 3 February 2011, the General Office of the PRC State Council issued the Circular of the General Office of the State Council on the Establishment of Security Review System Regarding Mergers and Acquisitions in China by Foreign Investors with effect in March 2011, according to which, acquisitions by foreign investors of domestic Chinese companies in the certain sectors such as military enterprises, key agricultural products, key energy and resources, key infrastructure, key transportation services, key technologies and key equipment manufacturing activities that raise national security concerns, shall be subject to security review where the foreign investor might acquire

actual control of the target Chinese company through the acquisition. This regulation is unclear in certain aspects including the definition of key sectors which are expected to be further specified and therefore how it will be interpreted and implemented in practice remains to be seen. If the Group's future acquisitions fall within the security review scope, the consummation of such acquisitions could therefore be much more time-consuming and complex, and any required approval processes may delay or prevent the consummation of such acquisitions, and prevent the Group from attaining its business objectives.

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

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

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

The PRC experienced a slowdown in its economic growth in the second half of 2008 and in 2009. A number of factors have contributed to this slowdown, including appreciation of the Renminbi, which adversely affected the PRC's exports, and tightening macroeconomic measures and monetary policies adopted by the PRC government aimed at preventing overheating of the PRC's economy and controlling the PRC's level of inflation. The slow down was further exacerbated by the recent global crisis in the financial services and credit markets. Although the PRC economy has recovered substantially, it is uncertain whether such recovery will continue through 2015 and beyond.

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

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

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

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

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

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

Some of the facts and statistics in this Offering Circular relating to the PRC, the PRC economy and related industry sectors are derived from various publications and obtained in communications with various agencies that the Issuer believes to be reliable. However, neither the Issuer nor the Guarantor can guarantee the quality or reliability of such source materials. In particular, none of the

Issuer, the Guarantor or the Managers have PRC counsels in this transaction to verify the accuracy of disclosure in respect of the PRC in this Offering Circular. Such facts and statistics have not been independently verified by the Issuer, the Guarantor, Managers, the Trustee, the Agents or any of their respective affiliates or advisors and, therefore, no assurance can be given by the Issuer or the Guarantor as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC.

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

Risks relating to the Bonds and the Guarantee

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

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

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

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

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

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

An active trading market for the Bonds may not develop

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

The Bonds may not be a suitable investment for all investors

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's home currency;
- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

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

The Bonds contain provisions regarding modification, which may affect the rights of Bondholders

The conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

Change of law

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

Credit ratings may not reflect all risks

The Bonds are expected to be rated "A3" by Moody's and "BBB+" by S&P. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

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

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

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

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

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

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

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

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

Considerations related to EU Saving Directive

Under Council Directive 2003/48/EC (the “**Directive**”) on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. Luxembourg abolished its withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax.

TERMS AND CONDITIONS OF THE BONDS

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

The issue of €500,000,000 1.435 per cent. guaranteed bonds due 2020 (the “**Bonds**”, which term shall include, unless the context requires otherwise, any additional Bonds issued in accordance with Condition 15 and consolidated and forming a single series therewith) was authorised by a resolution of the directors of Talent Yield (Euro) Limited (the “**Issuer**”) passed on 29 April 2015. The Bonds are guaranteed by Beijing Enterprises Holdings Limited (the “**Guarantor**”). The giving of the Guarantee (as defined in Condition 3(b)) was authorised by a resolution of the board of Directors of the Guarantor on 29 April 2015. The Bonds are constituted by a Trust Deed (the “**Trust Deed**”) dated on or about 7 May 2015 (the “**Issue Date**”) between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch (the “**Trustee**” which expression shall, where the context so permits, include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds. These terms and conditions (these “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. Copies of the Trust Deed and of the Agency Agreement (the “**Agency Agreement**”) dated on or about 7 May 2015 relating to the Bonds between the Issuer, the Guarantor, the Trustee, The Bank of New York Mellon (Luxembourg) S.A. as registrar (the “**Registrar**”) and as transfer agent (the “**Transfer Agent**”), The Bank of New York Mellon, London Branch as initial principal paying agent (the “**Principal Paying Agent**”) and any other agents named in it, are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL, United Kingdom) and at the specified offices of the Principal Paying Agent, the Registrar and the Transfer Agent. The “**Agents**” means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time with respect to the Bonds. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those applicable to them of the Agency Agreement.

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

1 FORM, SPECIFIED DENOMINATION AND TITLE

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

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

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

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

2 TRANSFERS OF BONDS

- (a) **Transfer:** A Bond may, subject to the Agency Agreement and Condition 2(d), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may require. In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued

against surrender of the Certificate representing the existing holding. All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. No transfer of title to a Bond will be valid unless and until entered on the Register. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Bondholder upon written request (free of charge to the Bondholder).

- (b) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within seven business days of receipt by the Registrar or, as the case may be, any Transfer Agent, of a duly completed and signed form of transfer and surrender of the existing Certificate(s). The form of transfer is available at the specified offices of each Transfer Agent. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate (but free of charge to the holder and at the Issuer's expense) to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(b), "**business day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are generally open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (c) **Transfer Free of Charge:** Certificates, on transfer of Bonds, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require); (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the relevant Agent being satisfied that the Regulations concerning transfer of the Bonds have been complied with.
- (d) **Closed Periods:** No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Bond; (ii) during the period of seven days ending on (and including) any Record Date; and (iii) after the exercise of the put option in Condition 6(d).

3 STATUS AND GUARANTEE

- (a) **Status:** The Bonds constitute direct, unsubordinated, unconditional and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated obligations.
- (b) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor's obligations in respect of the Bonds and the Trust Deed (the "**Guarantee**") are contained in the Trust Deed (and any supplement thereto). The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

4 NEGATIVE PLEDGE

- (a) **Negative Pledge:** So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer and the Guarantor will not, and each of the Issuer and the Guarantor shall ensure that none of their respective Subsidiaries will create, or having outstanding, any Lien, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any

Relevant Indebtedness, without (a) at the same time or prior thereto securing the Bonds and/or the Guarantee equally and ratably therewith or (b) providing such other security for the Bonds and/or the Guarantee as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Bondholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders

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

In these Conditions:

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

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

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

5 INTEREST

The Bonds bear interest on their outstanding principal amount from and including 7 May 2015 at the rate of 1.435 per cent. per annum, payable annually in arrear in equal instalments of €14.35 per Calculation Amount (as defined below) on 7 May in each year, commencing 7 May 2016 (each an “**Interest Payment Date**”).

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

If interest is required to be calculated for a period of less than a full year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the “**Accrual Date**”) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

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

6 REDEMPTION AND PURCHASE

- (a) **Final Redemption:** Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on 7 May 2020 (the “**Maturity Date**”). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

- (b) **Redemption for Tax Reasons:** The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee was called, the Guarantor) satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 29 April 2015, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due. Prior to the giving of any notice of redemption pursuant to this Condition 6(b), the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee a certificate signed by two Directors of the Issuer (or of the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (i) and (ii) above of this Condition 6(b) without further enquiry and without liability to any Bondholder or any other person, in which event it shall be conclusive and binding on the Bondholders.
- (c) **Redemption for Change of Control Triggering Event:** At any time following the occurrence of a Change of Control Triggering Event, the holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all, or some only, of such holder's Bonds on the Change of Control Put Date at 101 per cent. of their principal amount, together with accrued interest up to, but excluding, the Change of Control Put Date. To exercise such right, the holder of the relevant Bond must deposit at the specified office of the Principal Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of the Principal Paying Agent as provided for in the Agency Agreement (a "**Put Exercise Notice**"), together with the Certificate evidencing the Bonds to be redeemed, by not later than 30 days following a Change of Control Triggering Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer or the Guarantor in accordance with Condition 16. The "**Change of Control Put Date**" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

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

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

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

For the purposes of these Conditions:

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

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

- (ii) any Person or Persons acting together acquires directly or indirectly Control of the Guarantor if such person or persons does not have, and would not be deemed to have, Control of the Guarantor on 7 May 2015;
- (iii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the Guarantor's assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Guarantor or the successor entity; or
- (iv) one or more Persons (other than any Person referred to in sub-paragraph (iii) above) acquires the legal or beneficial ownership of all or substantially all of the Guarantor's issued share capital.

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

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

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

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

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

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

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

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

- (b) in the event the Bonds are (x) on the Rating Date (i) rated by two but not more Ratings Agencies and (ii) rated Investment Grade by each such Rating Agency, and (y) cease to be rated Investment Grade by both such Rating Agencies.
- (d) **Redemption at the Option of the Issuer:** The Issuer may, at any time upon giving not less than 30 nor more than 60 days' notice to the Bondholders and the Trustee (which notice shall be irrevocable) (the "**Optional Redemption Notice**"), redeem the Bonds, in whole but not in part, at a redemption amount equal to (x) the principal amount of the Bonds plus any accrued but unpaid interest or, if higher, (y) the Make-Whole Price (the "**Early Redemption Amount**").

In this Condition 6(d):

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

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

"**Redemption Margin**" is 0.25 per cent. per annum.

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

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

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

- (e) **Notice of Redemption:** All Bonds in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date specified in such notice in accordance with this Condition 6. If there is more than one notice of redemption given in respect of any Bond (which shall include any notice given by the Issuer pursuant to Condition 6(b) or Condition 6(d) and any Put Exercise Notice given by a Bondholder pursuant to Condition 6(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail.
- (f) **Purchase:** The Guarantor, the Issuer and their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Guarantor, the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Conditions 9, 12(a) and 13.
- (g) **Cancellation:** All Certificates representing Bonds purchased by or on behalf of the Issuer, the Guarantor or their respective Subsidiaries shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Bonds shall be discharged.

7 PAYMENTS

(a) Method of Payment:

- (i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in Condition 7(a) (ii) below.
- (ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the fifth business day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Bond shall be made by euro cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in euros maintained by the payee with a bank.
- (iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of premium (if any) or interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of premium (if any) or interest so paid.

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

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

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

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

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

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

8 TAXATION

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

Where such withholding or deduction is made by the Issuer or the Guarantor (as the case may be) as a result of the Issuer or the Guarantor (as the case may be) being deemed by PRC tax authorities to be a PRC tax resident at the rate of up to and including 10 per cent. in accordance with any applicable tax laws, treaties or regulations on 29 April 2015 (the “**Applicable Rate**”), the Issuer, or as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amounts received by the Bondholders equals the amounts which would otherwise have been received by them had no such withholding or deduction been required.

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

- (a) **Other connection:** held by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the British Virgin Islands or Hong Kong or the PRC other than the mere holding of the Bond; or
- (b) **Surrender more than 30 days after the Relevant Date:** in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Tax Amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26—27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

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

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

9 EVENTS OF DEFAULT

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

- (a) **Non-Payment:** failure by the Issuer and the Guarantor to pay principal or premium in respect of any such Bond by the due date for such payment, or failure by the Issuer and the Guarantor to pay interest on any such Bond within 14 days after the due date for such payment; or
- (b) **Breach of Other Obligations:** the Issuer or the Guarantor defaults in the performance of or breaches any covenant or agreement in the Bonds or under the Trust Deed or the Agency Agreement (other than a default specified in Condition 9(a) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the holders of 25 per cent. or more in aggregate principal amount of the Bonds to the Issuer or the Guarantor; or
- (c) **Cross-Default:** there occurs with respect to any indebtedness of, or guaranteed by, the Issuer, the Guarantor or any of the Guarantor’s Subsidiaries having an outstanding principal amount of US\$40,000,000 (or the Dollar Equivalent thereof) or more in the aggregate for all such indebtedness of all such Persons, whether such indebtedness now exists or shall hereafter be created, (A) an event of default that has caused the holder thereof to declare such indebtedness to be due and payable prior to its express maturity and/or (B) the failure to make a payment of principal, interest or premium when due; or
- (d) **Judgments:** one or more final judgments or orders for the payment of money are rendered against the Issuer, the Guarantor or any of the Guarantor’s Subsidiaries and are not paid or discharged, and there is a period of 90 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$60,000,000 (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect; or
- (e) **Insolvency:** the Issuer, the Guarantor or any of the Guarantor’s Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts (whether actual or contingent), stops, suspends or threatens to stop or suspend, payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, the Guarantor or any of the Guarantor’s Subsidiaries; or an administrator or liquidator of the Issuer, the Guarantor or any of the Guarantor’s Subsidiaries or the whole or any material part of the assets and turnover of the Issuer, the Guarantor or any of the Guarantor’s Subsidiaries is appointed (or an application for any such appointment is made); or
- (f) **Winding-up:** an order is made or an effective resolution passed for (i) the termination, winding-up or dissolution, administration or judicial management of the Issuer, the Guarantor or any of the Guarantor’s Subsidiaries or (ii) the winding-up, dissolution, judicial management or administration of the Issuer, the Guarantor or any of the Guarantor’s Subsidiaries, or the Issuer, the Guarantor or any of the Guarantor’s Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of, and followed by, a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the Bondholders; or

- (g) **Enforcement Proceedings:** a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries, and is not discharged or stayed within 60 days; or
- (h) **Security Enforced:** an encumbrancer takes possession or an administrative or other receiver or an administrator or other similar officer is appointed of the whole or any material part of the property, assets or revenues of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries (as the case may be) and is not discharged within 60 days; or
- (i) **Assignment:** the Issuer, the Guarantor or any of the Guarantor's Subsidiaries makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors); or
- (j) **Nationalisation:** any step is taken by any Person that will result in the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries such that the Issuer, the Guarantor or any of the Guarantor's Subsidiaries, as applicable, is prevented from exercising normal control over all or a material part of its property, assets or turnover (to the extent that such assets have not already been seized, compulsory acquired, expropriated or nationalised); or
- (k) **Moratorium:** the Beijing Municipal Government declares a moratorium on the payment of any obligations by the Beijing Municipal Government; or
- (l) **Ownership:** the Issuer ceases to be a subsidiary wholly owned and controlled, directly or indirectly, by the Guarantor; or
- (m) **Unenforceability:** the Bonds, the Trust Deed, the Agency Agreement or the Guarantee is or becomes unenforceable or invalid; or
- (n) **Approval:** any regulation, decree, consent, approval, license or other authority necessary to enable the Issuer or the Guarantor to perform its obligations under the Bonds, the Trust Deed, the Agency Agreement or the Guarantee for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified; or
- (o) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has or may have an analogous effect to any of the events referred to in paragraphs 9(d) and 9(n) above,

The Guarantor has undertaken in the Trust Deed that it will send to the Trustee, within the applicable time periods set out in the Trust Deed, a certificate signed by two Directors of the Guarantor to the effect that, as at a date not more than five days prior to the date of the certificate, no Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred.

For the purpose of these Conditions,

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

10 PRESCRIPTION

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

11 REPLACEMENT OF CERTIFICATES

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

12 MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

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

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

- (b) **Modification of Agreements and Deeds:** The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer to the Bondholders as soon as practicable thereafter.
- (c) **Substitution:** The Trust Deed contains provisions permitting (but not obliging) the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of any other company in place of the Issuer or the Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Bonds. In the case of such a substitution, the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Under the Trust Deed, the Trustee may agree or require the Issuer to use all reasonable endeavours to procure the substitution as

principal debtor under the Trust Deed and the Bonds of a company incorporated in some other jurisdiction in the event of the Issuer becoming subject to any form of tax on its income or payments in respect of the Bonds, and provided that such substitution shall not at the time of substitution result in a downgrading of any rating assigned to the Bonds.

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

13 ENFORCEMENT

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

14 INDEMNIFICATION OF THE TRUSTEE

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

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

15 FURTHER ISSUES

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

16 NOTICES

Notices to the holders of Bonds shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bonds shall also be published at the Issuer's expense in a leading English language daily newspaper having general circulation in Asia (which is expected to be *The Wall Street Journal Asia*). The Issuer shall also ensure that notices are

duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

17 GOVERNING LAW AND JURISDICTION

- (a) **Governing Law:** The Trust Deed, the Agency Agreement, the Guarantee and the Bonds, and any obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English laws.
- (b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Bonds, the Guarantee and the Trust Deed and accordingly any legal action or proceedings arising out of or in connection with any Bonds, the Guarantee or the Trust Deed (“**Proceedings**”) may be brought in the courts of England. Pursuant to the Trust Deed, each of the Issuer and the Guarantor has irrevocably submitted to the jurisdiction of the courts of England and waives any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
- (c) **Agent for Service of Process:** Each of the Issuer and the Guarantor has irrevocably agreed to appoint Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent in England to receive service of process in any Proceedings in England based on any of the Bonds. If for any reason the Issuer (or as the case may be, the Guarantor) does not have such an agent in England, the Issuer (or as the case may be, the Guarantor) will promptly appoint a substitute process agent and notify the Bondholders of such appointment within 30 days of the Issuer (or as the case may be, the Guarantor) ceasing to have a process agent in England. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

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

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

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

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

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

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

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

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

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

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

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

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

Meetings: For the purposes of any meeting of Bondholders, the holder of the Bonds represented by the Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each EUR100,000.

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

USE OF PROCEEDS

The net proceeds from the subscription of the Bonds, after giving effect to the Managers' underwriting commission (but before giving effect to certain transaction-related expenses), are estimated to be approximately €497,600,000.

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

CAPITALISATION

The following table sets out, on a consolidated basis, the capitalisation of the Guarantor as at 31 December 2014, on an actual basis and as adjusted to give effect to the issue of the Bonds and aggregate principal amount of the Bonds:

	As at 31 December 2014		
	Actual	Adjusted	
	(HK\$'000)	(HK\$'000)	(US\$'000)
Short-term borrowings			
Bank and other borrowings	17,691,435	17,691,435	2,281,853
Liability component of convertible bonds ⁽²⁾	84,556	84,556	10,906
Derivative component of convertible bonds ⁽²⁾ .	7,639	7,639	985
Long-term borrowings			
Notes outstanding ⁽³⁾	13,879,298	13,879,298	1,790,161
Bank and other borrowings	5,559,874	5,559,874	717,116
Bonds being offered ⁽⁴⁾	—	4,691,013	605,050
Total short-term and long-term borrowings	<u>37,222,802</u>	<u>41,913,815</u>	<u>5,406,071</u>
Shareholders' equity			
Share capital and other statutory capital reserves ⁽⁵⁾	30,401,883	30,401,883	3,921,255
Other reserves	25,978,176	25,978,176	3,350,682
Proposed final dividend	796,297	796,297	102,707
Total equity⁽⁶⁾	<u>57,176,356</u>	<u>57,176,356</u>	<u>7,374,644</u>
Total capitalisation⁽⁷⁾	<u>94,399,158</u>	<u>99,090,171</u>	<u>12,780,715</u>

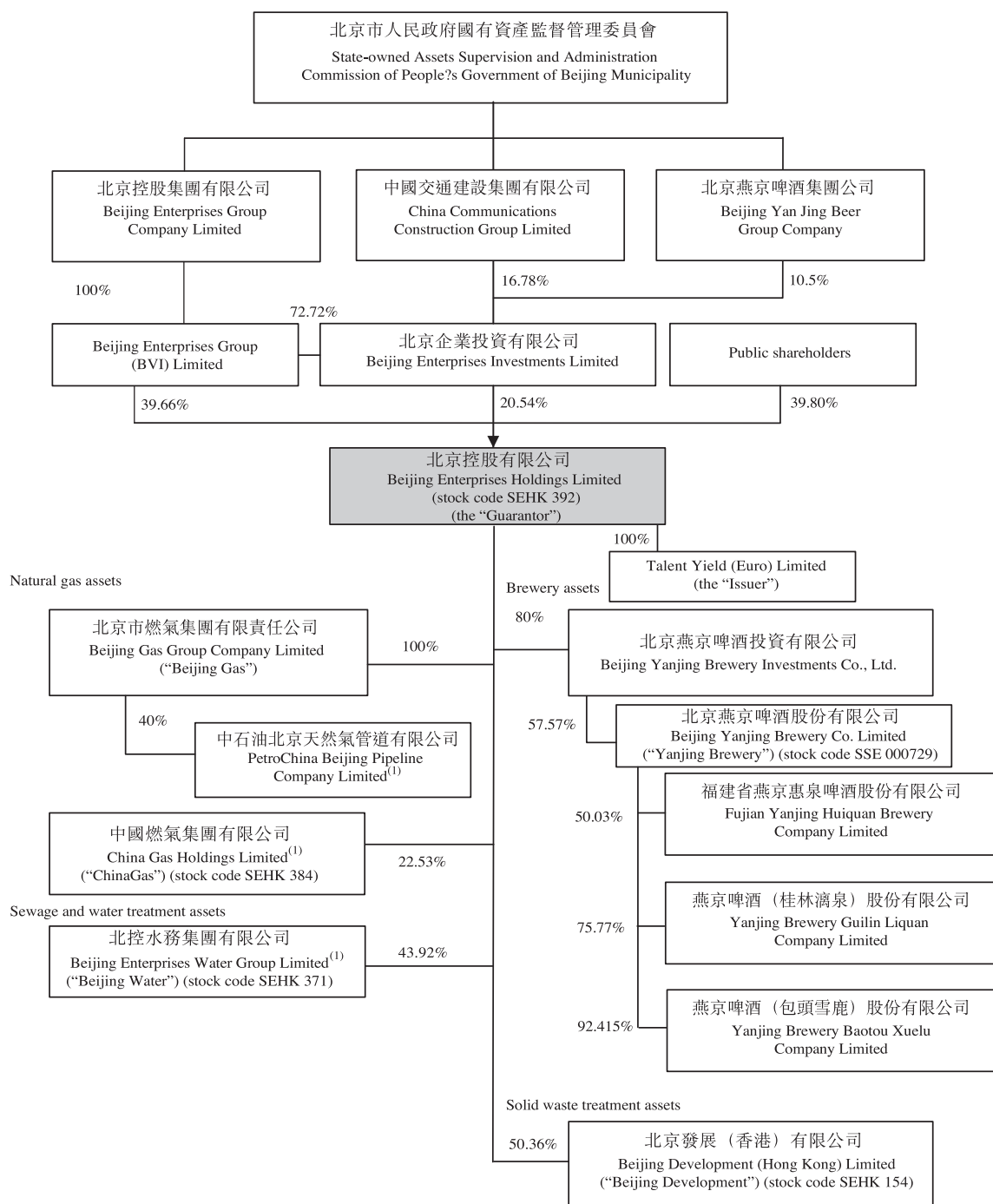
Notes:

- (1) Figures in the "As adjusted" column reflect the issue of the Bonds and the receipt of the gross proceeds thereof. The translations from EUR to US\$ were made at a rate of EUR1.00 to US\$1.2101, the noon buying rate in effect on 31 December 2014 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System.
- (2) These outstanding convertible bonds of Yanjing Brewery mature in 2015.
- (3) These notes are issued by subsidiaries of the Guarantor and guaranteed by the Guarantor.
- (4) The translation from HK\$ to US\$ were made at the rate of HK\$7.7531 to US\$1.00 and the translation from EUR to US\$ were made at rate of EUR1.00 to US\$1.2101, both being the noon buying rate in New York City on 31 December 2014 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System).
- (5) The issued share capital of the Guarantor consisted of 1,284,350,268 shares of no par value as at 31 December 2014.
- (6) Total equity is the total equity attributable to the shareholders of the Guarantor.
- (7) Total capitalisation represents the total of short-term and long-term borrowings plus total equity attributable to the shareholders of the Guarantor.

Save as indicated above, there has been no material change in the total capitalisation, on a consolidated basis, of the Guarantor since 31 December 2014 up to the date of this Offering Circular.

GROUP STRUCTURE

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



(1) Accounted for as an associate.

THE ISSUER

The Issuer, incorporated in the British Virgin Islands on 9 April 2015 with company number 1869380, is a wholly-owned subsidiary of the Guarantor. The Issuer was established for the sole purpose of issuing the Bonds. The registered office of the Issuer is at NovaSage Chambers, P.O. Box 4389, Road Town, Tortola, British Virgin Islands and the telephone number of the Issuer is +852-2915-2898.

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

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

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

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

THE GUARANTOR

The Guarantor, incorporated in Hong Kong on 26 February 1997 is a limited liability company with registration number 0596005 and the shares of which are listed on the Main Board of the Hong Kong Stock Exchange (SEHK: 0392). The registered office of the Guarantor is at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and the telephone number of the Guarantor is +852-2915-2898.

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

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

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

THE GROUP

Overview

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

Beijing Gas, in which the Guarantor has a 100 per cent. interest, ranks as one of the largest city natural gas suppliers in the PRC with pipelines in operation in Beijing of approximately 16,931 kilometres and approximately 5.21 million natural gas users as at 31 December 2014. With over five decades of fuel gas management experience and expertise, Beijing Gas' natural gas distribution network supplies natural gas to residential, industrial and power generation users in the Greater Beijing city area. Consistent with the PRC Government's objective to reduce coal-fired power generation in the Greater Beijing city area, the Guarantor expects such growth opportunities to help maintain and expand the Guarantor's leading position through coal-to-gas power plant conversions and increased promotion of natural gas as a cleaner alternative to other power generation fuels.

China Gas, in which the Guarantor has a 22.53 per cent. interest, is a gas operator and service provider primarily engaged in the construction and operation of city gas pipeline infrastructure facilities, gas terminals, storage and transportation facilities, gas logistics systems, transmission of natural gas and liquefied petroleum gas to residential, industrial and commercial customers, construction and operation of gasoline and gas refilling stations as well as the development and application of technologies relating to petroleum, natural gas and liquefied petroleum gas in China.

Yanjing Brewery, in which the Guarantor has a 57.57 per cent. interest, operates one of the largest breweries in the PRC with a diversified brand and product portfolio, a leading market position in Beijing and strong national reputation. Yanjing Brewery produces a wide variety of products designed to appeal to different consumer groups and covering different price points. Through its wide-reaching local production centres, it distributes beer and other beverage products to most parts of the PRC using a three-tier distribution network of distributors, wholesalers and retailers.

Beijing Water, in which the Guarantor has a 43.92 per cent. interest, operates sewage and water treatment facilities in 21 provinces across the PRC. Extensive PRC Government policy directives intended to ensure a safe and reliable water supply throughout the PRC have resulted in opportunities to bundle sewage and water treatment projects, thereby enabling Beijing Water to leverage its design, construction and operations expertise for provincial governments nationally. Beijing Water has developed an integrated business model with design and technical consultancy, construction, ownership and operational capabilities for sewage and water treatment projects. Beijing Water's extensive project capabilities enable it to capture the entire value chain from project concept and design stages through construction and operation.

Beijing Development, in which the Guarantor has a 50.36 per cent. interest, is primarily engaged in solid waste treatment business after acquiring two solid waste incineration plants in the PRC in the year ended 31 December 2014.

The Guarantor recorded revenue of HK\$35,569.6 million, HK\$42,360.5 million and HK\$47,935.8 million for 2012, 2013 and 2014, respectively, and had total assets of HK\$89,498.6 million, HK\$109,621.8 million and HK\$124,063.9 million as at 31 December 2012, 2013 and 2014, respectively.

Competitive Strengths

The Guarantor believes its competitive strengths include:

Strong support from the Beijing Municipal Government

As at the date of this Offering Circular, the Beijing Municipal Government, through companies under its control and supervision, has 60.2 per cent. effective interest in the Guarantor. The Guarantor enjoys a number of direct and indirect benefits as a result of its status as the key utilities investment and operating platform of State-owned Assets Supervision and Administration Commission of People's Government of the Beijing Municipal Government ("**Beijing SASAC**").

- *Entrust the Guarantor to operate and manage strategically important and substantial assets:* The Beijing Municipal Government has entitled the Guarantor the effective monopoly rights to distribute natural gas in Beijing for a 25-year period. Moreover, the Guarantor believes its strategic relationship with Beijing Municipal Government would assist its 40 per cent. investment company, PetroChina Beijing Pipeline, to identify and source new natural gas transmission pipelines throughout the PRC as well as secure large-scale projects from local governments. The strong relationship with the PRC Government agencies and state-owned enterprises enhanced the Guarantor's bargaining power in relation to the cost pass-through mechanism for preserving margins related to natural gas distribution as well as upstream wellhead price-setting. With Beijing Municipal Government's support, the Guarantor obtained the franchise operating rights for the Beijing No.9 water treatment plant and Beijing No. 10 water treatment plant, two of the most important water treatment and water supply development projects serving Beijing. The strong relationship with the PRC Government agencies also facilitated Beijing Water to expand its presence by investing and operating water treatment and water supply projects in 18 provinces, two autonomous regions and three municipalities across China. With the support of the Beijing Municipal Government, the Guarantor obtained the concession rights to invest, construct, manage and operate 北京市海澱區循環經濟產業園再生能源發電廠PPP項目 Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Plant PPP Project (the "**Haidian Project**"), a large scale waste-to-energy project in Beijing with processing capacity of 2,500 tonnes per day. The Haidian Project will be partially financed by the Beijing Municipal Government and its economy and feasibility of the Haidian Project are ensured by substantial policy support from the Beijing Municipal Government. With the Guarantor's natural gas distribution and transmission business, sewage and water treatment businesses and the solid waste treatment business, the Guarantor provides public services that are critical to Beijing's infrastructure.
- *Support for strategic acquisition and disposal of non-core and non-profitable assets by the Group:* The Beijing Municipal Government has been very supportive for the Guarantor to execute its strategic plans by acquiring strategic assets and disposing non-core assets. In November 2012, the Guarantor sold 100 per cent. of its equity interest in Beijing Enterprises (Motorway) Limited at a consideration of HK\$1.37 billion to Shi Hong Investments Limited, an indirect wholly-owned subsidiary of Beijing Enterprises Group (BVI) Company Limited ("**BE Group**"). The asset disposal is to protect the Guarantor's investors and achieve sustainable development for the Guarantor because the newly implemented toll policy has been negative impacting the Guarantor's operating performance. Moreover, the asset disposal is in line with the Guarantor's strategy to position itself as a utilities conglomerate with urban energy services as its core business. The Guarantor has a 22.53 per cent. equity interest in China Gas. The transaction is in line with the Guarantor's interest to increase its exposure to the natural gas business and strengthen its market position in the China natural gas industry. As of the date of this Offering Circular, the Guarantor's stake in China Gas has appreciated by approximately 61 per cent. In December 2014, with the support of the Beijing Municipal Government, the Guarantor acquired GSE Investment Corporation, portfolio with three solid waste treatment projects, including Gaoantun Waste-to-Energy Project in Beijing, Zhangjiagang WTE Project in Jiangsu and Beijing Golden State Anjie Hazardous Waste Treatment Project in Beijing. The Gaoantun project is the largest single-line plant in Asia with processing capacity of 1,600 tonnes per day. The acquisition is in line with the Guarantor's strategy to strengthen its water treatment platform in key economically developed areas in China and expand its solid waste treatment business.

- *Providing financial support:* As a result of the Beijing Municipal Government's policy of ongoing support for the Guarantor and its businesses, the Guarantor is able to secure financing at attractive rates. All loan agreements include conditions that require BE Group to hold directly or indirectly the majority stake in the Guarantor and the Beijing Municipal Government to control and supervise BE Group. In May 2011 and April 2012, Mega Advance Investments Limited and Talent Yield Investments Limited (both wholly-owned subsidiaries of the Guarantor) issued senior notes with an aggregate amount of US\$800 million and US\$1 billion, respectively. The two bonds were priced at competitive rates due to the strong support and credit of the Beijing Municipal Government.
- *Close relationship between Beijing SASAC and the Company's senior management:* The Guarantor has been a flagship and key asset for Beijing SASAC for a long time. The close relationship between Beijing SASAC and the Guarantor has been strengthened throughout the years. Several Chief Officers of Beijing SASAC have been assumed the senior management positions in the Guarantor before, including previous Chief Officer Mr. Xiong Daxin who assumed the position of Chief Executive Director and Vice Chairman of the Guarantor and current Chief Officer Mr. Lin Fusheng who was the Guarantor's General Manager and Vice Chairman. Several of BE Group and the Guarantor's senior management, including Chairman Mr. Wang Dong, have previously held senior positions in the Beijing SASAC. The Beijing Municipal Government directly appoints such officers with the responsibility for adding value to the state-owned assets that the Guarantor manages in order to facilitate Beijing SASAC's supervision and control of the Guarantor's operating risks.

Favourable market positions to benefit from supportive PRC Government policies

One of the Guarantor's principal businesses relates to the distribution and transmission of natural gas, particularly to the expanding Greater Beijing city for a 25-year period ending in 2032. The Energy Development Strategic Action Plan (2014-2020) 《能源發展戰略行動計劃(2014-2020年)》 issued by State Council in June 2014 stated clearly the PRC Government's intention to develop natural gas and emphasize the importance of natural gas in the energy structure. By 2020, the share of natural gas in the total energy consumption in China will be increased from 5.1 per cent. in 2013 to 10.0 per cent.. In recent policy announcements, the PRC Government has stated its intention to reduce air pollution and other detrimental environmental effects in major urban areas to increase the livability of the PRC's cities. Furthermore, the PRC Government and the Government of the Russian Federation signed a landmark contract in May 2014 in which Russia agreed to supply 38 billion cubic metres of natural gas to the PRC, which is estimated to be the equivalent of one-quarter of the PRC's current annual consumption, for a period of 30 years beginning in 2018. Through coal-to-gas conversions of major electricity generators in and around Beijing and the expected subsequent increased usage of natural gas following such conversions, as well as the favourable development of national policy, the Guarantor believes it is well-positioned to benefit from PRC Government policy directives promoting cleaner-burning fuels such as natural gas in the residential, industrial and power generation sectors.

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

Beijing Gas holds effective monopoly rights to supply natural gas in the expanding Greater Beijing city for a 25-year period ending in 2032 pursuant to notices from the Beijing People's Government dated 16 August 2005 and 21 April 2006, respectively and an implementation plan 《北京燃氣有限公司管道天燃氣特許經營項目實施方案》 agreed in principle by Beijing People's Government in 2006. The Guarantor believes it ranks as one of the largest natural gas retail operators in the PRC, with pipelines in operation in Beijing of approximately 16,931 kilometres in length, five citygates, four spherical gas holding stations and approximately 5.21 million natural gas users as at 31 December 2014. This leading position, bolstered by strong support from the Beijing Municipal Government and significant infrastructure investment to extend Beijing Gas's network to Beijing's satellite new towns, provides Beijing Gas with a solid platform for growth and a healthy basis for future revenue streams and establishes significant barriers to entry for potential competitors.

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

Yanjing Brewery enjoys a favourable market position in the PRC

Leveraging on its success in its core market in Beijing, Yanjing Brewery had actively pursued new market opportunities outside of Beijing with favourable results. As at 31 December 2014, based on Yanjing Brewery's estimates, Yanjing Brewery had a market share of more than 11 per cent. in the PRC, consisting provinces such as, Hebei, Shanxi, Guangxi and Inner Mongolia, and approximately 85 per cent. in Beijing. With the accomplishment of its marketing strategies in Greater Southwest market, rapid development of its growing market, like Xinjiang, Sichuan and Yunnan, Yanjing Brewery is expecting a solid profit increase. Yanjing Brewery believes its well defined beer product portfolio, namely, "Yanjing", "Liquan", "Huiquan" and "Xuelu", clear overall marketing strategy, resources allocation, low internal product competition and production efficiency, all contribute to its overall business prospects.

Diversified business portfolio reducing business concentration risk

The Guarantor believes its natural gas distribution and transmission network, brewery operations and sewage and water treatment facilities will provide stable cashflows in the coming years due to their strong track record and the Guarantor's prudent fiscal policy. Enhanced by the alliance between the Guarantor's asset base and PRC Government policies for cleaner burning fuels for power generation and the need to increase the stability of clean water supply to urban areas, the Guarantor believes its business segments are well positioned to access these opportunities. Moreover, to further reduce business concentration risk, the Guarantor is actively diversifying its business geographically. In the natural gas distribution business, the Guarantor owns a 21.07 stake in China gas with piped natural gas supply in 168 cities and 226 processing stations in 24 provinces. Through the sale of Beijing Gas Development, a city gas distributor and CNG gas stations operators with presence in 9 different regions, to China Gas, the Guarantor intends to further expand coverage of gas projects and generate synergies with its gas distribution platform outside Beijing. With the accelerated development of Yanjing Brewery's greater southwest market, Yanjing Brewery is expanding its market share beyond its traditional core market in Northern China. With national presence in 18 provinces and 3 automatic regions, BE Water is also achieving major breakthrough in developing international markets. The Guarantor also adopted the dual market strategies of M&A and existing projects expansion to enhance its national presence in solid waste treatment business segment.

The Guarantor has historically generated strong cash flows and maintained relatively consistent margins, thereby maintaining a solid platform for conservative growth. The Guarantor believes its diversified business portfolio and increasing geographical diversification will help mitigate its exposure to any single operation and to business concentration in Beijing. The Guarantor has historically generated strong cashflows and maintained relatively consistent margins, thereby maintaining a solid platform for conservative growth. The Guarantor believes its diversified business portfolio helps mitigate its exposure to any single operation.

Track record of strong growth with attractive and visible growth prospects

The Guarantor has achieved strong growth over the past several years. Beijing Gas's natural gas sales volume increased from approximately 7.94 billion cubic metres to 8.72 billion cubic metres to 9.96 billion cubic metres for 2012, 2013 and 2014, respectively. PetroChina Beijing Pipeline's natural gas transmission volume increased from approximately 23.7 billion cubic metres to 25.2 billion cubic metres to 29.96 billion cubic metres for 2012, 2013 and 2014, respectively. Yanjing Brewery expanded its annual production capacity for its brewery business from approximately 8.75 billion litres to 9.15 billion litres to 9.6 billion litres for 2012, 2013 and 2014, respectively. In addition, Beijing Water expanded its total daily design capacity for its projects from 10.49 million tons to 16.71 million tons to 20.15 million tons for 2012, 2013 and 2014, respectively. As a result, the Guarantor's revenue increased from HK\$35,569.6 million to HK\$42,360.5 million to HK\$47,935.8 million and the Guarantor's profit for the year increased from HK\$3,597.6 million to HK\$4,755.5 million to HK\$5,405.6 million for 2012, 2013 and 2014, respectively.

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

Excellent management with a proven track record and deep industry expertise

The Guarantor continues to seek attractive energy and infrastructure investments in the PRC and to enhance the value of the Guarantor's existing businesses. The Guarantor's strategic investments in Beijing Development and China Gas, as well as its divestments in Beijing Enterprises (Motorway) Limited in November 2012, identified by the Guarantor's management team demonstrate the Guarantor's commitment to focusing on key strategic assets with strong and consistent profit margins. Moreover, the Guarantor believes its strong understanding of the local market and close relationship with the Beijing Municipal Government enables the Guarantor to manage assets more effectively than its competitors. See "Directors and Management".

Business Strategy

The Guarantor's strategy is to enhance the Guarantor's position as a leading utilities and consumer products company in the PRC by making attractive investments intended to increase the value of the Guarantor's existing businesses. The Guarantor's strategy consists of the following key elements:

Leveraging natural gas experience and extensive network to exploit new markets

With over five decades of fuel gas management experience and expertise, the Guarantor's wide-reaching natural gas distribution and transmission network supplies residential, industrial and power generation users in the Greater Beijing city area. As a leading city natural gas provider in the PRC, the Guarantor is well positioned to extend the Guarantor's distribution network to suburban counties of Beijing. The Guarantor expects increased urbanisation, combined with increasing per capita income of urban populations, to contribute to higher natural gas usage per capita among an expanding population base. In the Greater Beijing city area, the Guarantor is extending the Guarantor's network to various districts and counties outside Beijing's Sixth Ring Road. In addition to expanding the capacity and geographic coverage of the Guarantor's natural gas distribution and transmission network, the Guarantor plans to focus on improving the quality of the Guarantor's service and improve the Guarantor's back-office support system.

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

The PRC Government has been encouraging high energy consumption and high emission industries to replace highly-polluting coal and oil gradually with natural gas, a clean energy, to strengthen energy conservation and emission reduction. The State Council of China promulgated an Action Plan on Prevention and Control of Air Pollution (《大氣污染防治行動計劃》) in September 2013 (the "**Clean Air Action Plan**"). According to the Clean Air Action Plan, efforts are to be made to modify small coal-fired boilers and accelerate the construction of central heating systems and "coal-to-gas" conversion projects. By 2017, cities at and above prefecture level will have to eliminate coal-fired boilers with an efficiency rate of 10 or less tons of steam per hour, and stop building new coal-fired boilers with an efficiency rate of 20 tons or less tons of steam per hour. As part of the implementation of the Clean Air Action Plan, the Beijing Municipal Environmental Protection Bureau promulgated the the 2013-2017 Clean Air Action Plan of Beijing City (《北京市2013-2017年清潔空氣行動計劃》) (the "**Beijing Clean Air Action Plan**"). According to the Beijing Clean Air Action Plan, the main objective is to achieve 10,500 steam tons of clean energy transformation for coal-fired boilers in Beijing from 2013 to 2017. By 2015, upon full operation of the four major thermal power centres, the natural gas thermal power plants are expected to consume more than seven billion cubic metres of natural gas per year, at least double of the consumption in 2013. By the end of 2017, the number of vehicles powered by natural gas are expected to reach 100,000. The State Council of China also released Circular on Several Opinions on Long-term Mechanisms for Securing Stable Natural Gas Supplies (《保障天然氣穩定供應長效機制若干意見的通知》) in April 2014 to secure the availability

of 112 billion cubic metres of natural gas by 2020 to meet the demand from “coal-to-gas” conversion projects. In the coming three to five years, coal-to-gas conversion projects will be developed. Capturing this opportunity will substantially facilitate and enhance natural gas sales by Beijing Gas and China Gas to industrial users and for winter heating consumption.

Strengthening national branding and expanding production capacity of Yanjing Brewery

Since 1999, Yanjing Brewery has expanded beyond its leading position in Beijing to operate 41 breweries in 18 provinces with nationwide sales volume of approximately 5.32 million kiloliters in the year ended 31 December 2014. Through Yanjing Brewery’s four brands, “Yanjing”, “Liquan”, “Huiquan” and “Xuelu” Yanjing Brewery has products positioned at different price points catering to different regional markets. The Guarantor believes this leading platform makes Yanjing Brewery well-placed to expand its operations to achieve greater penetration of the domestic and international beer markets. Through increasing brand awareness by clear positioning and standardising Yanjing Brewery’s brand management, Yanjing Brewery can leverage its strong production technology and network of local production facilities to increase market penetration in a greater number of markets nationally and internationally and to expand export sales gradually.

Striving to derive synergistic benefits from its investment in China Gas

Historically, the focus of the gas business of the Guarantor has been primarily on the Beijing market. The extensive coverage of the regional businesses of China Gas provides strategic opportunities for the Guarantor to expand its business nationwide. The Guarantor and China Gas intend to jointly develop and invest in gas value-added services (such as coal to gas conversion and CCHP distribution services in the markets where China Gas has city gas projects), citygas projects nationwide (particularly compressed natural gas (“CNG”)/liquefied natural gas (“LNG”) refilling station projects, by means of cooperation or joint venture arrangements) and urban infrastructure facilities and services (such as sewage treatment services in the markets where China Gas has city gas projects).

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

Beijing Water possesses an integrated business model with design and technical consultancy, construction, ownership and operational capabilities for sewage and water treatment projects. Beijing Water’s extensive project capabilities enable it to capture the entire value chain from project concept and design stages through construction and operation. By reviewing the PRC Government industrial policies and enhancing its research and development capabilities, Beijing Water has an opportunity to broaden its sewage and water treatment portfolio through the completion of fully integrated projects that utilise its wide range of capabilities and capture a larger share of the value chain for each project. Beijing Water has also announced plans to increase its overseas investments in projects in Asia and Europe.

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

Beijing Development is primarily engaged in solid waste treatment business after acquiring two solid waste incineration plants in the year ended 31 December 2014 and the solid waste treatment platform of the Guarantor. Leveraging on the rapid development of the environmental protection industry in the PRC and as waste incineration power generation becomes the most optimal waste treatment method, the waste incineration power generation industry in the PRC has enormous room for market development. Beijing Development believes that waste incineration power generation possesses favourable prospects as a result of the standardisation of on-grid electricity tariff pricing policy, provisions of waste treatment subsidy and preferential tax treatment, which in turn will generate steady cash flow with stable and reliable returns.

Business Segments

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

	Year ended 31 December		
	2012	2013	2014
	(HK\$ in million)		
Revenue			
Piped gas operations	20,644.7	25,159.1	32,438.4
Brewery operations	14,442.7	16,837.0	15,151.0
Sewage and water treatment operations ⁽¹⁾	185.6	—	—
Expressway and toll road operations ⁽²⁾	150.0	—	—
Corporate and others ⁽³⁾	146.6	364.4	346.4
Total	<u>35,569.6</u>	<u>42,360.5</u>	<u>47,935.8</u>

	Year ended 31 December		
	2012	2013	2014
	(HK\$ in million)		
Profit/(loss) after tax			
Piped gas operations	2,754.1	3,537.7	4,471.5
Brewery operations	756.5	933.1	950.6
Sewage and water treatment operations	469.6	514.5	790.0
Expressway and toll road operations ⁽²⁾	(103.5)	—	—
Corporate and others ⁽³⁾	(279.1)	(229.8)	(806.5)
	<u>3,597.6</u>	<u>4,755.5</u>	<u>5,405.6</u>

Notes:

- (1) As the Guarantor's interest in Beijing Water is accounted for as an associate, this amount primarily reflects imputed interest income of HK\$182,726,000 on receivables under service concession arrangements recognised during the year ended 31 December 2012.
- (2) This revenue relates to the Capital Airport Expressway, which connects the Capital Airport and the city centre of Beijing which was transferred to Beijing Enterprises Group (BVI) Company Limited, the parent company of the Guarantor during the year ended 31 December 2012.
- (3) The Guarantor's corporate and others segment comprises the construction of waste power plants, the construction of broadband infrastructure and the design of related software, the provision of internet services and IT technical support and consultation services and property.

Natural Gas Distribution Business

Beijing Gas Group Company Limited ("Beijing Gas")

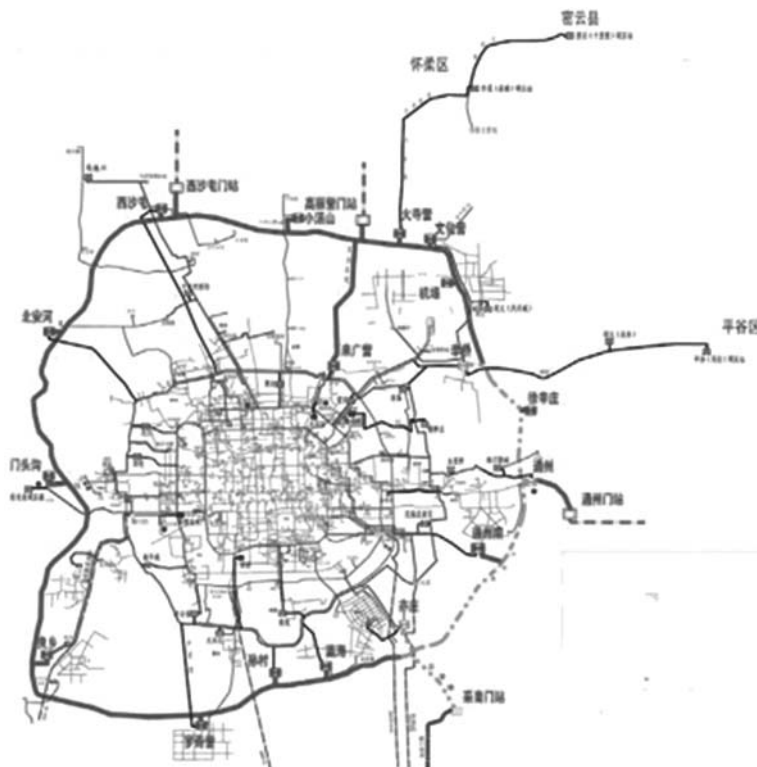
The Guarantor carries out the distribution of natural gas through its wholly-owned subsidiary, Beijing Gas which is one of the largest natural gas suppliers and service providers in the PRC. In 2014, Beijing Gas recorded total gas sales volume of 9.96 billion cubic metres, an increase of 14.2 per cent. over the previous year. Beijing Gas had a total of approximately 5.21 million subscribers as at 31 December 2014. In 2014, Beijing Gas had approximately 206,000 new subscribers including 202,000 household subscribers and 4,537 public sector subscribers. Beijing Gas's pipelines in operation in Beijing increased to 16,931 kilometres in length as at 31 December 2014. Beijing Gas's pipeline network connects ten out of 11 towns in Greater Beijing.

Beijing Gas enjoys effective monopoly rights to distribute natural gas in Beijing for 25 years, pursuant to concession rights granted by the Beijing People's Government. According to the Concession Measures, the concession right of operating a natural gas network in an urban area of a

city/county/province has a maximum duration of 30 years. In 2007, the Beijing Municipal Administration Commission issued the approval document (《北京市燃氣經營許可證》) for operating the urban natural gas pipeline networks of Beijing. Upon the expiry of the concession right in 2032, the concession right is subject to re-approval by the relevant governmental authorities.

For 2014, revenue from Beijing Gas's natural gas distribution business amounted to HK\$32.44 billion, representing year-on-year growth of 28.9 per cent. and capital expenditure for basic pipeline and gateway infrastructure in Beijing amounted to HK\$1.49 billion.

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



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

Supply of natural gas

Beijing Gas sources substantially all of its gas from Changqing, one of the largest operating natural gas fields in the PRC. Beijing Gas's principal supplier of natural gas is the PetroChina Associate Company. Beijing Gas has bi-annual contracts for the supply of natural gas with PetroChina Associate Company. Beijing Gas believes the transmission costs of gas from Changqing gas field are lower compared with other major gas fields because of its proximity to Beijing.

Upstream and downstream integration

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

Pricing

From April 2015, the price of natural gas for direct non-residential users (fertilizer producers excluded) at city gate shall be determined by the buyers and sellers directly, rather than fixed by NDRC, and natural gas price for fertilizer producers will be raised slightly based on the current price

of existing natural gas fixed by NDRC. Any increase in distribution costs of natural gas for direct non-residential users are automatically passed on to the users. The provincial governments fix the residential user price which takes into account, among other things, distribution costs and alternative fuel prices. Residential user prices and adjustments are set through public consultation hearings which usually take four to six months to approve changes.

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

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

Seasonal demand

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

Government regulation

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

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

Planned expansion

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

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

Beijing Gas's expansion plans include construction of underground storage reservoirs through the PetroChina Beijing Pipeline, construction of a Caofeidian CNG receiver terminal through the Guarantor and extension transmission pipelines jointly with PetroChina Beijing Pipeline and government entities in the Hebei province. Beijing Gas is also planning to invest, in gas projects in Shandong province through strategic alliances with PetroChina Beijing Pipeline.

China Gas Holdings Limited (“China Gas”)

The Guarantor has a 22.53 per cent. equity interest in China Gas. The shares of China Gas are listed on the main board of the Hong Kong Stock Exchange (stock code: 384). China Gas is a gas operator and service provider primarily engaged in the investment, construction and operation of city gas pipeline infrastructure facilities, gas terminals, storage and transportation facilities, gas logistics systems, transmission of natural gas and LPG to residential, industrial and commercial customers, construction and operation of gasoline and gas refilling stations as well as the development and application of technologies relating to petroleum, natural gas and LPG in China.

China Gas’s gas business is divided into two segments, namely the natural gas segment and the liquefied petroleum gas segment, which cater for the needs of different customer groups and require different market development strategies. Customers are mainly classified into residential customers, industrial and commercial customers. China Gas provides more than 11 million residential households, 67,000 industrial and commercial customers with piped natural gas services and over six million residential households with bottled LPG. Other customers include CNG/LNG refilling stations.

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

As at 30 September 2014, China Gas provided piped natural gas supply in 168 cities and had intermediate and arterial pipeline networks (excluding pipeline in the premises of its customers) of 52,411 kilometres in length, there were 226 processing stations (city-gate stations) and the connectable urban population was potentially 84,759,000 persons (approximately 25,586,000 households).

As at 30 September 2014, China Gas owned 434 natural gas refilling stations in 24 provinces (including autonomous regions and municipalities), including 350 CNG and 84 LNG refilling stations for vehicles.

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

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

Natural Gas Transmission Business

The Guarantor owns a 40.0 per cent. equity interest in, and jointly controls, PetroChina Beijing Pipeline which provides natural gas transmission services from the second-largest gas field in Changqing, to Beijing, Tianjin and Hebei regions through Beijing Gas’s Shaanxi-Beijing pipelines. PetroChina Beijing Pipeline had a natural gas transmission volume of 29.96 billion cubic metres in 2014.

PetroChina Beijing Pipeline’s three Shaanxi-Beijing pipelines have a total transmission capacity of 35.0 billion cubic metres per annum. PetroChina Beijing Pipeline is adding a fourth Shaanxi-Beijing pipeline which will have an annual transmission capacity of 25.0 billion cubic metres per annum to further supply Beijing, the north-east grid of Liaoning and the Bohai rim. The Shaanxi-Beijing No. 4 line is expected to be operational by 2015.

The existing Shaanxi-Beijing No.1, No.2 and No.3 pipelines are each approximately 900 kilometres in length and have an annual transmission capacity of 4 billion, 15 billion and 15 billion cubic metres per annum, respectively. The Shaanxi-Beijing No.1 pipeline supplies the Beijing, Tianjin, Yanshan, Canghua and Hebei regions, the No.2 pipeline supplies the main city areas in Beijing, Tianjin, Shaanxi, Hebei and Shandong and the No.3 pipeline supplies gas to the Bohai rim, Shandong, Beijing and the north-east grid of Liaoning.

Brewery Business

The Guarantor owns a 57.57 per cent. equity interest in Yanjing Brewery, which is one of the largest beer breweries by production volume in the PRC and in Asia. The shares of Yanjing Brewery are listed on the Shenzhen Stock Exchange (stock code: 000729). In 2014, nationwide beer sales volume of Yanjing Brewery was 5.32 million kilolitres and the sales volume of Yanjing Brewery's "1+3" brands ("Yanjing" plus "Liquan", "Huiquan" and "Xuelu" brands) was 4.8 million kilolitres, representing approximately 90 per cent. of the total sales volume. Yanjing Brewery has a diverse portfolio of brands targeting different regions and price points. "Yanjing" beer is a national core brand and falls into the high-end to medium-price category. "Liquan" beer is mainly marketed and distributed in Guangxi Province in southern China, "Huiquan" beer in Fujian Province in eastern China and "Xuelu" beer in Inner Mongolia in northern China. Other than Yanjing, all of its other products are mass market products.

Products

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

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

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

Production facilities

As at 31 December 2014, Yanjing Brewery operates 41 breweries across 18 provinces in the PRC with a total annual designed production capacity of approximately 9.6 billion litres. Yanjing Brewery intends to reorganise its existing facilities, acquire new breweries and establish new brewery facilities and bottling plants to achieve production expansion targets in the future.

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



Raw materials

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

Production and quality control

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

Sales, marketing and distribution

Although Beijing is Yanjing Brewery's primary market, Yanjing Brewery also supplies beer in Guangxi, Fujian, Inner Mongolia, Hunan, Sichuan, Xinjiang and Shandong provinces. Yanjing Brewery utilises a three-tier distribution structure that includes a network of distributors, wholesalers and retailers. Yanjing Brewery's local distributor network includes state-owned cigarette and alcohol distribution companies, collective distributors and individual wholesalers. Yanjing Brewery also sells

brewery products directly to restaurants and bars. The Guarantor believes Yanjing Brewery's diversified distribution network maximises product exposure and minimises dependence on any single wholesaler or distributor. Yanjing Brewery chooses distributors in each market that will devote attention and resources to the promotion and sale of its products in developing such markets. Yanjing Brewery has enjoyed long-term relationships with most of its distributors and require them to exclusively distribute its products.

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

Competition

The brewery industry in the PRC is highly fragmented with approximately 470 regional breweries. Yanjing Brewery's main competitors in the PRC include domestic and international breweries, such as Tsingtao Brewery Group and China Resources Snow Breweries Co. Ltd. as well as numerous local breweries. Yanjing Brewery expects competition in the brewery industry to continue to intensify as leading breweries compete against each other to acquire local and regional breweries to increase their market share. Competition is primarily based on brand recognition, product quality and taste, packaging, price and distribution capabilities. The Guarantor believes Yanjing Brewery is well placed to capitalise on the strength of the "Yanjing" brand name, market leadership in the Beijing beer market, product quality and broad distribution channels to maintain Yanjing Brewery's leading position in Beijing and increase its presence in other markets in the PRC.

Sewage and Water Treatment Business

The Guarantor operates its sewage and water treatment business through its 43.92 per cent. owned interest in Beijing Water, whose business includes water operations construction services for water environmental renovation projects and technical and consulting services. The shares of Beijing Water are listed on the main board of the Hong Kong Stock Exchange (stock code: 371). During 2014, the total daily design capacity for Beijing Water increased from 16,708,150 tons to 20,150,050 tons, representing an increase of 21 per cent. as compared with 2013. Total daily design capacity for new projects secured in 2014 was 4,651,900 tons. During 2014, Beijing Water disposed of 11 sewage treatment projects and one water supply project in Shandong and Guizhou with aggregate daily design capacity of 700,000 tons. Beijing Water also signed a Public-Private Partnership ("**PPP**") contract for Luoyang City Sewage Treatment Projects with daily design capacity of 900,000 tons to replace the previous non-operating entrustment operation contract with daily design capacity of 510,000 tons in year 2011. The net increase in its total daily design capacity for 2014 was therefore 3,441,900 tons. The increment of 4,651,900 tons daily design capacity for new projects secured included BOT projects of 1,944,200 tons, TOT projects of 283,500 tons, Design-Build-Own-Operate ("**DBOO**") project of 228,000 tons, PPP of 900,000 tons, entrustment operation projects of 510,200 tons, and 786,000 tons through mergers and acquisitions.

As at 31 December 2014, the coverage of water and sewage treatment plants owned by Beijing Water extended to 18 provinces, two autonomous regions and three municipalities all across the PRC, in addition, it had 173 sewage treatment plants and four reclaimed plants in operation in the PRC. Also as at the same date, total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached 7,523,950 tons (31 December 2013: 6,259,750 tons) and 418,000 tons (31 December 2013: 418,000 tons) respectively. For 2014, the average daily processing volume was 6,825,763 tons and average daily treatment rate was 81 per cent.. The actual average contracted tariff charge of water treatment was approximately HK\$1.27 per ton for water plants. The actual aggregate processing volume for 2014 was 2,369.0 million tons, of which 2,212.3 million tons was contributed by subsidiaries and 156.7 million tons was contributed by joint ventures for the same year.

For the year ended 31 December 2014, Beijing Water's revenue amounted to HK\$8,925.9 million (2013: HK\$6,406.5 million), an increase of 39 per cent. over the prior year. Profit attributable to shareholders was HK\$1,794.4 million (2013: HK\$1,084.3 million), an increase of 65 per cent. over the prior year. Total assets reached HK\$54,640.8 million as at 31 December 2014 relative to HK\$44,186.7 million as at 31 December 2013.

Service concession arrangements

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

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

Sewage treatment

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

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

The following table sets forth certain information in relation to Beijing Water's sewage treatment and reclaimed water treatment services as at 31 December 2014:

	Number of plants	Design capacity (Tons/Day)	Actual processing capacity during 2014 (Tons (M))
Mainland China:			
Sewage and reclaimed water treatment services:			
Southern China	46	3,013,700	967.3
Western China	40	1,482,000	511.4
Shandong region	23	1,027,000	318.8
Eastern China	46	1,623,250	336.9
Northern China	22	796,000	234.6
	177	7,941,950	2,369.0
Water distribution services	26	3,420,000	589.3
	203	11,361,950	2,958.3
Overseas⁽¹⁾	37	91,200	33.4
Total	<u>240</u>	<u>11,453,150</u>	<u>2,991.7</u>

Note:

(1) Includes 24 sewage treatment services and 13 water distribution services.

Details of Beijing Water's regional sewage treatment operations are set out below.

Southern China

As at 31 December 2014, Beijing Water operated 46 sewage treatment plants in southern China with a combined daily design sewage treatment capacity of 3,013,700 tons, representing an increase of 258,700 tons per day, or 9 per cent., as compared with 2,755,000 tons per day in 2013. Beijing Water's sewage treatment facilities are located mainly in Guangdong, Hunan and Hainan provinces. For 2014, the actual aggregate processing volume was 967.3 million tons.

Western China

As at 31 December 2014, Beijing Water operated 40 sewage treatment plants in western China with a combined daily design sewage treatment capacity 1,482,000 tons, representing an decrease of 169,500 tons per day, or 10 per cent., as compared with 1,651,500 tons per day for 2013. Beijing Water's sewage treatment plants in western China are located mainly in Yunnan, Guangxi, Sichuan and Guizhou provinces. For 2014, the actual sewage processing volume was 511.4 million tons.

Shandong region

As at 31 December 2014, Beijing Water operated 23 plants in the Shandong region with a combined daily design capacity of 1,027,000 tons, representing an increase of 575,000 tons per day, or 127 per cent., as compared with 452,000 tons per day in 2013. For 2014, the actual aggregate processing volume was 318.8 million tons.

Eastern China

As at 31 December 2014, Beijing Water operated 46 plants in eastern China with a combined daily design capacity of 1,623,250 tons, representing an increase of 415,000 tons per day, or 34 per cent., as compared with 1,208,250 tons per day in 2013. Beijing Water's sewage treatment facilities are located mainly in Zhejiang, Jiangsu and Anhui provinces. For 2014, the actual aggregate processing volume was 336.9 million tons.

Northern China

As at 31 December 2014, Beijing Water operated 22 plants in northern China with a combined sewage treatment capacity of 796,000 tons per day, representing an increase of 185,000 tons per day as compared with 611,000 tons per day in 2013. For 2014, the actual aggregate processing volume was 234.6 million tons.

Water supply service

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

As at 31 December 2014, Beijing Water had 26 water distribution plants in operation. Total daily design capacity in operation was 3,420,000 tons (31 December 2013: 2,750,000 tons). The plants were mainly located in Guizhou Province, Fujian Province, Shandong Province, Henan Province and Guangxi Province. The actual average contracted tariff charge of water distribution is approximately HK\$2.29 per ton. The aggregate actual processing volume is 589.3 million tons, of which 292.7 million tons was contributed by subsidiaries and 296.6 million tons was contributed by joint ventures.

As at 31 December 2014, the Group had 24 sewage treatment plants and 13 water distribution plants in Portugal with a total daily design sewage treatment and water distribution capacity in operation of 55,200 tons and 36,000 tons respectively. The aggregate actual processing volume for sewage treatment and water distribution is 21.2 million tons and 12.2 million tons, respectively.

Construction

Beijing Water's construction projects are primarily comprehensive renovation projects and BOT projects. For the years ended 31 December 2013 and 2014, revenue from the Group's construction services business accounted for 59 per cent. and 51 per cent. of Beijing Water's revenue respectively.

Comprehensive renovation projects

Beijing Water provides construction services on a comprehensive renovation basis for the design, construction and installation of water or sewage treatment facilities and pipeline networks for its customers at a fixed contract price (subject to agreed variation orders). Upon completion, Beijing Water delivers the project to its customers for their operation and bears no further responsibility for the maintenance or repair of the facilities. Beijing Water's comprehensive renovation projects typically take between 12 and 24 months to complete. The Group recognises revenue from its comprehensive renovation projects on the basis of the percentage of completion method commencing when a legally binding contract is executed and when the total construction costs of the facilities under development can be reliably estimated. The Group's comprehensive renovation projects primarily involve the construction of an intercepting canal and its ancillary facilities, water environmental renovation facilities, pipeline networks and other infrastructure. During the year ended 31 December 2014, the Group had ten comprehensive renovation projects under construction. These projects are located in Guangxi Beijing Liangshuihe, Henan Luoyang, Foshan Gaoming, Hunan Zhuhui, Yunnan Kunming, Yunnan Yuxi and Malaysia Pantai.

BOT projects

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

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

As at 31 December 2014, Beijing Water was constructing 326 water plants with a total daily design capacity of 4,651,900 tons on a BOT, TOT, DBOO, and PPP basis. These water plants are mainly located in Beijing, Sichuan, Shandong, Yunnan, Liaoning, Guangxi, Jiangsu, Shanxi, Heilongjiang and Hunan provinces. These projects are expected to commence operations in 2015.

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

Technical and consultancy services

Beijing Water maintains a number of licences in engineering consulting and design of water treatment plants. As an integrated water system solution provider, Beijing Water has not only acquired extensive experience in bidding, building and operating sewage and water treatment projects, but also successfully marketed its treatment technology and experience in construction services to other operators and constructors based in the PRC. For the years ended 31 December 2013 and 2014, Beijing Water recorded revenue of HK\$117.6 million and HK\$280.7 million from its technical and consultancy services, respectively.

Solid Waste Treatment Business

Beijing Development (Hong Kong) Limited (“Beijing Development”)

The Guarantor holds a 50.36 per cent. equity interest in Beijing Development. The shares of Beijing Development are listed on the main board of the Hong Kong Stock Exchange (stock code: 154). Beijing Development is primarily engaged in solid waste treatment business after acquiring two solid waste incineration companies in April 2014, namely KCS Taian Investments Company Limited and KCS Changde Investments Company Limited, whose principal activities are the investment and operation of two waste-to-energy projects in Shandong Province and Hunan Province in the PRC through their respective subsidiaries, namely, Tai An China Sciences Environment Power Company Limited and Changde Zhonglian Environmental Electricity Co. Ltd, for an aggregate consideration of approximately RMB520 million.

In the second half of 2014, the Group established a 99 per cent. equity owned joint venture (the “**Haidian Licensed Company**”) for the investment and operation of a solid waste incineration plant in Beijing, namely 北京市海澱區循環經濟產業園再生能源發電廠 PPP項目 Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Plant PPP Project (the “**Haidian Project**”). The total investment amount of the Haidian Project shall be RMB1,525 million and it is operated on a Public-Private-Partnership (“**PPP**”) basis. The Haidian Project has household waste treatment capacity of 2,500 tonnes/day, including household waste incineration of 2,100 tonnes/day (equipped with three 600 tonnes/day mechanical grate incinerators and two 20MW steam turbine generators) and kitchen waste biochemical treatment of 400 tonnes/day.

Other projects

In 2014, the Guarantor acquired control of GSE Investment Corporation (“**GSE**”). The major assets of GSE include three solid waste incineration projects, namely 北京高安屯生活垃圾焚燒發電專案 (Beijing Gaoantun Municipal WTE Project)(the “**Gaoantun Project**”), 江蘇省張家港垃圾焚燒發電項目 (Zhangjiagang WTE Project, Jiangsu)(the “**Zhangjiagang Project**”) and 北京金州安潔危險廢物處理專案 (Beijing Golden State Anjie Hazardous Waste Treatment Project)(the “**Anjie Project**”). The Gaoantun Project is operated on a BOT basis with a solid waste treatment capacity of 1,600 tonnes per day, the Zhangjiagang Project operates on a Build-Own-Operate basis with a solid waste treatment capacity of 900 tonnes per day and the Anjie Project operates on a BOT basis with a hazardous waste treatment capacity of 40 tonnes per day.

Employees

As at 31 December 2014, the Guarantor employed approximately 49,500 employees, substantially all of whom are located in the PRC and Hong Kong. Staff benefits include salaries, provident fund, insurance and medical cover, housing and share option schemes. The Guarantor believes its employees are critical to the Guarantor’s success and the Guarantor is committed to investing in the development of such employees through continuing education and structured training, as well as the creation of opportunities for career growth.

Environmental Compliance

The Guarantor believes it is in compliance in all material respects with applicable environmental regulations in the jurisdictions in which the Guarantor operates. The Guarantor is not aware of any environmental proceedings or investigations to which the Guarantor or any member of the Group is or might become a party and which might have a material adverse effect on the Guarantor's properties and operations.

PRC Government Regulation

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

Insurance

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

Property

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

Litigation

From time to time, the Guarantor may be involved in legal proceedings concerning matters that arise in the ordinary course of business operations. However, as at the date of this Offering Circular, the Guarantor is currently not involved in, nor has the Guarantor been recently involved in, any legal or arbitral proceedings, if determined adversely against it, to have a material adverse effect on the Guarantor's consolidated financial position and results of operations.

DIRECTORS AND MANAGEMENT

The Guarantor

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

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

Name	Age	Title
WANG Dong	49	Executive Director and Chairman
HOU Zibo	49	Executive Director and Vice Chairman
ZHOU Si	58	Executive Director, Vice Chairman and Chief Executive Officer
LI Fucheng	60	Executive Director and Vice Chairman
LI Yongcheng.....	53	Executive Director
E Meng	56	Executive Director and Executive Vice President
JIANG Xinhao	50	Executive Director and Vice President
TAM Chun Fai	53	Executive Director, Chief Financial Officer and Company Secretary
GUO Pujin	61	Non-executive Director
WU Jiesi	63	Independent Non-executive Director
LAM Hoi Ham	76	Independent Non-executive Director
FU Tingmei	48	Independent Non-executive Director
SZE Chi Ching	75	Independent Non-executive Director
SHI Hanmin	65	Independent Non-executive Director
YU Sun Say	76	Independent Non-executive Director

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

Executive Directors

WANG Dong, aged 49, is the Chairman of the Guarantor and Beijing Enterprises Group Company Limited. Mr. Wang graduated from Mining Mechanical Engineering Faculty of Beijing Institute of Iron and Steel in 1986, holds a master degree in Public Administration from People’s University of China and the title of Senior Engineer. Mr. Wang has held various senior positions in many large and medium size state-owned enterprises. From 2001 to 2008, Mr. Wang served as the Deputy General Manager, subsequently the Executive Deputy General Manager and finally the Chairman of BBMG Group Company Limited. From 2008 to 2009, he served as Head of the State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality. Mr. Wang has extensive experience in corporate management, finance and state-owned assets supervision. Mr. Wang joined the Group in August 2009.

HOU Zibo, aged 49, is the Vice Chairman of the Guarantor. 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.

ZHOU Si, aged 58, is the Vice Chairman and CEO of the Guarantor. Mr. Zhou is also Vice Chairman of Beijing Enterprises Group Company Limited, as well as Chairman of the Board of Directors and Executive Director of China Gas Holdings Limited (stock code: 384). Mr. Zhou received a bachelor's degree in science (Physics) from Capital Normal University in 1982, an MBA degree from school of Economics and Management, Tsinghua University in 1998 and possesses the title of Senior Economist. From 1984 to 2003, he worked with Comprehensive Planning Department of Urban Management Commission of Beijing Municipality as Chief Officer, Deputy Director and Director and later worked as Deputy Director of Urban Management Commission of Beijing Municipality. From January 2011 to January 2014, he served as Chairman and Executive Director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Zhou has extensive experience in urban management, economics, finance and enterprise management. Mr. Zhou joined the Group in June 2005.

LI Fucheng, aged 60, is the Vice Chairman of the Guarantor. Mr. Li also serves as the Director and Vice General Manager of Beijing Enterprises Group Company Limited. During his tenure with Yanjing Beer Factory since 1983, he had held various positions including Deputy Secretary, Deputy Director and Director, among other positions, and is currently the Chairman of the Yanjing Group. Mr. Li has extensive experience in the brewery industry. Mr. Li joined the Group in April 1997.

LI Yongcheng, aged 53, is the Executive Director of the Guarantor. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master's degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd. He is currently Vice Chairman and Executive Deputy General Manager of 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 the public utilities industry, and also has plenty of experience in enterprise operations and capital operations. Mr. Li was Vice President of the Guarantor from August 2007 to March 2011, and subsequently re-joined the Guarantor as Executive Director in March 2014.

E Meng, aged 56, is the Executive Director and Executive Vice President of the Guarantor. Mr. E also serves as the Vice General Manager and CFO of Beijing Enterprises Group Company Limited, the Chairman and Executive Director of Beijing Development (Hong Kong) Limited (stock code: 154), the Vice Chairman and Executive Director of Beijing Enterprises Water Group Limited (stock code: 371), and an Independent Non-executive Director of JLF Investment Company Limited (stock code: 472). Mr. E graduated from China Science and Technology University with a master's degree in engineering and subsequently obtained an EMBA degree from The Hong Kong University of Science and Technology. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the Deputy Director of Beijing New Technology Development Zone while 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.

JIANG Xinhao, aged 50, is the Executive Director and Vice President of the Guarantor. Mr. Jiang also serves as Vice General Manager of Beijing Enterprises Group Company Limited, an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) and Beijing Properties (Holdings) Limited (stock code: 925). Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, then he served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. In 1992, he was granted a master's degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Vice President of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a Manager of the investment development department of Beijing Holdings Limited and a General Manager of Beijing BHL Investment Center between May 2000 and February 2005. Mr. Jiang has extensive experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

TAM Chun Fai, aged 53, is the Executive Director, Chief Financial Officer and Company Secretary of the Guarantor. Mr. Tam also serves as the Independent Non-executive Director of Hi Sun Technology (China) Limited (stock code: 818) and KWG Property Holding Limited (stock code: 1813). Mr. Tam graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy and is a regular member of Chartered Financial Analyst and a member of Hong Kong Institute of Certified Public Accountants. Mr. Tam has extensive experience in auditing and corporate advisory services with major international accounting firms. He was involved in floatation and audit work of a wide variety of businesses, including electronics, electrical appliances, athletic shoes manufacturing, banking, insurance, securities and property development. Mr. Tam joined the Group in April 1997.

Non-executive Director

GUO Pujin, aged 61, is the Non-executive Director of the Guarantor. He graduated from the political education faculty of Capital Normal University in 1976 and later finished his postgraduate studies at Capital Trade and Economics University. Mr. Guo was previously the Chief Executive Officer of Da Xing District of Beijing and is currently the Chairman of Beijing Capital Expressway Development Co., Ltd.. Mr. Guo has extensive experience in government affairs and corporate management in China. Mr. Guo joined the Group in April 2004 as Executive Director of the Guarantor and was re-designated as Non-executive Director of the Guarantor in March 2013.

Independent Non-executive Directors

WU Jiesi, aged 63, holds a doctorate degree in Economics. Mr. Wu also serves as Independent Non-executive Director of China Taiping Insurance Holdings Company Limited (stock code: 966), China Citic Bank International Limited as well as Industrial and Commercial Bank of China (Asia) Limited; Non-executive Director of Shenzhen Investment Limited (stock code: 604) and Silver Base Group Holdings Limited (stock code: 886); and Independent Director of China Life Franklin Asset Management Co., Limited. He conducted post-doctoral research work in theoretical economics at the Nankai University in the PRC and was conferred the professorship qualification by the Nankai University in 2001. During the period from 1984 to 1995, Mr. Wu worked at the Industrial and Commercial Bank of China in a number of positions, including as the President of Shenzhen Branch. From 1995 to 1998, Mr. Wu was Vice Mayor of Shenzhen Municipal Government and from 1998 to 2000 he was the assistant to the Governor of Guangdong province. He was the Chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, the Honorary President of Guangdong Investment Limited and Guangdong Tannery Limited, and the managing director and chief executive officer of Hopson Development Holdings Limited. From September 2005 to July 2011, he was Independent Non-executive Director of China Merchants Bank Co., Ltd. (stock code: 3968). Mr. Wu was Non-executive Director and Vice Chairman of China Aoyuan Property Group Limited (stock code: 3883), Non-executive Director of China Water Affairs Group Limited (stock code: 855), and Independent Director of China Merchants Securities Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code: 600999). He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

LAM Hoi Ham Justice of Peace, aged 76, graduated from the faculty of economics of The University of Hong Kong, is the founder of the accounting firm H H Lam & Co. and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam was granted the Medal of Honour by The Hong Kong Government in 1994 and was appointed a Justice of the Peace in 1997. Mr. Lam previously served as a Standing Committee member of the 10th and 11th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China of Beijing City and currently serves as its Senior Consultant. He is now the vice chairman of Beijing Overseas Friendship Association and a committee member of Beijing Health Department Overseas Friendship Association, etc. Mr. Lam joined the Group in March 2008.

FU Tingmei, aged 48, has extensive experiences in law, investment, finance and business management. Mr. Fu graduated from the University of London with a master's degree and a doctorate degree in Law in 1989 and 1993, respectively. Between 1992 and 2003, he conducted many corporate finance transactions in investment banking firms based in Hong Kong, including serving as a director of Peregrine Capital Limited, and a deputy managing director and subsequently a managing director of BNP Paribas Peregrine Capital Limited. Mr. Fu is currently engaged in private investment business. He is currently also an independent non-executive director of CPMC Holdings Limited (stock code: 906) and Guotai Junan International Holdings Limited (stock code: 1788), both listed on the Stock Exchange. Mr. Fu joined the Group in July 2008.

SZE Chi Ching, *Justice of Peace*, aged 75. Mr. Sze obtained an honorary doctorate degree in social sciences from City University of Hong Kong in 2008. He previously served as Hong Kong Affairs Advisor to the State Council, vice chairman of All-China Federation of Industry and Commerce, standing committee member of the Chinese People's Political Consultative Conference of Fujian Province, member of China Trade Advisory Board of Hong Kong Trade Development Council, member of the 8th, 9th, 10th and 11th Committee of Chinese People's Political Consultative Conference; associate director of the Committee for Learning and Cultural and Historical Data of the Committee of the People's Political Consultative Conference; vice chairman of China Civilian Chamber of Commerce. He is currently committee member of China Federation of Literary, director of China Calligraphers Association, chairman of Hong Kong Branch of Chinese Calligraphers Association, chairman of the board of Hang Tung Resources Holding Limited, and honorary president of the Hong Kong Fujian Chamber of Commerce. He has been appointed as vice chairman and a visiting professor of Huaqiao University, a part-time professor of the Chinese Department of Xiamen University, consulting professor of Peking University and executive director of the Board of Trustees of Jimei University, among other positions. Mr. Sze joined the Group in March 2013.

SHI Hanmin, aged 65, senior engineer. Mr. Shi graduated from the Basic Organic Chemical Engineering Faculty of Beijing Institute of Chemical Technology in 1974. From 1978 to 2010, he worked with Beijing Municipal Environmental Protection Bureau. During his tenure, he served as director from 2002 to 2010 and was appointed as environmental expert of the World Expo 2010 by the Shanghai Municipal Government in 2009. Mr. Shi also serves as representative of the 10th Communist Party Congress of Beijing, standing committee member of the 11th Chinese People's Political Consultative Conference of Beijing and deputy director of the Committee of Environment and Resources. Mr. Shi joined the Group in March 2013.

Mr. Shi has engaged himself in the regime of environmental protection for over 30 years, and has proactively made contributions to fulfill the environmental commitment of "Green Olympic" during the course of preparing for and holding Beijing Olympics. He obtained the honorary titles of "The Advanced Individual of The Beijing Olympics and Paralympics" granted by the CPC Central Committee and the State Council in 2008 in succession. He was also awarded the first "Kong Ha Award" in the same year as recognition of his outstanding contributions to the air quality improvement and the fulfillment of the "Green Olympic" commitment in Beijing. In 2009, under the leadership of Mr. Shi, the International Olympic Committee and the United Nations Environment Programme co-hosted the 8th World Congress of Sports and Environment in Canada and the first "Sports and Environment" prize was awarded to Beijing.

YU Sun Say G.B.M., J.P., aged 76. 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.

Senior Management

XIAO Xifa, aged 51, is Vice President of the Guarantor. Mr. Xiao is a senior engineer and a P.R.C. Registered Consulting (Investment) Engineer. Mr. Xiao holds a master degree in engineering from University of Science and Technology Beijing and a MBA from Tsinghua University. Mr. Xiao was the dean and chairman of Beijing Gas and Heating Engineering Design Institute (Limited Company), the managing director of Beijing United Gas Engineering & Technology Co., Ltd., the manager of asset management department of Beijing Gas Group Company Limited, and the manager of strategic development department of Beijing Enterprises Group Company Limited. Mr. Xiao has extensive experience in project investment consulting, planning, mergers and acquisitions as well as business management in the industry of gas and heat supply. Mr. Xiao joined the Group in February 2006.

ZHI Xiaoye, aged 47, is Vice President of the Guarantor. Mr. Zhi also serves as General Manager of Beijing Gas Group Company Limited. Mr. Zhi graduated from Beijing University of Technology with a 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 Guarantor in July 2014.

KE Jian, aged 46, is Vice President of the Guarantor. 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 Development (Hong Kong) Limited (stock code: 154). Mr. Ke is a PRC Senior Accountant, Certified Tax Agent and Senior International Finance Manager. Mr. Ke received a bachelor's degree in economics from Beijing College of Finance and Commerce and an MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration. He joined the Guarantor in 1997 and was appointed as Vice President of the Guarantor in April 2011.

QI Xiaohong, aged 47, is Vice President of the Guarantor. Ms. Qi graduated from Capital Normal University with a bachelor's degree in legal studies and subsequently from Capital University of Economics and Business with a master's degree in economic management. Ms. Qi's experience include many years with Beijing Municipal Government departments. She concurrently acts as Executive Director and member of the remuneration committee of Beijing Enterprises Water Group Limited (stock code: 371). Ms. Qi joined the Guarantor in 1997 and is responsible for corporation administration and human resources management of its headquarters. She was appointed as Vice President of the Guarantor in March 2013.

EXCHANGE RATE INFORMATION

Hong Kong

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

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

Period	Exchange Rate			
	Period End	Average ⁽¹⁾	High	Low
		(HK\$ per US\$1.00)		
2009	7.7536	7.7513	7.7618	7.7495
2010	7.7810	7.7692	7.8040	7.7506
2011	7.7663	7.7793	7.8087	7.7634
2012	7.7507	7.7557	7.7699	7.7493
2013	7.7539	7.7565	7.7652	7.7503
2014	7.7531	7.7554	7.7669	7.7495
July	7.7497	7.7502	7.7517	7.7495
August.....	7.7501	7.7504	7.7514	7.7496
September.....	7.7648	7.7524	7.7650	7.7500
October	7.7551	7.7572	7.7645	7.7541
November	7.7548	7.7543	7.7572	7.7519
December	7.7531	7.7541	7.7616	7.7509
2015				
January	7.7529	7.7531	7.7563	7.7508
February	7.7559	7.7551	7.7584	7.7517
March.....	7.7540	7.7584	7.7686	7.7534
April (through 10 April)	7.7499	7.7513	7.7525	7.7499

Note:

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

Euro

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

Period	Noon buying rate			
	Period End	Average ⁽¹⁾	High	Low
		(USD per €1.00)		
2008	1.3919	1.4695	1.6010	1.2446
2009	1.4332	1.3955	1.5100	1.2547
2010	1.3269	1.3216	1.4536	1.1959
2011	1.2973	1.4002	1.4875	1.2926
2012	1.3186	1.2909	1.3463	1.2062
2013	1.3779	1.3303	1.3816	1.2774
2014	1.2101	1.3210	1.3927	1.2101
July	1.3390	1.3533	1.3681	1.3378
August	1.3150	1.3315	1.3436	1.3150
September	1.2628	1.2889	1.3136	1.2628
October	1.2530	1.2677	1.2812	1.2517
November	1.2438	1.2473	1.2554	1.2394
December	1.2101	1.2329	1.2504	1.2101
2015				
January	1.1290	1.1615	1.2015	1.1279
February	1.1197	1.1350	1.1462	1.1197
March	1.0741	1.0819	1.1212	1.0524
April (through 10 April)	1.0598	1.0822	1.1008	1.0598

Note:

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

TAXATION

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

PRC Taxation

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

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

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

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

British Virgin Islands

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

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

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

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

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer or its members. However, Council Directive 2003/48/EC adopted by the Council of the European Union on 3 June 2003, known as the “EU Savings Tax Directive” (the “**Directive**”) on the taxation of savings income in the form of interest payments took effect from 1 July 2005. Although aimed originally only at European Union Member States (“Member States”), the Directive was extended to include also certain overseas territories (including the British Virgin Islands, where the Issuer is incorporated) and a number of non-EU countries. The Directive was implemented in the British Virgin Islands by way of a series of bi-lateral agreements with certain Member States, together with amendments to the Mutual Legal Assistance (Tax Matters) Act, 2003.

Holders of the Bonds who are individuals resident in a Member State of the European Community should be aware that any interest payment on the Bonds or any income realised upon the sale, refund or redemption of their Bonds, together with any income in the form of dividends or other distributions, may, if certain requirements are met, become subject to the reporting regime imposed by the Directive in the British Virgin Islands.

Because these rules are complex and the precise extent of their application has not yet been confirmed by all Member States or other relevant jurisdictions which have agreed to abide by the Directive, application of the Directive cannot be excluded in all cases and holders of the Bonds who are individuals should consult their own tax advisers in relation to the purchase of the Bonds. At this time the Directive does not affect interest paid to companies.

Hong Kong

Withholding Tax

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

Profits Tax

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

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

- (a) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a company (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or
- (c) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person (other than a company) carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business.

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

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

Stamp Duty

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

Estate duty

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

EU

EU Directive on the Taxation of Savings Income

The EC Council Directive 2003/48/EC (the “**Savings Directive**”) requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual or certain other persons, in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015. The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. The Savings Directive was implemented in the British Virgin Islands by way of a series of bilateral agreements with certain Member States, together with amendments to the Mutual Legal Assistance (Tax Matters) Act 2003.

The proposed financial transactions tax (“FTT”)

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

FATCA Withholding

Whilst the Bonds are in global form and held within Euroclear and Clearstream, Luxembourg (the **Clearing Systems**), it is expected that the U.S. Foreign Account Tax Compliance Act of 2010 (**FATCA**) will not affect the amount of any payments made under, or in respect of, the Bonds by the Issuer, any paying agent and the common depository of the Clearing Systems and/or any relevant clearing system, given that each of the entities in the payment chain between the Issuer and the participants in the relevant Clearing Systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Bonds. The documentation expressly contemplates the possibility that the securities may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive Bonds will only be printed in remote circumstances.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Managers dated as of 29 April 2015 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to issue, the Guarantor has agreed to guarantee and the Managers have severally but not jointly agreed with the Issuer and the Guarantor to subscribe for the principal amount of Bonds set forth opposite their names below:

<u>Manager</u>	<u>Principal Amount of the Bonds</u>
Australia and New Zealand Banking Group Limited.....	EUR46,650,000
Bank of China Limited.....	EUR23,325,000
Bank of China (Hong Kong) Limited	EUR23,325,000
DBS Bank Ltd.	EUR46,700,000
Deutsche Bank AG, London Branch	EUR180,000,000
UBS AG, Hong Kong Branch.....	<u>EUR180,000,000</u>
Total	<u>EUR500,000,000</u>

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

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

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

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

New Issue of the Securities

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

Price Stabilisation and Short Positions

In connection with the offering, the Managers may, to the extent permitted by applicable laws, engage in transactions that stabilise or otherwise affect the market price of the Bonds. These transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Bonds. If the Managers create a short position in the Bonds in connection with the offering (i.e. if the Managers sell more Bonds than are set forth on the cover page of this Offering Circular), the

Managers may reduce that short position by purchasing Bonds in the open market. In general, purchases of a Bond for the purpose of stabilisation or to reduce a short position could cause the price of the Bonds to be higher than it might be in the absence of such purchases. There is no assurance, however, that the Managers will undertake stabilisation action. Any stabilisation action may begin on or after the date adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time and must be brought to an end after a limited period.

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

Other Relationships

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

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

United States

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

United Kingdom

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

- (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

British Virgin Islands

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

Hong Kong

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

Singapore

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

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

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

- (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275 (1A), and in accordance with the conditions, specified in Section 275 of the SFA; or
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law; or
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offer of Investments)(Shares and Debentures) Regulations 2005 of Singapore.

Japan

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

Taiwan

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

People’s Republic of China

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

GENERAL INFORMATION

1. **Clearing System:** The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 122497682 and the International Securities Identification Number for the Bonds is XS1224976826.
2. **Listing of the Bonds:** Application has been made to the Irish Stock Exchange plc for the approval of this Offering Circular as the Listing Particulars. Application has been made to the Irish Stock Exchange for the Bonds by way of debt issues to professional investors only to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. It is expected that dealing in, and listing of, the Bonds on the Irish Stock Exchange will commence on or around 7 May 2015. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Bonds and is not itself seeking admission of the Bonds to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange. The estimate of the total expenses related to admission to trading is €5,000.
3. **Authorisations:** Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by (i) resolutions of the directors of the Issuer passed on 29 April 2015, and (ii) resolutions of the Board of Directors of the Guarantor passed on 29 April 2015.
4. **No Material Adverse Change:** There has been no material adverse change in the prospects, and there has been no significant change in the financial or trading position, of the Guarantor or the Group since 31 December 2014 nor, of the Issuer since its date of incorporation.
5. **Litigation:** None of the Issuer or the Guarantor is or has been engaged in nor, so far as the Issuer or the Guarantor are aware, is there any pending or threatened, governmental, legal or arbitration proceedings which may have, or have had, a significant effect on the Issuer's financial position or profitability since the date of its incorporation, or on the Guarantor's financial position or profitability during the 12 months preceding the date of this Offering Circular.
6. **Available Documents:** Physical copies of the audited consolidated financial statements of the Guarantor for the years ended 31 December 2013 and 2014 may be obtained free of charge, and copies of the Trust Deed (which includes the guarantee given by the Guarantor), the Agency Agreement and the memorandum and articles of association of each of the Issuer and the Guarantor will be available for inspection, at the principal place of business of the Guarantor at 66/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours, so long as any of the Bonds is outstanding.
7. **Auditors:** The audited consolidated financial statements of the Guarantor for the years ended 31 December 2013 and 2014, found at the back of this Offering Circular, have been audited by Ernst & Young, certified public accountants of the Hong Kong Institute of Certified Public Accountants, as stated in their reports appearing therein.

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Pages references included in the independent auditor's reports and the consolidated financial statements for each of the years ended 31 December 2013 and 2014 set forth below refer to pages in the Guarantor's annual report for the year ended 31 December 2013 and the Guarantor's audited financial statements for the year ended 31 December 2014, respectively.



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Independent auditors' report
To the shareholders of Beijing Enterprises Holdings Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 3 to 138, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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



Independent auditors' report (continued)
To the shareholders of Beijing Enterprises Holdings Limited
(Incorporated in Hong Kong with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Certified Public Accountants
Hong Kong
31 March 2015

BEIJING ENTERPRISES HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
REVENUE	5	47,935,795	42,360,528
Cost of sales		<u>(39,359,764)</u>	<u>(34,023,315)</u>
Gross profit		8,576,031	8,337,213
Gain on disposal of interests in subsidiaries	45	-	25,935
Gain on deemed disposal of partial interests in an associate	22(a)	378,843	581,428
Other income and gains, net	5	862,480	908,099
Selling and distribution expenses		(2,595,985)	(2,611,439)
Administrative expenses		(3,407,908)	(3,345,808)
Other operating expenses, net		<u>(482,408)</u>	<u>(197,707)</u>
PROFIT FROM OPERATING ACTIVITIES	6	3,331,053	3,697,721
Finance costs	7	(1,172,491)	(1,133,744)
Share of profits and losses of:			
Joint ventures	21(b)	4,827	(5,847)
Associates	22(b)	<u>3,807,092</u>	<u>2,742,612</u>
PROFIT BEFORE TAX		5,970,481	5,300,742
Income tax	10	(564,834)	(545,287)
PROFIT FOR THE YEAR		<u>5,405,647</u>	<u>4,755,455</u>
ATTRIBUTABLE TO:			
Shareholders of the Company	11	4,831,678	4,183,878
Non-controlling interests		<u>573,969</u>	<u>571,577</u>
		<u>5,405,647</u>	<u>4,755,455</u>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	13		
Basic		<u>HK\$3.78</u>	<u>HK\$3.61</u>
Diluted		<u>HK\$3.77</u>	<u>HK\$3.54</u>

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
PROFIT FOR THE YEAR	<u>5,405,647</u>	<u>4,755,455</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
Available-for-sale investments:		
Changes in fair value	(106,292)	550,728
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	(61,268)	(106,200)
Income tax effect	<u>(16,892)</u>	<u>20,941</u>
	(184,452)	465,469
Exchange differences:		
Translation of foreign operations	(1,367,217)	1,860,766
Reclassification adjustments for gain on disposal of interests in subsidiaries included in the consolidated statement of profit or loss	-	(15,081)
	<u>(1,367,217)</u>	<u>1,845,685</u>
Share of other comprehensive income/(loss) of associates	<u>(101,289)</u>	<u>119,749</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	<u>(1,652,958)</u>	<u>2,430,903</u>
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
Defined benefit plans:		
Actuarial (losses)/gains	(108,273)	36,832
Income tax effect	<u>27,069</u>	<u>(9,208)</u>
	(81,204)	27,624
Share of other comprehensive income/(loss) of associates	<u>(15,890)</u>	<u>13,072</u>
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	<u>(97,094)</u>	<u>40,696</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX	<u>(1,750,052)</u>	<u>2,471,599</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>3,655,595</u></u>	<u><u>7,227,054</u></u>
ATTRIBUTABLE TO:		
Shareholders of the Company	3,336,953	6,347,464
Non-controlling interests	<u>318,642</u>	<u>879,590</u>
	<u><u>3,655,595</u></u>	<u><u>7,227,054</u></u>

BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	39,320,530	38,996,767
Investment properties	15	703,749	719,968
Prepaid land premiums	16	1,959,240	1,785,609
Goodwill	17	8,832,689	7,659,735
Operating concessions	18	2,021,350	606,292
Other intangible assets	19	236,978	64,120
Investments in joint ventures	21	230,722	217,350
Investments in associates	22	33,275,203	29,184,338
Available-for-sale investments	23	1,084,098	1,315,859
Amounts due from contract customers	25	316,733	947,102
Receivables under service concession arrangements	18	992,597	-
Prepayments, deposits and other receivables	27	1,165,546	1,316,771
Deferred tax assets	41	678,460	601,056
Total non-current assets		<u>90,817,895</u>	<u>83,414,967</u>
Current assets:			
Prepaid land premiums	16	44,860	53,509
Inventories	24	5,393,368	5,661,492
Amounts due from contract customers	25	39,895	28,599
Receivables under service concession arrangements	18	140,425	701,582
Trade and bills receivables	26	5,320,835	4,393,374
Prepayments, deposits and other receivables	27	6,131,039	4,290,561
Other taxes recoverable		2,232,099	219,169
Restricted cash and pledged deposits	29	58,735	63,104
Cash and cash equivalents	30	11,207,706	10,795,467
		<u>30,568,962</u>	<u>26,206,857</u>
Assets of a disposal group classified as held for sale	31	2,677,061	-
Total current assets		<u>33,246,023</u>	<u>26,206,857</u>
TOTAL ASSETS		<u><u>124,063,918</u></u>	<u><u>109,621,824</u></u>

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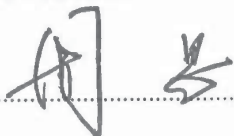
BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

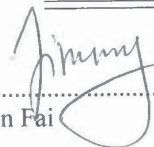
31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital: nominal value	32	-	127,019
Other statutory capital reserves		-	29,607,529
Share capital and other statutory capital reserves		<u>30,401,883</u>	<u>29,734,548</u>
Other reserves	34(a)(i)	25,978,176	23,522,995
Proposed final dividend	12	<u>796,297</u>	<u>763,695</u>
		57,176,356	54,021,238
Non-controlling interests		<u>10,874,635</u>	<u>10,046,841</u>
TOTAL EQUITY		<u>68,050,991</u>	<u>64,068,079</u>
Non-current liabilities:			
Bank and other borrowings	35	5,559,874	4,519,636
Guaranteed senior notes	36	13,879,298	13,866,081
Liability component of convertible bonds	37	-	93,501
Derivative component of convertible bonds	37	-	8,851
Defined benefit plans	38	672,659	535,655
Provision for major overhauls	39	30,544	30,544
Other non-current liabilities	40	433,447	361,859
Deferred tax liabilities	41	319,441	233,462
Total non-current liabilities		<u>20,895,263</u>	<u>19,649,589</u>
Current liabilities:			
Trade and bills payables	42	2,238,403	2,383,225
Amounts due to contract customers	25	377,784	325,794
Receipts in advance		5,843,713	5,690,597
Other payables and accruals	43	7,656,455	9,014,718
Income tax payables		342,499	378,319
Other taxes payables		266,372	821,418
Liability component of convertible bonds	37	84,556	673,054
Derivative component of convertible bonds	37	7,639	-
Bank and other borrowings	35	17,691,435	6,617,031
		<u>34,508,856</u>	<u>25,904,156</u>
Liabilities directly associated with the assets of a disposal group classified as held for sale	31	<u>608,808</u>	-
Total current liabilities		<u>35,117,664</u>	<u>25,904,156</u>
TOTAL LIABILITIES		<u>56,012,927</u>	<u>45,553,745</u>
TOTAL EQUITY AND LIABILITIES		<u>124,063,918</u>	<u>109,621,824</u>

.....
Zhou Si
Director



.....
Tam Chun Fai
Director



BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

Notes	Attributable to shareholders of the Company											Total equity HK\$'000		
	Share capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve (note 34(a) (ii)) 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 (note 34(a) (iii)) HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000		Total HK\$'000	Non-controlling interests HK\$'000
At 1 January 2013	113,757	20,738,291	238	516,641	(98,385)	33,980	80,409	4,808,479	4,178,529	8,693,229	572,286	39,637,454	8,030,221	47,667,675
Profit for the year	-	-	-	-	-	-	-	-	-	4,183,878	-	4,183,878	571,577	4,755,455
Other comprehensive income/(loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Available-for-sale investments:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value	-	-	-	-	546,237	-	-	-	-	-	-	-	-	-
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	-	-	-	-	(84,960)	-	-	-	-	-	-	(84,960)	(21,240)	(106,200)
Income tax effect	-	-	-	-	16,753	-	-	-	-	-	-	16,753	4,188	20,941
Exchange differences:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Translation of foreign operations	-	-	-	-	-	-	-	1,540,192	-	-	-	1,540,192	320,574	1,860,766
Reclassification adjustments for gain on disposal of interests in subsidiaries included in the consolidated statement of profit or loss	-	-	-	-	-	-	-	(15,081)	-	-	-	(15,081)	-	(15,081)
Defined benefit plans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Actuarial gains	-	-	-	-	-	-	36,832	-	-	-	-	36,832	-	36,832
Income tax effect	-	-	-	-	-	-	(9,208)	-	-	-	-	(9,208)	-	(9,208)
Share of other comprehensive income of associates	-	-	-	-	-	7,459	5,613	119,749	-	-	-	132,821	-	132,821
Total comprehensive income for the year	-	-	-	(17,766)	478,030	7,459	33,237	1,644,860	-	4,183,878	-	6,347,464	879,590	7,227,054
Capital contribution from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	(17,766)	1,024,367	1,006,601
Conversion of convertible bonds to ordinary shares	3,452	1,496,785	-	-	-	-	-	-	-	-	-	1,500,237	-	1,500,237
Issue of shares	9,810	7,372,215	-	-	-	-	-	-	-	-	-	7,382,025	-	7,382,025
Acquisition of subsidiaries	-	-	-	(22,637)	-	-	-	-	-	1,989	-	-	539,999	539,999
Disposal of subsidiaries	-	-	-	56,241	-	-	-	-	175	-	-	56,416	(94,926)	(38,510)
Share of reserves of associates	-	-	-	-	-	-	-	-	-	(291,658)	(572,286)	(863,944)	-	(1,436,230)
Final 2012 dividend	-	-	-	-	-	-	-	-	-	(763,695)	763,695	-	-	-
Interim 2013 dividend	-	-	-	-	-	-	-	-	-	(457,303)	-	-	(332,410)	(789,713)
Proposed final 2013 dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2013	127,019	29,607,291 [#]	238 [#]	532,479	379,645	41,439	113,646	6,453,339	4,636,007	11,366,440	763,695	54,021,238	10,046,841	64,068,079

Included in other statutory capital reserves in the consolidated statement of financial position.

BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2014

	Attributable to shareholders of the Company											Total equity HK\$'000		
	Share capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve 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	Retained profits HK\$'000	Proposed final dividend HK\$'000		Total HK\$'000	Non-controlling interests HK\$'000
At 1 January 2014	127,019	29,607,291	238	532,479	379,645	41,439	113,646	6,453,339	4,636,007	11,366,440	763,695	54,021,238	10,046,841	64,068,079
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income/(loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Available-for-sale investments	-	-	-	-	(105,839)	-	-	-	-	-	-	-	-	-
Changes in fair value	-	-	-	-	(61,268)	-	-	-	-	-	-	-	-	(61,268)
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	-	-	-	-	(16,892)	-	-	-	-	-	-	-	-	(16,892)
Income tax effect	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences: Translation of foreign operations	-	-	-	-	-	-	(1,112,343)	-	-	-	-	-	-	(1,112,343)
Defined benefit plans:	-	-	-	-	-	-	(108,273)	-	-	-	-	-	-	(108,273)
Actuarial losses	-	-	-	-	-	-	27,069	-	-	-	-	-	-	27,069
Income tax effect	-	-	-	-	-	-	(15,890)	(101,289)	-	-	-	-	-	(117,179)
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(183,999)	-	(97,094)	(1,213,632)	-	4,831,678	-	3,336,953	318,642	3,655,595
Capital contribution from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	44,907	44,907
Conversion of convertible bonds to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	667,335	-	667,335
Shares repurchased	(105)	-	-	-	-	-	-	-	-	(69,162)	-	(69,162)	-	(69,162)
Transition to non-par value regime	(29,607,634)	(29,607,291)	(343)	-	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	196,098	196,098
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(21,758)	(21,758)
Deemed disposal of partial interest in a subsidiary	-	-	-	229,926	-	-	-	(3,213)	-	-	-	226,713	602,448	829,161
Share of reserves of associates	-	-	-	114,188	-	2,404	-	-	-	-	(763,695)	116,592	-	116,592
Final 2013 dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim 2014 dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proposed final 2014 dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	495	-	-	-	-	1,666,431	(1,666,926)	796,297	-	(312,543)	(312,543)
At 31 December 2014	30,401,883	-	-	877,088*	195,646*	43,843*	16,552*	5,236,494*	6,302,438*	13,306,115*	796,297	57,176,356	10,874,635	68,050,991

* These reserve accounts comprise the consolidated other reserves of HK\$25,978,176,000 (2013: HK\$23,522,995,000) in the consolidated statement of financial position.

BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		5,970,481	5,300,742
Adjustments for:			
Gain on disposal of interests in subsidiaries, net	45	-	(25,935)
Gain on deemed disposal of partial interest in an associate		(378,843)	(581,428)
Interest income	5	(163,874)	(177,922)
Transfer of assets from customers	5	(112,009)	(127,172)
Gain on disposal of available-for-sale investments carried at fair value	5	(61,268)	(106,200)
Gain on transfer of receivables under a service concession arrangement	5	-	(47,087)
Depreciation	6	2,298,691	2,240,146
Amortisation of operating concessions	6	20,532	7,483
Amortisation of computer software	6	28,241	6,140
Amortisation of operating right	6	2,355	-
Amortisation of patents	6	851	-
Loss on disposal of items of property, plant and equipment, net	6	14,569	6,270
Impairment of items of property, plant and equipment, net	6	126,468	4,004
Impairment of operating concession	6	190,000	-
Impairment/(reversal) of impairment of trade and bills receivables, net	6	39,202	(6,036)
Impairment of other receivables, net	6	15,135	46,285
Finance costs	7	1,172,491	1,133,744
Share of profits of joint ventures and associates		<u>(3,811,919)</u>	<u>(2,736,765)</u>
Operating profit before working capital changes		5,351,103	4,936,269

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BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES (continued)		
Operating profit before working capital changes	5,351,103	4,936,269
Increase in prepaid land premiums	(93,510)	(56,538)
Decrease in inventories	118,209	482,570
Increase in amounts due from contract customers	(316,115)	(177,715)
Decrease in receivables under service concession arrangements	542,730	664,031
Increase in trade and bills receivables	(1,064,131)	(1,816,475)
Increase in prepayments, deposits and other receivables	(2,623,461)	(1,398,169)
Increase in other taxes recoverable	(1,997,391)	(16,017)
Decrease in trade and bills payables	(43,156)	(432,057)
Increase in amounts due to contract customers	60,974	139,293
Increase in receipts in advance	295,474	2,113,541
Increase/(decrease) in other payables and accruals	(1,410,622)	849,033
Increase/(decrease) in other taxes payable	(534,511)	564,414
Increase in defined benefit plans	46,478	46,601
Increase/(decrease) in other non-current liabilities	80,634	(54,106)
Cash generated/(used in) from operations	(1,587,295)	5,844,675
Dividends received from joint ventures and associates	3,066,575	1,025,857
Mainland China income tax paid	(625,362)	(717,275)
Net cash flows from operating activities	<u>853,918</u>	<u>6,153,257</u>

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BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(2,514,375)	(6,411,305)
Proceeds from disposal of items of property, plant and equipment		37,348	30,040
Additions of operating concessions		(245,477)	(176,154)
Purchases of other intangible assets		(92,861)	(36,044)
Acquisition of subsidiaries	44	(3,712,575)	171,331
Disposal of subsidiaries	45	135,286	(8,372)
Acquisition of/increase in investments in joint ventures and associates		(2,497,650)	(665,012)
Increase in amounts due from and loans to joint ventures and associates		(25,335)	(51,511)
Proceeds from disposal of available-for-sale investments		106,774	181,120
Decrease in time deposits with maturity of more than three months when acquired		508,233	58,942
Decrease in pledged deposits		4,369	3,628
Interest received		163,874	177,922
Net cash flows used in investing activities		<u>(8,132,389)</u>	<u>(6,725,415)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		32,923	996,552
Acquisition of non-controlling interest		(92,240)	-
Repurchase of shares	32(c)	(69,162)	-
New loans		21,354,437	7,767,307
Repayment of loans		(10,023,921)	(7,481,830)
Redemption of convertible bonds		(11,710)	-
Interest paid		(1,189,791)	(1,165,315)
Dividends paid		(1,123,313)	(863,944)
Dividends paid to non-controlling equity holders		(312,543)	(332,410)
Net cash flows from/(used in) financing activities		<u>8,564,680</u>	<u>(1,079,640)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		1,286,209	(1,651,798)
Effect of foreign exchange rate changes, net		10,132,463	11,515,682
		(195,050)	268,579
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>11,223,622</u>	<u>10,132,463</u>

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BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances:			
Placed in banks	30	7,020,259	7,725,743
Placed in a financial institution	30	3,237,711	-
Time deposits:			
Placed in banks	30	853,117	3,132,828
Placed in a financial institution	30	155,354	-
Less: Restricted cash and pledged deposits	30	<u>(58,735)</u>	<u>(63,104)</u>
Cash and cash equivalents as stated in the consolidated statement of financial position		11,207,706	10,795,467
Less: Time deposits with maturity of more than three months when acquired		(154,771)	(663,004)
Add: Cash and bank balances attributable to a disposal group	31	<u>170,687</u>	<u>-</u>
Cash and cash equivalents as stated in the consolidated statement of cash flows		<u><u>11,223,622</u></u>	<u><u>10,132,463</u></u>

BEIJING ENTERPRISES HOLDINGS LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	5,096	6,879
Investment properties	15	56,914	56,914
Investments in subsidiaries	20	56,212,369	48,054,713
Investments in associates	22	106,177	106,320
Available-for-sale investments	23	1,256,760	175,637
Total non-current assets		<u>57,637,316</u>	<u>48,400,463</u>
Current assets:			
Trade and bills receivables	26	1,099	1,128
Prepayments, deposits and other receivables	27	1,384,313	139,071
Cash and cash equivalents	30	2,875,303	1,658,686
Total current assets		<u>4,260,715</u>	<u>1,798,885</u>
TOTAL ASSETS		<u><u>61,898,031</u></u>	<u><u>50,199,348</u></u>

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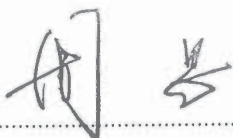
BEIJING ENTERPRISES HOLDINGS LIMITED

STATEMENT OF FINANCIAL POSITION (continued)

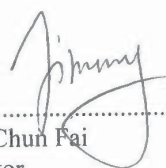
31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
EQUITY AND LIABILITIES			
Equity:			
Share capital: nominal value	32	-	127,019
Other statutory capital reserves		-	29,607,529
Share capital and other statutory capital reserve		<u>30,401,883</u>	<u>29,734,548</u>
Other reserves	34(b)	338,815	19,614
Proposed final dividend	12	<u>796,297</u>	<u>763,695</u>
TOTAL EQUITY		<u><u>31,536,995</u></u>	<u><u>30,517,857</u></u>
Non-current liabilities:			
Bank and other borrowings	35	2,960,250	2,985,750
Due to subsidiaries	20	<u>14,785,877</u>	<u>15,643,971</u>
Total non-current liabilities		<u>17,746,127</u>	<u>18,629,721</u>
Current liabilities:			
Other payables and accruals	43	1,951,563	966,398
Income tax payable		85,372	85,372
Bank and other borrowings	35	<u>10,577,974</u>	-
Total current liabilities		<u>12,614,909</u>	<u>1,051,770</u>
TOTAL LIABILITIES		<u><u>30,361,036</u></u>	<u><u>19,681,491</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>61,898,031</u></u>	<u><u>50,199,348</u></u>

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Zhou Si
Director



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Tam Chun Fai
Director



BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

1. CORPORATE INFORMATION

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

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

- the distribution and sale of piped natural gas, the provision of natural gas transmission, gas technology consultation and development services, surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repairs and maintenance services in Beijing, the People’s Republic of China (the “PRC”)
- the production, distribution and sale of brewery products in Beijing and other provinces in the PRC
- the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in the PRC and certain overseas countries.

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

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”) and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for (i) investment properties, certain available-for-sale investments and the derivative component of convertible bonds which have been measured at fair value; and (ii) a disposal group held for sale which is stated at the lower of its carrying amount and fair value less costs of disposal, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollar (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	<i>Investment Entities</i>
Amendments to HKAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to HKAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>
Amendment to HKFRS 2 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Definition of Vesting Condition¹</i>
Amendment to HKFRS 3 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Accounting for Contingent Consideration in a Business Combination¹</i>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amendment to HKFRS 13 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Short-term Receivables and Payables</i>
Amendment to HKFRS 1 included in <i>Annual Improvements 2011-2013 Cycle</i>	<i>Meaning of Effective HKFRSs</i>

¹ Effective from 1 July 2014

Other than as further explained below regarding the impact of amendments to HKFRS 10, HKFRS 12, HKAS 27 (2011), HKAS 32 and HK(IFRIC)-Int 21 and certain amendments included in *Annual Improvements 2010-2012 Cycle* and *Annual Improvements 2011-2013 Cycle*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these revised HKFRSs are as follows:

- (a) Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in HKFRS 10.
- (b) The HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to set off” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments have had no impact on the Group as the Group does not have any offsetting arrangement.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (c) HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which for the levies incurred by the Group are consistent with the requirements of HK(IFRIC)-Int 21.
- (d) The HKFRS 2 Amendment clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including (i) a performance condition must contain a service condition; (ii) a performance target must be met while the counterparty is rendering service; (iii) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment has had no impact on the Group.
- (e) The HKFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of HKFRS 9 or HKAS 39. The amendment has had no impact on the Group.
- (f) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

HKFRS 9	<i>Financial Instruments</i> ⁴
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to HKFRS 10, HKFRS 12 and HKAS 28(2011)	<i>Investment Entities: Applying the consolidation Exceptions</i> ²
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ²
HKFRS 14	<i>Regulatory Deferral Accounts</i> ⁵
HKFRS 15	<i>Revenue from Contracts with Customers</i> ³
Amendments to HKAS 1	<i>Disclosure initiative</i> ²
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ²

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> ²
Amendments to HKAS 19	<i>Defined Benefit Plans: Employee Contributions</i> ¹
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> ²
<i>Annual Improvements 2010-2012 Cycle</i>	Amendments to a number of HKFRSs ¹
<i>Annual Improvements 2011-2013 Cycle</i>	Amendments to a number of HKFRSs ¹
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs ²

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 January 2018

⁵ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the requirements of Part 9 “Accounts and Audit” of the Hong Kong Companies Ordinance (Cap. 622) will come into operation as from the Company’s first financial year commencing after 3 March 2014 in accordance with section 358 of that Ordinance, which will be the year ending 31 December 2015. The Group is in the process of making an assessment of the expected impact of the changes in the period of initial application of Part 9 of the Ordinance. So far it has concluded that the impact is unlikely to be significant and will primarily affect the presentation and disclosure of information in the consolidated financial statements.

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

- (a) In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group’s financial assets. Further information about the impact will be available nearer the implementation date of the standard.
- (b) The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

- (c) The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.
- (d) HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.
- (e) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.
- (f) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:
- (g) HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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 results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* are stated at cost less any accumulated impairment losses.

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.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

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

The results of associates and joint ventures are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any accumulated impairment losses.

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.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. 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.

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

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

Property, plant and equipment and depreciation

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

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

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

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

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

When a property occupied by the Group as an owner-occupied property becomes an investment property, any difference between the carrying amount and the fair value of the property at the date of change in use is accounted for as follows:

- (a) any resulting decrease in the carrying amount of the property is recognised in the statement of profit or loss in the period the change in use takes place.
- (b) any resulting increase in the carrying amount is credited to the statement of profit or loss, to the extent that the increase reverses a previous impairment loss for that property, or restores the carrying amount of the property to an amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the property in prior periods; and any remaining part of the increase in the carrying amount is credited directly to equity in the property revaluation reserve. On subsequent disposal of the property, the relevant portion of the property revaluation reserve realised is transferred to retained profits as a movement in reserves.

Disposal group held for sale

A disposal group is classified as held for sale if its carrying amount will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the disposal group 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 or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Disposal group (other than investment properties and financial assets) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

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

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under an 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 an service concession arrangement) is accounted for in accordance with the policy set out for “Investments and other financial assets” below.

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

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

Construction or upgrade services

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

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for “Revenue recognition” below. Costs relating to operating services are expensed in the period in which they are incurred.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Service concession arrangements (continued)

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

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

Intangible assets (other than goodwill)

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

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

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

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

Operating concessions

Operating concessions represent the rights to operate a toll road, sewage and water treatment plants and 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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, goodwill, deferred tax assets, financial assets, inventories, amounts due from contract customers and non-current assets/disposal groups classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs 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 profit or loss in the period in which it arises.

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

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

Financial assets at fair value through profit or loss are equity investments held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other operating expenses in profit or loss. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy for “Other investment income” set out in “Revenue recognition” below.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate and transaction costs. The effective interest rate amortisation is included in “Revenue” or “Other income and gains, net”, as appropriate, in profit or loss. The loss arising from impairment is recognised as other operating expenses in profit or loss.

(c) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments that are designated as available for sale. After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve, until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss as other income and gains, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the profit or loss as other operating expenses. Dividends earned whilst holding the available-for-sale financial investments are reported as investment income and are recognised as other income and gains in profit or loss in accordance with the policy set out in “Revenue recognition” below.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

(c) Available-for-sale 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 accumulated impairment losses.

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Impairment (continued)

(a) Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss as other operating expenses.

(b) Available-for-sale investments carried at fair value

For available-for-sale investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from the available-for-sale investment revaluation reserve and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss) is removed from the available-for-sale investment revaluation reserve and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Impairment (continued)

(c) Available-for-sale investments carried at cost

If there is objective evidence that an impairment loss has been incurred on an unlisted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss represent conversion options of convertible bonds that exhibit characteristics of an embedded derivative. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(b) Loans and borrowings

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

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

Derecognition

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of best estimate of the expenditure required to settle the present obligation at the end of the reporting period and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

Convertible bonds containing an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component (conversion option).

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability or a current liability, as appropriate, on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option (the equity component) that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. In respect of the convertible bonds issued by the Company, the equity component is included in the Company's convertible bond equity reserve. In respect of the convertible bonds issued by a subsidiary, the equity component attributable to the Group is included in the consolidated capital reserve. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

Upon the exercise of the conversion options, the resulting shares issued are recorded by the relevant companies in the Group as additional share capital (2013: share capital and other statutory capital reserve) at the total carrying amount of the liability and equity components of the convertible bonds. When convertible bonds are redeemed, the carrying amount of the equity component is transferred to retained profits as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognised in profit or loss. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits as a movement in reserves. No gain or loss is recognised in the statement of profit or loss upon conversion or expiration of the conversion option.

Convertible bonds containing a derivative component

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds (continued)

Convertible bonds containing a derivative component (continued)

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest rate method. The derivative component of the convertible bonds is measured at fair value with changes in fair value recognised in profit or loss. Upon the exercise of the conversion options, the resulting shares issued are recorded by the relevant entity in the Group as additional share capital (2013: share capital and other statutory capital reserve) at the total carrying amount of the liability and derivative components of the convertible bonds. When convertible bonds are redeemed, any difference between the amount paid and the total carrying amounts of the liability and derivative components is recognised in profit or loss.

Offsetting of financial instruments

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

Inventories

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

Construction contracts

Contract revenue comprises (i) the agreed contract amounts and appropriate amounts from variation orders, claims and incentive payments in respect of the construction services for comprehensive renovation projects and (ii) construction revenue recognised under Build-Operate-Transfer (“BOT”) contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts (continued)

Revenue from the construction services for comprehensive renovation projects is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from the construction of waste power plants and sewage treatment plants under the terms of BOT contracts (service concession agreements) is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in a similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

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

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents (continued)

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

Provisions

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

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

Income tax

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

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

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

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

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

31 December 2014

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, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or is deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation/amortisation charge.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from construction contracts, on the percentage-of-completion basis, as further explained in the accounting policy for “Construction contracts” above;
- (c) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for “Contracts for services” above;
- (d) rental income, on a time proportion basis over the lease terms; and
- (e) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a short period, when appropriate, to the net carrying amount of the financial asset.

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value of share options granted by the Company is determined by external valuers using the binomial lattice model.

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

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of earnings per share.

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

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

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Pension schemes (continued)

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

Other retirement benefits

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

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

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

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

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Associate

The Group regards Beijing Enterprises Water Group Limited ("BE Water", an entity listed on the Hong Kong Stock Exchange with its 43.92% equity interest held by the Group as at 31 December 2014) as an associate. In determining whether the Group has control over BE Water, the Group has taken into account its effective influence it may exercise over the decisions of BE Water's board of directors, including the voting rights held by the Group, the structure of the board of directors and senior management of BE Water and the expertise of directors designated by other shareholders. In the opinion of the directors, the Group did not have the sufficient ability to exercise power to control BE Water throughout the year ended 31 December 2014 and BE Water was accounted for as an associate in the Group's consolidated financial statements.

Estimate of gas consumption

Determination of the revenue for the distribution and sale of piped gas may include an estimation of the gas supplied to customers for whom actual metre reading is not available. The estimation is done mainly based on the past consumption records and the recent consumption pattern of individual customers.

In addition, with respect to the distribution and sale of piped gas, the Group recognises revenue from prepayments made by customers using integrated circuit cards ("IC card customers") upon their consumption of gas. The Group's management estimates the consumption of gas by IC card customers with reference to the average consumption volume of the customers for whom metre reading is available with similar consumption patterns.

The actual consumption could deviate from those estimates.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Useful lives and residual values of property, plant and equipment

The Group's management determines the useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and hence depreciation in future periods.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less costs 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 2014 was HK\$8,832,689,000 (2013: HK\$7,659,735,000), details of which are set out in note 17 to the 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 or compensation to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2014 were HK\$39,320,530,000 (2013: HK\$38,996,767,000) and HK\$2,258,328,000 (2013: HK\$670,412,000), respectively, details of which are set out in notes 14, 18 and 19 to the financial statements.

Impairment of available-for-sale investments

The Group follows the guidance of HKAS 39 in determining when an investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and the extent to which the estimated value of an investment is less than its cost; and the financial health of and the short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows. The carrying amount of available-for-sale investments carried as assets in the consolidated statement of financial position as at 31 December 2014 was HK\$1,084,098,000 (2013: HK\$1,315,859,000), details of which are set out in note 23 to the financial statements.

31 December 2014

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Impairment of receivables under service concession arrangements, trade and bills receivables and other receivables

The Group's management determines the provision for impairment of receivables under service concession arrangements, trade and bills receivables and other receivables. This estimate is based on the evaluation of collectibility and aged analysis of accounts and on management's estimation in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been changed. The carrying amounts of receivables under service concession arrangements, trade and bills receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2014 were HK\$1,133,022,000 (2013: HK\$701,582,000), HK\$5,320,835,000 (2013: HK\$4,393,374,000) and HK\$4,197,980,000 (2013: HK\$4,819,293,000), respectively, details of which are set out in notes 18, 26 and 27 to the financial statements.

Provision against obsolete and slow-moving inventories

Management reviews the condition of inventories of the Group and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories carried as assets in the consolidated statement of financial position as at 31 December 2014 was HK\$5,393,368,000 (2013: HK\$5,661,492,000), details of which are set out in note 24 to the financial statements.

Defined benefit plans

The present value of the retirement benefit obligations under the various defined benefit plans of the Group depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligations. Key assumptions for the obligations are based in part on the current market conditions. The carrying amount of the obligations carried as liabilities in the consolidated statement of financial position under defined benefit plans as at 31 December 2014 was HK\$682,523,000 (2013: HK\$545,705,000), details of which are disclosed in note 38 to the financial statements.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas. The Group carefully evaluates tax implications of transactions in accordance with the prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of income tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2014 was HK\$342,499,000 (2013: HK\$378,319,000).

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried in the consolidated statement of financial position as at 31 December 2014 were HK\$678,460,000 (2013: HK\$601,056,000) and HK\$319,441,000 (2013: HK\$233,462,000), respectively, details of which are set out in note 41 to the financial statements.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

4. OPERATING SEGMENT INFORMATION

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

- (a) the piped gas operation segment engages in the distribution and sale of piped natural gas, the provision of natural gas transmission, gas technology consultation and development services, the surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repairs and maintenance services;
- (b) the brewery operation segment produces, distributes and sells brewery products;
- (c) the sewage and water treatment operations segment engages in the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in the PRC and certain overseas countries; and
- (d) the corporate and others segment comprises the construction of waste treatment plants, the construction of broadband infrastructure, the sale of software, the provision of Internet services and IT technical support and consultation services, property investment and corporate income and expense items.

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

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

BEIJING ENTERPRISES HOLDINGS LIMITED

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31 December 2014

4. OPERATING SEGMENT INFORMATION (continued)

Group

Year ended 31 December 2014

	Piped gas operation HK\$'000	Brewery operation HK\$'000	Sewage and water treatment operations HK\$'000	Corporate and others HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Segment revenue	32,438,393	15,150,989	-	346,413	-	47,935,795
Cost of sales	(28,960,858)	(10,130,855)	-	(268,051)	-	(39,359,764)
Gross profit	<u>3,477,535</u>	<u>5,020,134</u>	<u>-</u>	<u>78,362</u>	<u>-</u>	<u>8,576,031</u>
Profit from operating activities	1,964,656	1,358,876	-	7,521	-	3,331,053
Finance costs	(264,383)	(93,188)	-	(814,920)	-	(1,172,491)
Share of profits and losses of:						
Joint ventures	4,860	-	-	(33)	-	4,827
Associates	<u>2,977,116</u>	<u>(849)</u>	<u>789,962</u>	<u>40,863</u>	<u>-</u>	<u>3,807,092</u>
Profit/(loss) before tax	4,682,249	1,264,839	789,962	(766,569)	-	5,970,481
Income tax	(210,689)	(314,208)	-	(39,937)	-	(564,834)
Profit/(loss) for the year	<u>4,471,560</u>	<u>950,631</u>	<u>789,962</u>	<u>(806,506)</u>	<u>-</u>	<u>5,405,647</u>
Segment profit/(loss) attributable to shareholders of the Company	<u>4,454,238</u>	<u>387,515</u>	<u>789,962</u>	<u>(800,037)</u>	<u>-</u>	<u>4,831,678</u>
Segment assets	<u>70,277,913</u>	<u>24,309,263</u>	<u>7,382,087</u>	<u>25,101,214</u>	<u>(3,006,559)</u>	<u>124,063,918</u>
Segment liabilities	<u>18,923,706</u>	<u>8,648,299</u>	<u>-</u>	<u>31,447,481</u>	<u>(3,006,559)</u>	<u>56,012,927</u>
Other segment information:						
Interest income	54,971	28,563	-	80,340	-	163,874
Depreciation	1,180,458	1,086,983	129	31,121	-	2,298,691
Amortisation of operating concessions	-	-	-	20,532	-	20,532
Amortisation of other intangible assets	27,188	-	-	4,259	-	31,447
Impairment/(reversal of impairment) against segment assets, net *	17,338	63,685	-	289,782	-	370,805
Investments in joint ventures	224,755	-	-	5,967	-	230,722
Investments in associates	14,261,901	199,889	7,594,344	11,219,069	-	33,275,203
Capital expenditure **	<u>1,537,200</u>	<u>1,034,409</u>	<u>-</u>	<u>1,089,552</u>	<u>-</u>	<u>3,661,161</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

4. OPERATING SEGMENT INFORMATION (continued)

Group (continued)

Year ended 31 December 2013

	Piped gas operation HK\$'000 (Restated)	Brewery operation HK\$'000	Sewage and water treatment operations HK\$'000 (Restated)	Corporate and others HK\$'000 (Restated)	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Segment revenue	25,159,146	16,836,952	-	364,430	-	42,360,528
Cost of sales	(21,953,351)	(11,821,943)	-	(248,021)	-	(34,023,315)
Gross profit	<u>3,205,795</u>	<u>5,015,009</u>	<u>-</u>	<u>116,409</u>	<u>-</u>	<u>8,337,213</u>
Profit from operating activities	1,706,754	1,376,690	-	614,277	-	3,697,721
Finance costs	(165,210)	(140,638)	-	(827,896)	-	(1,133,744)
Share of profits and losses of:						
Joint ventures	(5,561)	-	-	(286)	-	(5,847)
Associates	2,207,821	(2,899)	514,454	23,236	-	2,742,612
Profit/(loss) before tax	3,743,804	1,233,153	514,454	(190,669)	-	5,300,742
Income tax	(206,065)	(300,026)	-	(39,196)	-	(545,287)
Profit/(loss) for the year	<u>3,537,739</u>	<u>933,127</u>	<u>514,454</u>	<u>(229,865)</u>	<u>-</u>	<u>4,755,455</u>
Segment profit/(loss) attributable to shareholders of the Company	<u>3,520,112</u>	<u>357,986</u>	<u>514,454</u>	<u>(208,674)</u>	<u>-</u>	<u>4,183,878</u>
Segment assets	<u>64,379,987</u>	<u>24,934,992</u>	<u>6,477,189</u>	<u>16,745,750</u>	<u>(2,916,094)</u>	<u>109,621,824</u>
Segment liabilities	<u>19,445,446</u>	<u>9,424,766</u>	<u>-</u>	<u>19,599,627</u>	<u>(2,916,094)</u>	<u>45,553,745</u>
Other segment information:						
Interest income	31,968	27,129	-	118,825	-	177,922
Depreciation	1,187,761	1,037,450	130	14,805	-	2,240,146
Amortisation of operating concessions	-	-	-	7,483	-	7,483
Amortisation of other intangible assets	6,042	-	-	98	-	6,140
Impairment/(reversal of impairment) against segment assets, net *	(6,147)	4,927	-	45,473	-	44,253
Investments in joint ventures	205,364	-	-	11,986	-	217,350
Investments in associates	12,643,564	205,885	6,395,675	9,939,214	-	29,184,338
Capital expenditure **	<u>4,473,865</u>	<u>1,904,833</u>	<u>38,923</u>	<u>250,486</u>	<u>-</u>	<u>6,668,107</u>

* 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, inventory, trade and bills receivables and other receivables.

** Capital expenditure consists of additions of property, plant and equipment, operating concessions and other intangible assets, excluding assets from the acquisition of subsidiaries.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the assets of the Group are located in Mainland China. Accordingly, in the opinion of the directors, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

Information about major customers

During each of the years ended 31 December 2014 and 2013, none of the Group's individual customers contributed to 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents: (1) the aggregate of the invoiced value of goods sold, net of value-added tax, consumption tax and government surcharges, and after allowances for returns and trade discounts; and (2) an appropriate proportion of contract revenue of construction contracts and service contracts, net of value-added tax, business tax and government surcharges.

An analysis of the Group's revenue, other income and gains, net is as follows:

	2014 HK\$'000	2013 HK\$'000
<u>Revenue</u>		
Piped gas operation	32,438,393	25,159,146
Brewery operation	15,150,989	16,836,952
Corporate and others	346,413	364,430
	<u>47,935,795</u>	<u>42,360,528</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

5. REVENUE, OTHER INCOME AND GAINS, NET (continued)

	2014 HK\$'000	2013 HK\$'000
<u>Other income</u>		
Bank interest income	163,874	177,922
Rental income	18,815	30,592
Government grants*	247,578	123,194
Transfer of assets from customers (note 14)	112,009	127,172
Others	250,183	216,705
	<u>792,459</u>	<u>675,585</u>
<u>Gains, net</u>		
Gain on disposal of available-for-sale investments carried at fair value	61,268	106,200
Gain on transfer of receivables under a service concession arrangement [@]	-	47,087
Foreign exchange differences, net	8,753	79,227
	<u>70,021</u>	<u>232,514</u>
Other income and gains, net	<u>862,480</u>	<u>908,099</u>

* The government grants represented government subsidies, corporate income tax and turnover tax refunds. Turnover tax includes value-added tax, city construction tax and education surcharge. The government grants are unconditional, except for certain grants which must be utilised for the development of the Company's subsidiaries.

@ The gain on transfer of receivables under a service concession arrangement arose from the transfer of the Future Income (as defined in note 18(b) to the financial statements) to BE Water in 2013, details of which are set out in note 18(b) to the financial statements.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2014 HK\$'000	2013 HK\$'000
Cost of inventories sold		38,944,146	33,755,633
Cost of services provided		395,086	260,199
Depreciation	14	2,298,691	2,240,146
Amortisation of prepaid land premiums	16	72,021	73,948
Amortisation of operating concessions*	18	20,532	7,483
Amortisation of computer software**	19	28,241	6,140
Amortisation of operating right*	19	2,355	-
Amortisation of patents*	19	851	-
Research and development expenditure		89,390	88,742
Loss on disposal of items of property, plant and equipment, net		14,569	6,270
Minimum lease payments under operating leases: Land and buildings		235,462	231,839
Auditors' remuneration		8,800	8,800
Employee benefit expense (including directors' remuneration – note 8):			
Salaries, allowances and benefits in kind		4,561,316	3,774,552
Net pension scheme contributions		571,691	512,401
Net benefit expense of defined benefit plans**	38	52,052	56,524
		<u>5,185,059</u>	<u>4,343,477</u>
Impairment of items of property, plant and equipment, net***	14	126,468	4,004
Impairment of an operating concession***	18	190,000	-
Provision/(reversal) of impairment of trade and bills receivables, net	26(c)	39,202	(6,036)
Impairment of other receivables, net	27(c)	15,135	46,285
Net rental income on investment properties less direct operating expenses of HK\$40,498,000 (2013: HK\$15,271,000)		<u>(24,337)</u>	<u>(28,618)</u>

* The amortisation of operating concessions, operating right and patents for the year are included in "Cost of sales" on the face of the consolidated statement of profit or loss.

** The amortisation of computer software and the net benefit expenses of defined benefit plans for the year are included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

*** The net impairment of items of property, plant and equipment and operating concession for the year are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

7. FINANCE COSTS

	Note	Group	
		2014 HK\$'000	2013 HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years		466,168	414,757
Interest on guaranteed senior notes		722,578	722,170
Interest on convertible bonds	37	7,036	37,889
Imputed interest on convertible bonds	37	4,235	3,532
		<u>1,200,017</u>	<u>1,178,348</u>
Total finance costs			
Less: Interest included in construction in progress		(27,526)	(44,604)
		<u>1,172,491</u>	<u>1,133,744</u>

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") and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap.622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap.32), is as follows:

	Group	
	2014 HK\$'000	2013 HK\$'000
Fees	<u>3,165</u>	<u>3,117</u>
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	15,854	18,054
Pension scheme contributions	24	22
	<u>15,878</u>	<u>18,076</u>
	<u>19,043</u>	<u>21,193</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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
<u>Year ended 31 December 2014</u>				
Executive directors:				
Mr. Wang Dong	180	3,893	-	4,073
Mr. Zhou Si	180	3,276	-	3,456
Mr. Zhang Honghai	60	169	-	229
Mr. Li Fucheng	400	-	-	400
Mr. Hou Zibo	173	1,936	-	2,109
Mr. Liu Kai	125	-	-	125
Mr. Lei Zhengang	38	-	-	38
Mr. E Meng	150	2,322	-	2,472
Mr. Jiang Xinhao	150	2,322	-	2,472
Mr. Tam Chun Fai	150	1,936	24	2,110
Mr. Li Yongcheng	113	-	-	113
	<u>1,719</u>	<u>15,854</u>	<u>24</u>	<u>17,597</u>
Non-executive director:				
Mr. Guo Pujin	150	-	-	150
	<u>1,869</u>	<u>15,854</u>	<u>24</u>	<u>17,747</u>
Independent non-executive directors:				
Mr. Wu Jiesi	216	-	-	216
Mr. Robert A. Theleen	216	-	-	216
Mr. Lam Hoi Ham	216	-	-	216
Mr. Fu Tingmei	216	-	-	216
Mr. Sze Chi Ching	216	-	-	216
Mr. Shi Hanmin	54	-	-	54
Dr. Yu Sun Say	162	-	-	162
	<u>1,296</u>	<u>-</u>	<u>-</u>	<u>1,296</u>
Total directors' remuneration	<u>3,165</u>	<u>15,854</u>	<u>24</u>	<u>19,043</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

8. DIRECTORS' REMUNERATION (continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
<u>Year ended 31 December 2013</u>				
Executive directors:				
Mr. Wang Dong	173	3,910	-	4,083
Mr. Zhou Si	173	3,339	-	3,512
Mr. Zhang Honghai	173	2,845	-	3,018
Mr. Lin Fusheng	38	1,372	-	1,410
Mr. Li Fucheng	400	-	-	400
Mr. Hou Zibo	143	-	-	143
Mr. Liu Kai	143	-	-	143
Mr. Lei Zhengang	143	-	-	143
Mr. E Meng	143	2,375	-	2,518
Mr. Jiang Xinhao	143	2,375	-	2,518
Mr. Tam Chun Fai	143	1,838	22	2,003
	<u>1,815</u>	<u>18,054</u>	<u>22</u>	<u>19,891</u>
Non-executive director:				
Mr. Guo Pujin	150	-	-	150
	<u>1,965</u>	<u>18,054</u>	<u>22</u>	<u>20,041</u>
Independent non-executive directors:				
Mr. Wu Jiesi	207	-	-	207
Mr. Robert A. Theleen	207	-	-	207
Mr. Lam Hoi Ham	207	-	-	207
Mr. Fu Tingmei	207	-	-	207
Mr. Sze Chi Ching	162	-	-	162
Mr. Shi Hanmin	162	-	-	162
	<u>1,152</u>	<u>-</u>	<u>-</u>	<u>1,152</u>
Total directors' remuneration	<u>3,117</u>	<u>18,054</u>	<u>22</u>	<u>21,193</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees of the Group during each of the years ended 31 December 2014 and 2013 are directors of the Company, details of whose remuneration for the years are set out in note 8 to the financial statements.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

10. INCOME TAX

	2014 HK\$'000	Group 2013 HK\$'000
Current:		
Mainland China	596,379	532,211
Hong Kong	2,884	-
Deferred (note 41)	<u>(34,429)</u>	<u>13,076</u>
Total tax expense for the year	<u>564,834</u>	<u>545,287</u>

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 (2013: Nil). 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.

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:

Group – 2014

	Hong Kong HK\$'000	%	Mainland China HK\$'000	%	Total HK\$'000	%
Profit before tax	<u>541,213</u>		<u>5,429,268</u>		<u>5,970,481</u>	
Tax expense at the statutory tax rate	89,300	16.5	1,357,317	25.0	1,446,617	24.2
Lower tax rate for specific provinces or enacted by local authority	-	-	(529,892)	(9.8)	(529,892)	(8.9)
Profits and losses attributable to joint ventures and associates	(192,853)	(35.6)	(353,317)	(6.5)	(546,170)	(9.1)
Income not subject to tax	(182,993)	(33.8)	(245,146)	(4.5)	(428,139)	(7.2)
Expenses not deductible for tax	110,342	20.4	34,679	0.6	145,021	2.4
Withholding tax on the distributable profits of the Group's PRC subsidiaries	-	-	33,111	0.6	33,111	0.6
Tax losses not recognised as deferred tax assets	179,088	33.1	283,989	5.2	463,077	7.8
Tax losses utilised from previous periods	-	-	(18,791)	(0.3)	(18,791)	(0.3)
Tax expense at the Group's effective tax rate	<u>2,884</u>	<u>0.5</u>	<u>561,950</u>	<u>10.4</u>	<u>564,834</u>	<u>9.5</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

10. INCOME TAX (continued)

Group – 2013

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>353,140</u>		<u>4,947,602</u>		<u>5,300,742</u>	
Tax expense at the statutory tax rate	58,268	16.5	1,236,901	25.0	1,295,169	24.4
Lower tax rate for specific provinces or enacted by local authority	-	-	(483,149)	(9.8)	(483,149)	(9.1)
Profits and losses attributable to joint ventures and associates	(89,339)	(25.3)	(330,351)	(6.6)	(419,690)	(7.9)
Income not subject to tax	(129,670)	(36.7)	(81,931)	(1.7)	(211,601)	(4.0)
Expenses not deductible for tax	141,481	40.1	13,396	0.3	154,877	2.9
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	-	-	25,547	0.5	25,547	0.5
Tax losses not recognised as deferred tax assets	19,260	5.4	188,068	3.8	207,328	3.9
Tax losses utilised from previous periods	-	-	(23,194)	(0.5)	(23,194)	(0.4)
Tax expense at the Group's effective tax rate	<u>-</u>	<u>-</u>	<u>545,287</u>	<u>11.0</u>	<u>545,287</u>	<u>10.3</u>

11. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2014 includes a loss of HK\$249,942,000 (2013: profit of HK\$149,480,000) which has been dealt with in the financial statements of the Company.

A reconciliation of the amount of consolidated profit for the year attributable to shareholders of the Company dealt with in the financial statements of the Company to the Company's profit for the year is as follows:

	Note	2014 HK\$'000	2013 HK\$'000
Amount of consolidated profit/(loss) for the year attributable to shareholders of the Company dealt with in the financial statements of the Company		(249,942)	149,480
Dividends from subsidiaries		<u>1,794,220</u>	<u>615,390</u>
Company's profit for the year	34(b)	<u>1,544,278</u>	<u>764,870</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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12. DIVIDENDS

	2014 HK\$'000	2013 HK\$'000
Interim – HK\$0.28 (2013: HK\$0.25) per ordinary share	359,618	291,658
Proposed final – HK\$0.62 (2013: HK\$0.60) per ordinary share	<u>796,297</u>	<u>763,695</u>
	<u>1,155,915</u>	<u>1,055,353</u>

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount for the year is based on the profit for the year attributable to shareholders of the Company, adjusted to reflect the effect of the deemed conversion of all dilutive convertible bonds of the Group at the beginning of the year, and the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed conversion of those convertible bonds of the Group which are convertible into ordinary shares of the Company at the beginning of the year.

The calculation of the basic and diluted earnings per share amounts is based on the following data:

	2014 HK\$'000	2013 HK\$'000
<u>Earnings</u>		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	4,831,678	4,183,878
Interest expense for the year relating to the liability component of the dilutive convertible bonds of the Group	<u>6,118</u>	<u>35,932</u>
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	<u>4,837,796</u>	<u>4,219,810</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY
(continued)

	2014	2013
<u>Number of ordinary shares</u>		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	1,279,452,041	1,160,128,990
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	<u>5,438,257</u>	<u>30,935,982</u>
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	<u><u>1,284,890,298</u></u>	<u><u>1,191,064,972</u></u>

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Land and buildings HK\$'000 (notes (a) and (b))	Leasehold improvements HK\$'000	Gas pipelines HK\$'000	Gas metres and other plant and machinery HK\$'000 (notes (b))	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000 (note (c))	Total HK\$'000
<u>Year ended 31 December 2014</u>									
At 1 January 2014:									
Cost		11,716,565	23,619	16,575,183	16,575,984	912,275	845,136	7,457,100	54,105,862
Accumulated depreciation and impairment		<u>(2,202,872)</u>	<u>(13,440)</u>	<u>(3,175,881)</u>	<u>(8,594,715)</u>	<u>(553,974)</u>	<u>(416,986)</u>	<u>(151,227)</u>	<u>(15,109,095)</u>
Net carrying amount		<u>9,513,693</u>	<u>10,179</u>	<u>13,399,302</u>	<u>7,981,269</u>	<u>358,301</u>	<u>428,150</u>	<u>7,305,873</u>	<u>38,996,767</u>
Net carrying amount:									
At 1 January 2014		9,513,693	10,179	13,399,302	7,981,269	358,301	428,150	7,305,873	38,996,767
Acquisition of subsidiaries	44	173,105	71,535	7,829	604,904	154,043	5,363	139,304	1,156,083
Additions		105,563	10,330	4,734	285,811	85,719	57,293	1,992,451	2,541,901
Transfer of assets from customers	5	-	-	67,677	44,332	-	-	-	112,009
Transfer from construction in progress		910,620	-	1,774,553	980,760	19,851	3,107	(3,688,891)	-
Depreciation provided during the year	6	<u>(354,582)</u>	<u>(7,355)</u>	<u>(748,890)</u>	<u>(1,032,055)</u>	<u>(86,998)</u>	<u>(68,811)</u>	-	<u>(2,298,691)</u>
Impairment during the year recognised in profit or loss	6	-	-	<u>(26,468)</u>	<u>(100,000)</u>	-	-	-	<u>(126,468)</u>
Transfer to assets of a disposal group classified as held for sale	31	<u>(6,980)</u>	-	<u>(7,166)</u>	<u>(15,071)</u>	<u>(188)</u>	<u>(1,850)</u>	<u>(2,239)</u>	<u>(33,494)</u>
Disposals		<u>(29,388)</u>	-	<u>(3,354)</u>	<u>(7,938)</u>	<u>(5,989)</u>	<u>(4,905)</u>	<u>(343)</u>	<u>(51,917)</u>
Reclassification		-	-	<u>(325)</u>	<u>1,720</u>	<u>(1,395)</u>	-	-	-
Exchange realignment		<u>(238,793)</u>	<u>(190)</u>	<u>(334,982)</u>	<u>(199,517)</u>	<u>(8,924)</u>	<u>(10,607)</u>	<u>(182,647)</u>	<u>(975,660)</u>
At 31 December 2014		<u>10,073,238</u>	<u>84,499</u>	<u>14,132,910</u>	<u>8,544,215</u>	<u>514,420</u>	<u>407,740</u>	<u>5,563,508</u>	<u>39,320,530</u>
At 31 December 2014:									
Cost		12,620,072	104,965	17,962,726	18,082,715	1,131,266	865,789	5,711,228	56,478,761
Accumulated depreciation and impairment		<u>(2,546,834)</u>	<u>(20,466)</u>	<u>(3,829,816)</u>	<u>(9,538,500)</u>	<u>(616,846)</u>	<u>(458,049)</u>	<u>(147,720)</u>	<u>(17,158,231)</u>
Net carrying amount		<u>10,073,238</u>	<u>84,499</u>	<u>14,132,910</u>	<u>8,544,215</u>	<u>514,420</u>	<u>407,740</u>	<u>5,563,508</u>	<u>39,320,530</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Notes	Land and buildings HK\$'000 (notes (a) and (b))	Leasehold improve- ments HK\$'000	Gas pipelines HK\$'000	Gas metres and other plant and machinery HK\$'000 (notes (b))	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000 (note (c))	Total HK\$'000
<u>Year ended 31 December 2013</u>									
At 1 January 2013:									
Cost		9,169,940	23,044	13,750,650	14,469,404	731,023	692,293	6,409,963	45,246,317
Accumulated depreciation and impairment		(1,790,080)	(10,534)	(2,321,283)	(7,378,661)	(453,260)	(340,997)	(146,034)	(12,440,849)
Net carrying amount		<u>7,379,860</u>	<u>12,510</u>	<u>11,429,367</u>	<u>7,090,743</u>	<u>277,763</u>	<u>351,296</u>	<u>6,263,929</u>	<u>32,805,468</u>
Net carrying amount:									
At 1 January 2013		7,379,860	12,510	11,429,367	7,090,743	277,763	351,296	6,263,929	32,805,468
Acquisition of subsidiaries	44	17,538	-	86,321	23,022	15,716	13,303	825,686	981,586
Additions		252,692	-	144,213	266,221	122,119	117,179	5,553,485	6,455,909
Transfer of assets from customers	5	-	-	63,002	64,170	-	-	-	127,172
Transfer from construction in progress		1,860,113	-	1,959,989	1,692,011	18,847	10,909	(5,541,869)	-
Depreciation provided during the year	6	(336,423)	(2,522)	(740,181)	(1,027,528)	(73,129)	(60,363)	-	(2,240,146)
Impairment during the year recognised in profit or loss	6	-	-	-	-	(4,004)	-	-	(4,004)
Transfer of assets from a property held for sale		28,511	-	-	-	-	-	-	28,511
Disposal of subsidiaries		-	-	-	(395,444)	-	(3,279)	(31,796)	(430,519)
Disposals		(5,995)	-	(33)	(14,872)	(348)	(15,062)	-	(36,310)
Reclassification		10,487	-	(2,338)	2,216	(10,228)	(137)	-	-
Exchange realignment		306,910	191	458,962	280,730	11,565	14,304	236,438	1,309,100
At 31 December 2013		<u>9,513,693</u>	<u>10,179</u>	<u>13,399,302</u>	<u>7,981,269</u>	<u>358,301</u>	<u>428,150</u>	<u>7,305,873</u>	<u>38,996,767</u>
At 31 December 2013:									
Cost		11,716,565	23,619	16,575,183	16,575,984	912,275	845,136	7,457,100	54,105,862
Accumulated depreciation and impairment		(2,202,872)	(13,440)	(3,175,881)	(8,594,715)	(553,974)	(416,986)	(151,227)	(15,109,095)
Net carrying amount		<u>9,513,693</u>	<u>10,179</u>	<u>13,399,302</u>	<u>7,981,269</u>	<u>358,301</u>	<u>428,150</u>	<u>7,305,873</u>	<u>38,996,767</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<u>Year ended 31 December 2014</u>			
At 1 January 2014:			
Cost	9,989	4,192	14,181
Accumulated depreciation	(4,662)	(2,640)	(7,302)
Net carrying amount	<u>5,327</u>	<u>1,552</u>	<u>6,879</u>
Net carrying amount:			
At 1 January 2014	5,327	1,552	6,879
Addition	-	800	800
Depreciation provided during the year	(1,998)	(585)	(2,583)
At 31 December 2014	<u>3,329</u>	<u>1,767</u>	<u>5,096</u>
At 31 December 2014:			
Cost	9,989	4,992	14,981
Accumulated depreciation	(6,660)	(3,225)	(9,885)
Net carrying amount	<u>3,329</u>	<u>1,767</u>	<u>5,096</u>
<u>Year ended 31 December 2013</u>			
At 1 January 2013:			
Cost	9,989	4,192	14,181
Accumulated depreciation	(2,664)	(1,981)	(4,645)
Net carrying amount	<u>7,325</u>	<u>2,211</u>	<u>9,536</u>
Net carrying amount:			
At 1 January 2013	7,325	2,211	9,536
Depreciation provided during the year	(1,998)	(659)	(2,657)
At 31 December 2013	<u>5,327</u>	<u>1,552</u>	<u>6,879</u>
At 31 December 2013:			
Cost	9,989	4,192	14,181
Accumulated depreciation	(4,662)	(2,640)	(7,302)
Net carrying amount	<u>5,327</u>	<u>1,552</u>	<u>6,879</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

- (a) Land and buildings of the Group included above as at 31 December 2014 and 2013 are held under the following lease terms:

Group	2014			2013		
	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Cost:						
Long term leases	23,313	-	23,313	23,313	-	23,313
Medium term leases	-	12,596,759	12,596,759	-	11,693,252	11,693,252
	<u>23,313</u>	<u>12,596,759</u>	<u>12,620,072</u>	<u>23,313</u>	<u>11,693,252</u>	<u>11,716,565</u>

- (b) At 31 December 2014, plant and machinery of the Group situated in Mainland China with a net carrying amount of HK\$81,250,000 (2013: buildings of HK\$27,203,000) were pledged to secure bank loans granted to the Group (note 35(c)(ii)).
- (c) During the year ended 31 December 2014, property, plant and equipment of the Group amounting to HK\$126,468,000 (2013: HK\$4,004,000) were individually determined to be impaired with an aggregate carrying amount before impairment of HK\$331,844,000 (2013: HK\$4,495,000) (note 6).

15. INVESTMENT PROPERTIES

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Carrying amount at 1 January	719,968	665,144	56,914	56,914
Acquisition of a subsidiary (note 44)	-	45,812	-	-
Exchange realignment	(16,219)	9,012	-	-
Carrying amount at 31 December	<u>703,749</u>	<u>719,968</u>	<u>56,914</u>	<u>56,914</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

15. INVESTMENT PROPERTIES (continued)

Notes:

- (a) The investment properties are leased to third parties under operating leases, further summary details of which are included in note 48(a) to the financial statements.
- (b) The investment properties of the Group as at 31 December 2014 and 2013 are held under the following lease terms:

Group

	2014			2013		
	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Long term leases	21,550	-	21,550	21,550	-	21,550
Medium term leases	-	682,199	682,199	-	698,418	698,418
	<u>21,550</u>	<u>682,199</u>	<u>703,749</u>	<u>21,550</u>	<u>698,418</u>	<u>719,968</u>

The Company's investment property is situated in Mainland China and held under a medium term lease.

- (c) At 31 December 2014, the investment properties were revalued based on valuations performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, using the direct comparison approach or depreciated replacement cost approach. In the opinion of the directors, no fair value gain was recognised on the Group's investment properties during the year ended 31 December 2014 as the fair value movement of the Group's investment properties was insignificant during the year (2013: Nil).
- (d) Each year, the Group's chief financial officer decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's chief financial officer has discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

Fair value hierarchy disclosure

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. 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, since the financial impact of the Group's investment properties on the financial statements is insignificant, information in respect of the valuation techniques used and key inputs to the valuation of investment properties is not disclosed in the financial statements.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

16. PREPAID LAND PREMIUMS

	Notes	Group	
		2014 HK\$'000	2013 HK\$'000
Carrying amount at 1 January		1,839,118	1,683,837
Acquisition of subsidiaries	44	107,417	32,835
Additions		184,464	130,486
Transfer to assets of a disposal group held for sale	31	(8,884)	-
Amortisation provided during the year	6	(72,021)	(73,948)
Exchange realignment		(45,994)	65,908
Carrying amount at 31 December		2,004,100	1,839,118
Portion classified as current assets		(44,860)	(53,509)
Non-current portion		<u>1,959,240</u>	<u>1,785,609</u>

All leasehold lands of the Group as at 31 December 2014 are situated in Mainland China and held under medium term leases.

17. GOODWILL

	Notes	Group	
		2014 HK\$'000	2013 HK\$'000
Cost and net carrying amount:			
At 1 January		7,659,735	7,549,326
Acquisition of subsidiaries	44	2,309,011	83,184
Transfer to assets of a disposal group held for sale	31	(1,117,078)	-
Exchange realignment		(18,979)	27,225
At 31 December		<u>8,832,689</u>	<u>7,659,735</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

17. GOODWILL (continued)

Impairment testing of goodwill

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

	Notes	Group	
		2014	2013
		HK\$'000	HK\$'000
Piped gas operation	(i)	7,028,360	7,029,625
Brewery operation	(ii)	505,185	518,138
Waste treatment operation	(iii)	1,226,840	43,224
Others		72,304	68,748
		<u>8,832,689</u>	<u>7,659,735</u>

- (i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections for the first five-year period is 11.5% (2013: 10.63%), which is determined by reference to the average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% (2013: 3%) is used for the perpetual period.
- (ii) Goodwill attributable to the brewery operation mainly arose from the Group's investments in Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), the recoverable amount of which was determined on the fair value less costs 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 2014.
- (iii) Goodwill attributable to the waste treatment operation mainly arose from the Group's investment in GSWM (as set out in note 31 to the financial statements), which was acquired by the Group in December 2014 and details of which are set out in note 44(a)(iv). Up to the date of approval of these financial statements, the Group had not completed the fair value measurement of the identifiable net assets acquired and the initial accounting for the acquisition was incomplete. The goodwill of HK\$996,089,000 on acquisition recognised by the Group represented the provisional amount estimated by the directors of the Company. The recoverable amount of the GSWM's operation was determined by reference to a business valuation prepared by an external financial advisor in December 2014 prior to the acquisition of the investment.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2014 (2013: Nil).

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

17. GOODWILL (continued)

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 attributable to the piped gas operation:

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

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18. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into certain service concession arrangements with certain governmental authorities in Mainland China on a Build-Operate-Transfer (“BOT”) or a Transfer-Operate-Transfer (“TOT”) basis in respect of its toll road operation, sewage and water treatment operations and solid waste treatment operations. These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 15 to 30 years (the “service concession periods”), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to, where appropriate, use all the property, plant and equipment of the infrastructures, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the infrastructures, and retain the beneficial entitlement to any residual interest in the infrastructures at the end of the term of the service concession periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authorities in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the infrastructures to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes. The accounting policies in respect of the classification of the service concession arrangements between intangible assets (operating concessions) and financial assets (receivables under service concession arrangements) are set out under the heading of “Service concession arrangements” in note 2.4 to the financial statements.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. SERVICE CONCESSION ARRANGEMENTS (continued)

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

Operating concessions

		Group	
	Notes	2014 HK\$'000 (note (a))	2013 HK\$'000 (note (a))
At 1 January:			
Cost		2,023,997	1,777,107
Accumulated amortisation		<u>(1,417,705)</u>	<u>(1,357,869)</u>
Net carrying amount		<u>606,292</u>	<u>419,238</u>
Net carrying amount:			
At 1 January		606,292	419,238
Acquisition of subsidiaries	44	852,957	-
Additions		1,026,399	176,154
Amortisation provided during the year	6	(20,532)	(7,483)
Transfer to assets of a disposal group held for sale	31	(249,635)	-
Impairment		(190,000)	-
Exchange realignment		<u>(4,131)</u>	<u>18,383</u>
At 31 December		<u>2,021,350</u>	<u>606,292</u>
At 31 December:			
Cost		3,434,158	2,023,997
Accumulated amortisation and impairment		<u>(1,412,808)</u>	<u>(1,417,705)</u>
Net carrying amount		<u>2,021,350</u>	<u>606,292</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements

	Group	
	2014	2013
	HK\$'000	HK\$'000
Receivables under service concession arrangements attributable to:		
Sewage and water treatment operation (note (b))	-	701,582
Waste treatment operation (notes (a)(i))	<u>1,133,022</u>	<u>-</u>
	1,133,022	701,582
Portion classified as current assets	<u>(140,425)</u>	<u>(701,582)</u>
Non-current portion	<u>992,597</u>	<u>-</u>

Notes:

(a) The operating concessions of the Group are mainly attributable to waste treatment operation and toll road operation and details of the service concession arrangements are as follows:

(i) At 31 December 2014, the Group had 8 service concession arrangements on waste treatment with certain governmental authorities in Mainland China.

At 31 December 2014, certain waste treatment operation rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate net carrying amount of HK\$1,119,826,000 (2013: Nil) were pledged to secure certain bank loans granted to the Group (note 35(c)(i)).

(ii) Pursuant to a co-operative joint venture agreement dated 18 July 2001 entered into between Hong Kong Zhong Ji Facility Investment Co., Ltd., a 96.5% indirectly-owned subsidiary of the Company, and 深圳市石觀公路有限公司 (“Shiguan Road Limited”) for the establishment of Shenzhen Guanshun Road & Bridge Co., Ltd. (“Shenzhen Guanshun”, a 53.08% indirectly-owned subsidiary of the Company), and as approved by the relevant government authorities, Shiguan Road Limited transferred to Shenzhen Guanshun for a total consideration of RMB652 million an operating right to operate the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC, for a period of 20 years commenced on 12 April 2002.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. SERVICE CONCESSION ARRANGEMENTS (continued)

Notes: (continued)

(a) (continued)

- (ii) The Group was ordered by the Shenzhen Municipal Government to cease charging the public for the use of the Shenzhen Shiguan Road and Bridge operated by Shenzhen Guanshun by 31 December 2011.

The Group has been negotiating with the relevant government authorities in Shenzhen to work out a scheme relating to severance, compensation and all other matters to prepare for the cessation of the toll road operation of Shenzhen Guanshun, however, no concrete detail of the scheme has been reached as at the date of approval of these financial statements. In the opinion of the directors, no impairment provision against the operating concession in respect of the Shenzhen Shiguan Road and Bridge is considered necessary as at 31 December 2014 (2013: Nil).

- (b) Details of the Group's sewage and water treatment operation under service concession arrangements are as follows:

Pursuant to a concession agreement (the "Concession Agreement") dated 13 July 1998 entered into between the Company and 北京市自來水集團有限責任公司 ("Beijing Water"), the Company acquired at a consideration of RMB1.5 billion an operating right from Beijing Water to operate a water purification and treatment plant, No. 9 Phase I, in Beijing (the "No. 9 Water Plant") and sell purified water, for a period of 20 years commenced on 24 November 1998. Beijing Water had guaranteed the Company a net cash inflow of RMB210 million from the water purification and treatment business for each of the years in the concession period. The concession right so granted was subsequently transferred by the Company to Beijing Bei Kong Water Production Co., Ltd., a wholly-owned subsidiary set up by the Company for the purpose of holding this concession right and engaging in the water purification and treatment operations.

Pursuant to a supplemental agreement entered into between Beijing Water and the Company in April 2011, commenced on 1 January 2011, the water purification and treatment income receivable by the Group would be determined based on the actual water purification and treatment volume, subject to a minimum volume guaranteed by Beijing Water. In the opinion of the directors, as a result of the revised arrangement, the estimated net cash inflow receivable by the Group under this service concession arrangement was reduced to RMB190 million for each of the remaining years in the concession period.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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18. SERVICE CONCESSION ARRANGEMENTS (continued)

Notes: (continued)

(b) (continued)

Pursuant to a master agreement entered into between the Group and BE water and two of its subsidiaries in September 2012, the Group agreed to pay any amount so received as a water purification fee under the Concession Agreement to BE Water, after deducting all state and local taxes in Mainland China and operating costs in respect of the operation of the No.9 Water Plant commenced from 1 January 2013 to 31 December 2018 (the “Future Income”).

The amount of HK\$701,582,000 included in the current portion of “Receivables under service concession arrangements” as at 31 December 2013 represented the outstanding water purification fee receivable by the Company from Beijing Water prior to the transfer of the Future Income to BE Water. The amount was fully settled during the year.

(c) In respect of the Group’s receivables under service concession arrangements, aged analysis are closely monitored in order to minimise any credit risk associated with the receivables.

An aged analysis of receivables under service concession arrangements as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	Group	
	2014	2013
	HK\$’000	HK\$’000
Billed:		
Within one year	14,375	-
One to two years	-	358,585
Two to three years	-	342,997
	<u>14,375</u>	<u>701,582</u>
Unbilled	<u>1,118,647</u>	<u>-</u>
	1,133,022	701,582
Portion classified as current assets	<u>(140,425)</u>	<u>(701,582)</u>
Non-current portion	<u>992,597</u>	<u>-</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. SERVICE CONCESSION ARRANGEMENTS (continued)

Notes: (continued)

(c) (continued)

An aged analysis of the billed receivables under service concession arrangements that were neither individually nor collectively considered to be impaired is as follows:

	2014	Group 2013
	HK\$'000	HK\$'000
Less than one year past due	14,375	-
One to two years past due	-	358,585
Two to three years past due	-	342,997
	<u>14,375</u>	<u>701,582</u>

The above receivables as at 31 December 2013 were due from Beijing Water as grantor in respect of the No.9 Water Plant under a service concession arrangement. The amounts were fully repaid during the year.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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19. OTHER INTANGIBLE ASSETS

Group

	Patents HK\$'000	Operating right HK\$'000	Computer software HK\$'000	Total HK\$'000
<u>Year ended 31 December 2014</u>				
At 1 January 2014:				
Cost	-	-	127,540	127,540
Accumulated amortisation	-	-	(63,420)	(63,420)
Net carrying amount	<u>-</u>	<u>-</u>	<u>64,120</u>	<u>64,120</u>
Net carrying amount:				
At 1 January 2014	-	-	64,120	64,120
Acquisition of a subsidiary (note 44)	21,834	84,575	8,081	114,490
Additions	33,272	-	59,589	92,861
Transfer to assets of a disposal group classified as held for sale (note 31)	-	-	(1,547)	(1,547)
Amortisation provided during the year	(851)	(2,355)	(28,241)	(31,447)
Exchange alignment	<u>10</u>	<u>30</u>	<u>(1,539)</u>	<u>(1,499)</u>
At 31 December 2014	<u>54,265</u>	<u>82,250</u>	<u>100,463</u>	<u>236,978</u>
At 31 December 2014:				
Cost	55,116	84,605	192,124	331,845
Accumulated amortisation	(851)	(2,355)	(91,661)	(94,867)
Net carrying amount	<u>54,265</u>	<u>82,250</u>	<u>100,463</u>	<u>236,978</u>

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19. OTHER INTANGIBLE ASSETS (continued)

Group

	Patents HK\$'000	Operating right HK\$'000	Computer software HK\$'000	Total HK\$'000
<u>Year ended 31 December 2013</u>				
At 1 January 2013:				
Cost	-	-	48,800	48,800
Accumulated amortisation	-	-	(29,150)	(29,150)
Net carrying amount	-	-	19,650	19,650
Net carrying amount:				
At 1 January 2013	-	-	19,650	19,650
Acquisition of a subsidiary (note 44)	-	-	9,265	9,265
Additions	-	-	36,044	36,044
Amortisation provided during the year	-	-	(6,140)	(6,140)
Exchange alignment	-	-	5,301	5,301
At 31 December 2013	-	-	64,120	64,120
At 31 December 2013:				
Cost	-	-	127,540	127,540
Accumulated amortisation	-	-	(63,420)	(63,420)
Net carrying amount	-	-	64,120	64,120

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20. INTERESTS IN SUBSIDIARIES

	Notes	Company	
		2014 HK\$'000	2013 HK\$'000
Investments in subsidiaries, included in non-current assets:			
Unlisted shares or investments, at cost		20,129,953	20,129,953
Due from subsidiaries	(a)	36,386,752	28,229,096
Impairment of unlisted shares or investments	(b)	(89,789)	(89,789)
Impairment of amounts due from subsidiaries	(c)	(214,547)	(214,547)
		<u>56,212,369</u>	<u>48,054,713</u>
Due to subsidiaries, included in non-current liabilities	(a)	<u>(14,785,877)</u>	<u>(15,643,971)</u>
Interests in subsidiaries		<u>41,426,492</u>	<u>32,410,742</u>

Notes:

- (a) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts due from subsidiaries are considered as quasi-equity loans to the subsidiaries.
- The amounts due to subsidiaries are unsecured, interest-free and are expected to be repayable after one year.
- (b) An impairment was recognised for certain unlisted shares or investments with an aggregate carrying amount of HK\$197,000,000 (before deducting the impairment loss) (2013: HK\$197,000,000) as at the end of the reporting period because these subsidiaries have been loss-making for some time.
- (c) There was no movement in the provision for impairment of amounts due from subsidiaries during the years ended 31 December 2014 and 2013.

BEIJING ENTERPRISES HOLDINGS LIMITED

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20. INTERESTS IN SUBSIDIARIES (continued)

Notes: (continued)

(d) Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
北京市燃氣集團有限責任公司 ("Beijing Gas")	PRC/ Mainland China	RMB5,883,767,802	-	100	Distribution and sale of piped gas
北京燕京啤酒投資有限公司 ("Yanjing Investment")	PRC/ Mainland China	RMB3,409,828,000	-	80	Investment holding
Beijing Yanjing Brewery Company Limited ("Yanjing Brewery")*	PRC/ Mainland China	RMB2,808,451,958	-	46.06 †	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan") [#]	PRC/ Mainland China	RMB250,000,000	-	23.04 †	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司	PRC/ Mainland China	RMB547,300,000	-	42.56 †	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	-	34.90 †	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	-	33.50 †	Production and sale of beer
燕京啤酒(赤峰)有限責任公司	PRC/ Mainland China	RMB367,110,200	-	41.91 †	Production and sale of beer
燕京啤酒(新疆)有限責任公司	PRC/ Mainland China	RMB683,650,000	-	46.06 †	Production and sale of beer
燕京啤酒(衡陽)有限公司	PRC/ Mainland China	RMB525,660,000	-	45.07 †	Production and sale of beer
燕京啤酒(萊州)有限公司	PRC/ Mainland China	RMB187,053,800	-	69.00	Production and sale of beer
燕京啤酒(仙桃)有限公司	PRC/ Mainland China	RMB292,353,000	-	46.06 †	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	-	85.05	Production and sale of beer
燕京啤酒(四川)有限公司	PRC/ Mainland China	RMB480,000,000	-	46.06 †	Production and sale of beer
燕京啤酒(晉中)有限公司	PRC/ Mainland China	RMB250,000,000	-	46.06 †	Production and sale of beer
廣東燕京啤酒有限公司	PRC/ Mainland China	RMB809,880,000	-	59.54	Production and sale of beer
新疆燕京農產品開發有限公司	PRC/ Mainland China	RMB230,000,000	-	46.06 †	Production and sale of raw

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NOTES TO FINANCIAL STATEMENTS

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20. INTERESTS IN SUBSIDIARIES (continued)

Notes: (continued)

(d) (continued)

Company name	Place of incorporation/ registration and business	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
北京高安屯垃圾焚燒有限公司	PRC/ Mainland China	RMB274,000,000	-	92.86	Waste treatment operation
張家港金洲再生能源有限公司	PRC/ Mainland China	RMB282,000,000	-	92.86	Waste treatment operation
Beijing Development (Hong Kong) Limited ^Ω	Hong Kong	HK\$219,647,000	0.99	50.36	Solid waste treatment business

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

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

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

Ω Shares of Beijing Development are listed on the Main Board of the Hong Kong Stock Exchange.

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

Further details of the acquisition of subsidiaries during the year are disclosed in note 44(a) to the financial statements.

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NOTES TO FINANCIAL STATEMENTS

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20. INTERESTS IN SUBSIDIARIES (continued)

Notes: (continued)

(e) Material non-wholly-owned subsidiaries disclosure

Details of Yanjing Investment (an 80% indirectly-owned subsidiary which holds 57.57% equity interests in Yanjing Brewery) and its subsidiaries (collectively the “Yanjing Investment Group”) that have material non-controlling interests are set out below:

	2014 HK\$'000	2013 HK\$'000
Profit for the year allocated to non-controlling interests	<u>562,398</u>	<u>575,141</u>
Dividends paid to non-controlling interests of the Yanjing Investment Group	<u>292,269</u>	<u>299,457</u>
Accumulated balances of non-controlling interests at the reporting dates	<u>9,234,570</u>	<u>9,223,926</u>

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

	2014 HK\$'000	2013 HK\$'000
Revenue	15,150,989	16,836,952
Total expenses	(14,200,358)	(15,903,825)
Profit for the year	950,631	933,127
Total comprehensive income for the year	<u>951,770</u>	<u>870,325</u>
Current assets	8,268,771	8,494,418
Non-current assets	16,040,492	16,440,574
Current liabilities	(8,393,851)	(9,300,971)
Non-current liabilities	<u>(254,448)</u>	<u>(123,795)</u>
Net cash flows from operating activities	2,729,945	3,551,872
Net cash flows used in investing activities	(2,307,095)	(1,882,285)
Net cash flows used in financing activities	<u>(145,506)</u>	<u>(1,849,070)</u>
Net increase/(decrease) in cash and cash equivalents	<u>277,344</u>	<u>(179,483)</u>

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

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21. INTERESTS IN JOINT VENTURES

	Notes	Group	
		2014 HK\$'000	2013 HK\$'000
Investments in joint ventures, included in non-current assets: Share of net assets	(b)	230,722	217,350
Due from joint ventures, included in current assets	27	<u>77,829</u>	<u>53,559</u>
Interests in joint ventures		<u>308,551</u>	<u>270,909</u>

Notes:

- (a) Particulars of the principal joint ventures, which are all indirectly held by the Company, are as follows:

Company name	Place of registration and business	Nominal value of registered capital	Percentage of			Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing	
烏審旗京鵬天然氣有限公司	PRC/ Mainland China	RMB99,000,000	49	49	49	Sale of natural gas
北京中石化北燃清潔能源科技有限公司	PRC/ Mainland China	RMB98,000,000	50	50	50	Sale of natural gas
北京華電北燃能源有限公司	PRC/ Mainland China	RMB50,000,000	40	40	40	Supply of electricity

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

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NOTES TO FINANCIAL STATEMENTS

31 December 2014

21. INTERESTS IN JOINT VENTURES (continued)

Notes: (continued)

(b) The following tables illustrate the aggregate financial information of the Group's joint ventures, which are not individually material:

	2014 HK\$'000	2013 HK\$'000
<u>Share of the joint ventures' assets and liabilities</u>		
Non-current assets	325,214	286,563
Current assets	138,800	144,398
Non-current liabilities	(104,650)	(53,895)
Current liabilities	<u>(128,642)</u>	<u>(159,716)</u>
Net assets	<u>230,722</u>	<u>217,350</u>
<u>Share of the joint ventures' results</u>		
Profit/(loss) for the year and total comprehensive income/(loss) for the year	<u>4,827</u>	<u>(5,847)</u>
Aggregate carrying amount of the Group's investments in the joint ventures	<u>230,722</u>	<u>217,350</u>

22. INTERESTS IN ASSOCIATES

	Notes	Group		Company	
		2014 HK\$'000	2013 HK\$'000 (Restated) [#]	2014 HK\$'000	2013 HK\$'000
Investments in associates, included in non-current assets:					
Unlisted shares, at cost		-	-	106,128	106,128
Share of net assets	(b)	23,704,276	21,462,766	-	-
Investment deposits		1,970,080	975,467	-	-
Due from/(to) associates	(c)	(680)	(1,745)	49	192
Goodwill on acquisition	(d)	7,601,527	6,747,850	-	-
		<u>33,275,203</u>	<u>29,184,338</u>	<u>106,177</u>	<u>106,320</u>
Dividend receivable from an associate, included in current assets	27	-	695,538	-	-
Interests in associates		<u>33,275,203</u>	<u>29,879,876</u>	<u>106,177</u>	<u>106,320</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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22. INTERESTS IN ASSOCIATES (continued)

Notes:

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

Company name	Place of incorporation/ registration and business	Nominal value of paid-up capital/ registered capital	Percentage of			Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing	
中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas")	PRC/ Mainland China	RMB11,281,840,000	40	40	40	Provision of natural gas transmission services
Beijing Enterprises Water Group Limited*	Bermuda/ Hong Kong	HK\$8,707,425,196	43.92	43.92	43.92	Sewage treatment, reclaimed water treatment, water distribution and construction services
China Gas Holdings Limited ^Ω ("China Gas")	Bermuda/ Hong Kong	HK\$50,210,486	22.44	22.44	22.44	Distribution and sale of piped natural gas, sale of liquefied petroleum gas; and gas connection

* Shares of BE Water are listed on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of BE Water held by the Group as at 31 December 2014, based on its then published price quotation, amounted to approximately HK\$20,230,906,000.

In February 2014, the Group's equity interest in BE Water was diluted from 45.33% to 44.18% upon the issue of 219,634,000 ordinary shares by BE Water to certain investors and a gain on deemed disposal of HK\$326,909,000 was recognised by the Group as a result of the transaction. In September 2014, the Group's equity interest in BE water was further diluted from 44.18% to 43.92% upon the issue of 33,224,000 ordinary shares by BE Water and a gain on deemed disposal of HK\$51,934,000 was recognised by the Group as a result of the transaction.

In October 2013, the Group's equity interest in BE Water was diluted from 49.76% to 45.33% upon the issue of 750,000,000 ordinary shares by BE Water to certain investors and a gain on deemed disposal of HK\$581,428,000 was recognised by the Group as a result of the transaction.

^Ω Shares of China Gas are listed on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of China Gas held by the Group as at 31 December 2014, based on its then published price quotation, amounted to approximately HK\$13,724,913,000.

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

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NOTES TO FINANCIAL STATEMENTS

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22. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

(b) Material associates disclosures

In the opinion of the directors, the material associates of the Group accounted for using the equity method include the following three entities:

- (i) PetroChina Beijing Gas, which is engaged in the provision of natural gas transmission services in the PRC;
- (ii) BE Water, which is principally engaged in the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that is related to sewage treatment in the PRC and certain overseas countries; and
- (iii) China Gas, which is principally engaged in the distribution and sale of piped natural gas, sale of liquefied petroleum gas, and gas connection in the PRC.

Pursuant to a sale and purchase agreement (the "Sale and Purchase Agreement") dated 29 July 2013 entered into between the Group and BE Group BVI, the immediate holding company, the Group agreed to acquire 1,054,088,132 ordinary shares of China Gas from BE Group BVI, which shall be settled by the payment of a cash consideration of HK\$2 billion and the issue of 113,125,226 ordinary shares by the Company. Pursuant to a supplemental agreement dated 10 October 2013 entered into between the same parties, the number of consideration shares to be issued by the Company was reduced to 98,100,000 and all other major terms and conditions of the Sale and Purchase Agreement remained unchanged. The transaction was completed on 18 December 2013 and China Gas has since become an associate of the Group.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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22. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

(b) Material associates disclosures (continued)

The following table illustrates the summarised financial information of the above three material associates and has been adjusted to reflect the fair value 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*	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000 (Restated) [#]
Current assets	2,343,250	1,354,717	15,078,059	15,212,240	14,216,956	14,272,979
Non-current assets	36,084,446	37,450,025	36,562,779	28,974,430	38,741,539	34,759,480
Current liabilities	(9,134,416)	(7,546,881)	(11,418,826)	(11,650,828)	(11,227,146)	(12,454,425)
Non-current liabilities	(6,470,080)	(10,078,031)	(21,133,274)	(16,611,400)	(18,582,621)	(15,679,207)
Net assets	22,823,200	21,179,830	19,088,738	15,924,442	23,148,728	20,898,827
Less: Non-controlling interests	(11,089)	(9,724)	(3,304,290)	(2,626,811)	(3,810,011)	(3,324,187)
Net assets attributable to shareholders of the associates	<u>22,812,111</u>	<u>21,170,106</u>	<u>15,784,448</u>	<u>13,297,631</u>	<u>19,338,717</u>	<u>17,574,640</u>
Net assets, excluding goodwill of the associate	<u>22,812,111</u>	<u>21,170,106</u>	<u>13,259,747</u>	<u>10,784,769</u>	<u>16,545,544</u>	<u>14,483,582</u>
Reconciliation to the Group's interest in the associates						
Proportion of the Group's ownership	40%	40%	43.92%	45.33%	22.44%	21.13%
Group's share of net assets of the associates, excluding goodwill recognised by the Group	9,124,845	8,468,042	6,932,268	6,027,816	3,746,561	3,060,381
Goodwill on acquisition recognised by the Group	-	-	424,091	424,091	7,175,373	6,321,644 [#]
Other reconciling items	-	-	(55,787)	(56,233)	-	-
Carrying amount of the investments	<u>9,124,845</u>	<u>8,468,042</u>	<u>7,300,572</u>	<u>6,395,674</u>	<u>10,921,934</u>	<u>9,382,025</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

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22. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

(b) Material associates disclosures (continued)

	PetroChina Beijing Gas		BE Water		China Gas*	
	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Restated) [#]
Other disclosures						
Revenues	12,378,933	11,704,490	8,943,921	6,406,455	-	-
Profit for the year	5,912,068	5,541,439	2,073,321	1,145,398	2,972,731	-
Other comprehensive income	-	-	(114,381)	342,111	-	-
Total comprehensive income for the year	5,912,068	5,541,439	1,958,940	1,487,509	2,972,731	-
Share of the associates' profit for the year	2,364,827	2,215,582	789,962	514,454	579,500	-
Dividend received by the Group	1,997,010	695,538	206,184	172,096	134,296	-

[#] The goodwill on acquisition of the equity interests of China Gas Group as disclosed in the financial statements for the year ended 31 December 2013 represented the then provision amount estimated by the directors of the Company as the Group had not completed the fair value measurement of the identifiable net assets of the China Gas Group and the initial accounting for the acquisition was incomplete. The related assessment was completed during the year ended 31 December 2014. As a result of the assessment, the share of net assets as at the acquisition date had been decreased by HK\$148,819,000 and the goodwill arising from the acquisition had been increased by the same amount. The comparative information for the year ended 31 December 2013 has been revised accordingly.

^{*} The financial statements of China Gas used in applying the equity method for the year ended 31 December 2014 are as of 30 September 2014 or for twelve months ended 30 September 2014 that is different from that of the Company because the statutory financial year-end date of this associate is thirty-first of March. The financial statements for the twelve month ended 30 September 2014 are the most updated financial statements of China Gas available for equity accounting by the Group.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

22. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

(b) Material associates disclosures (continued)

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

	2014 HK\$'000	2013 HK\$'000
Share of the associates' profit and total comprehensive income for the year	72,803	12,576
The Group's share of net assets of the associates, excluding goodwill recognised by the Group	3,956,389	3,962,760
Goodwill on acquisition recognised by the Group	<u>2,063</u>	<u>2,115</u>

(c) The amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of repayment.

(d) The movements of the amount of the goodwill included in investments in associates during the year are as follows:

	Group	
	2014 HK\$'000	2013 HK\$'000 (Restated)
Cost and net carrying amount:		
At 1 January	6,747,850	367,060
Acquisition of an associate or additional interests in the associate	853,729	6,436,334
Reclassification from an investment in an associate to an investment in a subsidiary	-	(55,622)
Exchange realignment	<u>(52)</u>	<u>78</u>
At 31 December	<u>7,601,527</u>	<u>6,747,850</u>

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Listed equity investments, at fair value	734,252	961,852	1,124,186	43,063
Unlisted equity investments, at cost	361,204	365,365	132,574	132,574
Impairment	<u>(11,358)</u>	<u>(11,358)</u>	<u>-</u>	<u>-</u>
	<u>1,084,098</u>	<u>1,315,859</u>	<u>1,256,760</u>	<u>175,637</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

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31 December 2014

23. AVAILABLE-FOR-SALE INVESTMENTS (continued)

The unlisted equity investments of the Group and the Company are not stated at fair value but at cost because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant for these investments and the probabilities of the various estimates cannot be reasonably assessed.

24. INVENTORIES

	Group	
	2014	2013
	HK\$'000	HK\$'000
Raw materials	4,460,535	4,642,402
Work in progress	446,871	441,741
Finished goods	485,962	577,349
	<u>5,393,368</u>	<u>5,661,492</u>

25. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group	
	2014	2013
	HK\$'000	HK\$'000
Amounts due from contract customers:		
Non-current portion	316,733	947,102
Current portion	39,895	28,599
	<u>356,628</u>	<u>975,701</u>
Amounts due to contract customers	<u>(377,784)</u>	<u>(325,794)</u>
	<u>(21,156)</u>	<u>649,907</u>
Contract costs incurred plus recognised profits less recognised losses to date	773,393	1,393,823
Less: Progress billings received and receivable	<u>(794,549)</u>	<u>(743,916)</u>
	<u>(21,156)</u>	<u>649,907</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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26. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Trade and bills receivables	5,578,369	4,618,375	1,099	1,128
Impairment (note (c))	(257,534)	(225,001)	-	-
	<u>5,320,835</u>	<u>4,393,374</u>	<u>1,099</u>	<u>1,128</u>

- (a) Included in the Group's trade and bills receivables as at 31 December 2014 was an aggregate amount of HK\$53,710,000 (2013: HK\$73,324,000) due from certain fellow subsidiaries of the Group arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the Group to its major customers.
- (b) The various group companies have different credit policies, depending on the requirements of their markets and the businesses in which they operate. Aged analysis of trade and bills receivables are prepared and closely monitored in order to minimise any credit risk associated with the receivables.

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

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Billed:				
Within one year	2,589,316	2,260,699	-	-
One to two years	37,472	66,176	-	1,128
Two to three years	20,697	34,955	1,099	-
Over three years	<u>26,772</u>	<u>28,804</u>	<u>-</u>	<u>-</u>
	2,674,257	2,390,634	1,099	1,128
Unbilled	<u>2,646,578</u>	<u>2,002,740</u>	<u>-</u>	<u>-</u>
	<u>5,320,835</u>	<u>4,393,374</u>	<u>1,099</u>	<u>1,128</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

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26. TRADE AND BILLS RECEIVABLES (continued)

Notes: (continued)

- (c) The movements in the Group's provision for impairment of trade and bills receivables during the year are as follows:

	Group	
	2014	2013
	HK\$'000	HK\$'000
At 1 January	225,001	228,455
Provision/(reversal) of impairment during the year recognised in the statement of profit or loss, net (note 6)	39,202	(6,036)
Amount written off as uncollectible	(1,045)	(6,048)
Exchange realignment	<u>(5,624)</u>	<u>8,630</u>
At 31 December	<u>257,534</u>	<u>225,001</u>

The above provision for impairment of trade and bills receivables represented provision for individually impaired trade and bills receivables with an aggregate carrying amount of HK\$372,193,000 (2013: HK\$285,210,000). The individually impaired trade receivables relate to customers that were in financial difficulties or were in default or delinquency in principal payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the billed trade and bills receivables as at the end of the reporting period that are not considered to be impaired is as follows:

	Group		Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Neither past due nor impaired	2,421,326	2,077,769	-	-
Less than one year past due	71,013	178,860	-	-
More than one year past due	<u>67,259</u>	<u>73,796</u>	<u>1,099</u>	<u>1,128</u>
	<u>2,559,598</u>	<u>2,330,425</u>	<u>1,099</u>	<u>1,128</u>

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26. TRADE AND BILLS RECEIVABLES (continued)

Notes: (continued)

(c) (continued)

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

Receivables that were past due but not impaired relate to a number of independent customers that either have a good track record with the Group or are in negotiation with the Group over the amounts or terms of repayment. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and/or the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

(d) At 31 December 2013, trade receivables of the Group of HK\$628,205,000 were pledged to secure a bank loan granted to the Group (note 35(c)(iii)). The loan was repaid during the year and the related security was released.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	Group		Company	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Prepayments		3,098,605	788,039	4,166	566
Deposits and other debtors	(a)	2,469,086	3,569,085	14,880	11,633
Dividend receivable from an associate	(b), 22	-	695,538	-	-
Due from holding companies	28	1,512,194	303,646	1,318,595	110,047
Due from fellow subsidiaries	28	150,899	227,778	12,439	12,439
Due from joint ventures	21, 28	77,829	53,559	-	-
Due from related parties	28	102,793	82,672	34,233	4,386
		<u>7,411,406</u>	<u>5,720,317</u>	<u>1,384,313</u>	<u>139,071</u>
Impairment	(c)	(114,821)	(112,985)	-	-
		<u>7,296,585</u>	<u>5,607,332</u>	<u>1,384,313</u>	<u>139,071</u>
Portion classified as current assets		<u>(6,131,039)</u>	<u>(4,290,561)</u>	<u>(1,384,313)</u>	<u>(139,071)</u>
Non-current portion		<u>1,165,546</u>	<u>1,316,771</u>	<u>-</u>	<u>-</u>

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27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes:

- (a) The Group's deposits and other debtors as at 31 December 2014 include, inter alia, the following:
- (i) certain deposits of HK\$278,959,000 (2013: HK\$222,295,000) in total paid for the construction or purchase of buildings, pipelines, equipment and machinery. The deposits were classified as non-current assets; and
 - (ii) an aggregate amount of RMB1,100 million (equivalent to approximately HK\$1,375 million) (2013: RMB1,100 million (equivalent to approximately HK\$1,410 million)) advanced to two local government authorities for an investment in a wastage treatment plant project in Haidian district in Beijing, the PRC. The amounts are unsecured, bears interest at 8.5% per annum and RMB500 million (equivalent to approximately HK\$625 million) and RMB600 million (equivalent to approximately HK\$750 million) of which are repayable in June 2015 and April 2016, respectively.
- (b) The balance represented dividend declared to the Group by PetroChina Beijing Gas, an associate of the Group, in respect of its financial year ended 2013. The amount was fully settled during the year.
- (c) The movements in provision for impairment during the year are as follows:

	Group		Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	112,985	75,556	-	-
Impairment during the year recognised in profit or loss, net (note 6)	15,135	46,285	-	-
Amount written off as uncollectible	(3,680)	(16,711)	-	-
Acquisition of a subsidiary	-	6,804	-	-
Disposal of subsidiaries	-	(1,303)	-	-
Transfer to assets of disposal groups classified as held for sale	(7,354)	-	-	-
Exchange realignment	(2,265)	2,354	-	-
At 31 December	<u>114,821</u>	<u>112,985</u>	<u>-</u>	<u>-</u>

The above provision for impairment of other debtors of the Group represented provision for individually impaired other debtors with an aggregate carrying amount of HK\$183,872,000 (2013: HK\$182,036,000).

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

The amounts due from/(to) holding companies, fellow subsidiaries, joint ventures and related parties are unsecured, interest-free and have no fixed terms of repayment, except for an amount of RMB40,000,000 (equivalent to HK\$50,000,000) (2013: RMB40,000,000 (equivalent to HK\$51,280,000)) due from a joint venture, which is unsecured, bears interest at 6% per annum and is fully repayable in two equal instalments on 5 March 2015 and 29 June 2015. Interest income of RMB2,400,000 (equivalent to HK\$3,000,000) (2013: RMB1,577,000 (equivalent to HK\$1,996,000)) was recognised in profit or loss in respect of the loan.

The balances with fellow subsidiaries, associates and related companies of the Group included in trade and bills receivables, trade and bills payables, and other liabilities are disclosed in notes 26(a), 42 and 43 to the financial statements, respectively.

29. RESTRICTED CASH AND PLEDGED DEPOSITS

	Notes	Group 2014 HK\$'000	2013 HK\$'000
Restricted cash	(a)	29,926	30,721
Pledged deposits	(b)	<u>28,809</u>	<u>32,383</u>
Restricted cash and pledged deposits		<u>58,735</u>	<u>63,104</u>

Notes:

- (a) Restricted cash of the Group mainly represented the proceeds of a government surcharge of HK\$29,926,000 (2013: HK\$30,721,000) collected by Beijing Gas, a wholly-owned subsidiary indirectly held the Company, from piped gas customers on behalf of 北京市發展和改革委員會 (the Beijing Municipal Commission of Development and Reform) (the "BMCDR") prior to 2003. The proceeds held on behalf of the BMCDR, which are deposited in a specific bank account of the Group, together with any interest earned therefrom, are repayable to the BMCDR (note 43(i)).
- (b) Bank balances of HK\$28,809,000 (2013: HK\$32,383,000) as at 31 December 2014 were pledged to secure certain trade finance facilities (note 42) granted to the Group.

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30. CASH AND CASH EQUIVALENTS

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Cash and bank balances:				
Placed in banks	7,020,259	7,725,743	146,999	31,128
Placed in a financial institution (note 50(a)(x))	3,237,711	-	2,728,247	-
Time deposits:				
Placed in banks	853,117	3,132,828	57	1,627,558
Placed in a financial institution (note 50(a)(x))	155,354	-	-	-
	11,266,441	10,858,571	2,875,303	1,658,686
Less: Restricted cash and pledged deposits (note 29)	(58,735)	(63,104)	-	-
Cash and cash equivalents	<u>11,207,706</u>	<u>10,795,467</u>	<u>2,875,303</u>	<u>1,658,686</u>

Notes:

- (a) At 31 December 2014, the cash and bank balances of the Group denominated in RMB amounted to approximately HK\$6.6 billion (2013: HK\$7.5 billion). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.
- (b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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31. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As further detailed in note 44(a)(iv) to the financial statements, the Group acquired a 92.68% equity interest in GSEI, which the transaction was completed on 19 December 2014.

GSEI held certain sewage and water treatment projects in the PRC through a wholly-owned subsidiary, Golden State Water Group Corporation (“GSWG”) and certain solid waste treatment projects through another wholly-owned subsidiary, namely Golden State Waste Management Corporation (“GSWM”).

In the opinion of the directors, the Group intends to retain only the solid waste treatment projects held by GSEI. At the date of completion of the transaction, the Group had committed a plan to dispose of the sewage and water treatment projects held by GSWG and has since been identifying potential buyers. Having considered that the equity interest in GSWG is available for immediate sale in its present condition and the sale is expected to complete within one year, GSWG and its subsidiaries (together, the “GSWG Group”) were classified as a disposal group held for sale as at 31 December 2014. The goodwill arose from the acquisition of GSEI attributable to the GSWG Group was also included in assets of a disposal group held for sale as at 31 December 2014.

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31. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (continued)

The major classes of assets and liabilities classified as held for sale are as follows:

	Notes	2014 HK\$'000
<u>Assets</u>		
Property, plant and equipment	14	33,494
Prepaid land premium	16	8,884
Goodwill	17	1,117,078 [#]
Operating concession	18	249,635
Other intangible asset	19	1,547
Investments in associates		748,039
Investment in a joint venture		92,644
Available-for-sale investment		3,000
Amounts due from contract customers		398
Inventories		24,356
Trade receivables		103,004
Prepayments, deposits and other receivables		124,295
Cash and bank balances		<u>170,687</u>
Assets of a disposal group classified as held for sale		<u>2,677,061</u>
<u>Liabilities</u>		
Bank and other borrowings		(280,680)
Amounts due to contract customers		(839)
Trade payables		(115,444)
Other payables and accruals		(211,581)
Income tax payable		<u>(264)</u>
Liabilities directly associated with the assets of a disposal group classified as held for sale		<u>(608,808)</u>
Net assets directly associated with a disposal group held for sale		<u>2,068,253</u>

[#] Up to the date of approval of these financial statements, the Group had not completed the fair value measurement of the identifiable net assets of GSEI and the initial accounting for the acquisition was incomplete. The goodwill of HK\$1,114,303,000 on acquisition recognised by the Group represented the provision amount estimated by the directors of the Company.

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32. SHARE CAPITAL

Shares

	2014 HK\$'000	2013 HK\$'000
Authorised: (note (i)) 2,000,000,000 ordinary shares of HK\$0.10 each (note (ii))	-	200,000
Issued and fully paid: 1,284,350,268 (2013: 1,270,193,509) ordinary shares	<u>30,401,883</u>	<u>127,019</u>

Notes:

- (i) Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.
- (ii) In accordance with section 135 of the Hong Kong Companies Ordinance (Cap.622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members of the Company as a result of this transition.

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

	Notes	Number of shares in issue	Share capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
At 1 January 2013		1,137,571,000	113,757	20,738,291	238	20,852,286
Conversion of convertible bonds into ordinary shares	(a)	34,522,509	3,452	1,496,785	-	1,500,237
Issue of shares	(b)	98,100,000	9,810	7,372,215	-	7,382,025
At 31 December 2013 and 1 January 2014		1,270,193,509	127,019	29,607,291	238	29,734,548
Conversion of convertible bonds into ordinary shares	(a)	15,208,259	667,335	-	-	667,335
Shares repurchased	(c)	(1,051,500)	(105)	-	105	-
Transition to no-par value regime on 3 March 2014	(d)	-	29,607,634	(29,607,291)	(343)	-
At 31 December 2014		<u>1,284,350,268</u>	<u>30,401,883</u>	<u>-</u>	<u>-</u>	<u>30,401,883</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

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31 December 2014

32. SHARE CAPITAL (continued)

Notes:

- (a) During the year ended 31 December 2014, Guaranteed Convertible Bonds (as defined in note 37(a) to the financial statements) with an aggregate principal amount of HK\$661,560,000 (2013: HK\$1,501,730,000) were converted into 15,208,259 ordinary shares (2013: 34,522,509 ordinary shares) of the Company by certain bondholders. Details of the transaction are set out in note 37(a) to the financial statements.
- (b) As detailed in note 22(b)(iii) to the financial statements, the Group acquired certain equity interests in China Gas which was partly settled by the issue of 98,100,000 ordinary shares by the Company. The transaction was completed on 18 December 2013. The fair value of these ordinary shares, determined by reference to the closing quoted market price of the Company's ordinary shares on the Hong Kong Stock Exchange at the date of the completion of the acquisition, amounted to HK\$7,382,025,000.
- (c) In January 2014, the Company repurchased a total of 1,051,500 ordinary shares of the Company on the Stock Exchange at a weighted average cost of HK\$65.77 per share (the highest and lowest purchase prices per ordinary share were HK\$66.30 and HK\$63.68, respectively) and the total consideration paid amounted to approximately HK\$69,162,000. These shares were subsequently cancelled by the Company during the year and the issued capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK\$69,057,000 has been charged to the retained profits of the Company. Pursuant to Section 49H of the predecessor Hong Kong Companies Ordinance (Cap. 32), an amount of HK\$105,000 equivalent to the then par value of the shares cancelled was transferred from retained profits of the Company to the then capital redemption reserve.
- (d) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount standing to the credit of the share premium account and capital redemption reserve have become part of the Company's share capital.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

33. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) which became effective on 17 October 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The purpose of the Scheme is to attract and retain the best quality personnel of the Group for the development of the Group’s operations; to provide additional incentives to employees, officers and directors of the Group; and to promote the long term financial success of the Company by aligning the interests of option holders to those of shareholders. The directors of the Company may, at their discretion, invite employees (including executive directors) and non-executive directors of the Company and any of its subsidiaries, to take up share options to subscribe for ordinary shares of the Company at HK\$1 per grant of share options.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of ordinary shares of the Company in issue at any time. The total number of ordinary shares of the Company issued and to be issued upon exercise of share options (whether exercised or outstanding) in any 12-month period granted to any one person must not exceed 1% of the total number of ordinary shares of the Company in issue.

A share option granted under the Scheme is personal to the grantee and shall not be assignable or transferable.

The period during which a share option granted under the Scheme may be exercised will be determined by the directors at their discretion, save that no share option may be exercised later than 10 years after the grant date. No option may be granted more than 10 years after the date of approval of the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company’s ordinary shares on the Hong Kong Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the Company’s ordinary shares on the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of an ordinary share of the Company.

All share options granted under the Scheme in prior years were either exercised or forfeited in prior years. There was no grant of share options during the years ended 31 December 2014 and 2013 and there was no share option outstanding under the Scheme as at these dates.

BEIJING ENTERPRISES HOLDINGS LIMITED

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34. RESERVES

(a) Group

- (i) 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.
- (ii) The capital redemption reserve represented the par value of ordinary shares of the Company which had been repurchased and cancelled in prior years. The reserve has become part of the Company's share capital since 3 March 2014 (note 32(d)).
- (iii) 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 2014 were distributable in the form of cash dividends.

(b) Company

	Notes	Share premium account HK\$'000 (note 32(d))	Capital redemption reserve HK\$'000 (note 32(d))	Capital reserve HK\$'000	Available-for-sale investment revaluation reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2013		20,738,291	238	13,220	(22,773)	17,561	302,089	21,048,626
Profit for the year and total comprehensive income for the year	11	-	-	-	-	-	764,870	764,870
Conversion of convertible bonds to ordinary shares	32(a)	1,496,785	-	-	-	-	-	1,496,785
Issue of shares	32(b)	7,372,215	-	-	-	-	-	7,372,215
Interim 2013 dividend	12	-	-	-	-	-	(291,658)	(291,658)
Proposed final 2013 dividend	12	-	-	-	-	-	(763,695)	(763,695)
At 31 December 2013 and 1 January 2014		29,607,291 [#]	238 [#]	13,220	(22,773)	17,561	11,606	29,627,143
Profit for the year and total comprehensive income for the year	11	-	-	-	-	-	1,544,278	1,544,278
Interim 2014 dividend	12	-	-	-	-	-	(359,618)	(359,618)
Proposed final 2014 dividend	12	-	-	-	-	-	(796,297)	(796,297)
Shares repurchased	32(c)	(105)	105	-	-	-	(69,162)	(69,162)
Transition to no-par value regime	32(d)	(29,607,186)	(343)	-	-	-	-	(29,607,529)
At 31 December 2014		-	-	13,220	(22,773)	17,561	330,807	338,815

[#] Included in other statutory capital reserves in the Company's statements of financial position as at 31 December 2013.

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35. BANK AND OTHER BORROWINGS

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Bank loans:				
Secured	1,648,348	1,377,622	-	-
Unsecured	17,064,646	8,911,251	10,138,224	2,985,750
	<u>18,712,994</u>	<u>10,288,873</u>	<u>10,138,224</u>	<u>2,985,750</u>
Other loans:				
Secured	4,466	-	-	-
Unsecured	4,533,849	847,794	3,400,000	-
	<u>4,538,315</u>	<u>847,794</u>	<u>3,400,000</u>	<u>-</u>
Total bank and other borrowings	<u>23,251,309</u>	<u>11,136,667</u>	<u>13,538,224</u>	<u>2,985,750</u>
Analysed into:				
Bank loans repayable:				
Within one year	13,420,862	6,488,221	7,177,974	-
In the second year	428,306	3,091,397	-	2,985,750
In the third to fifth years, inclusive	3,965,568	355,403	2,960,250	-
Beyond five years	898,258	353,852	-	-
	<u>18,712,994</u>	<u>10,288,873</u>	<u>10,138,224</u>	<u>2,985,750</u>
Other loans repayable:				
Within one year	4,270,573	128,810	3,400,000	-
In the second year	14,274	450,454	-	-
In the third to fifth years, inclusive	195,874	185,796	-	-
Beyond five years	57,594	82,734	-	-
	<u>4,538,315</u>	<u>847,794</u>	<u>3,400,000</u>	<u>-</u>
Total bank and other borrowings	23,251,309	11,136,667	13,538,224	2,985,750
Portion classified as current liabilities	<u>(17,691,435)</u>	<u>(6,617,031)</u>	<u>(10,577,974)</u>	<u>-</u>
Non-current portion	<u>5,559,874</u>	<u>4,519,636</u>	<u>2,960,250</u>	<u>2,985,750</u>

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35. BANK AND OTHER BORROWINGS (continued)

Notes:

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

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
HK\$	10,636,928	2,985,750	9,355,000	2,985,750
RMB	7,663,810	7,905,075	-	-
US\$	4,943,995	237,325	4,183,224	-
Euro	6,576	8,517	-	-
	<u>23,251,309</u>	<u>11,136,667</u>	<u>13,538,224</u>	<u>2,985,750</u>

- (b) Included in the Group's bank and other borrowings as at 31 December 2014 are:
- (i) amortised cost of an interest-free loan of HK\$148,622,000 (2013: HK\$148,622,000) granted by a non-controlling equity holder of a subsidiary;
- (ii) an aggregate amount of RMB4,000 million (equivalent to HK\$5,000 million) (2013: RMB250 million (equivalent to HK\$321 million)) due to an associate, which bears interest at rates ranging from HIBOR plus 1.05% to 5.32% per annum. Interest expenses of RMB11,802,000 (equivalent to HK\$14,753,000) (2013: RMB259,000 (equivalent to HK\$328,000)) were recognised in profit or loss during the year in respect of the loans; and
- (iii) certain bank and other loans, with an aggregate carrying amount of HK\$296,736,000 (2013: HK\$397,443,000), that principally came from proceeds of certain loans granted by three overseas governments and the Asian Development Bank to the PRC government and a number of loans from 北京市财政局 (the Finance Bureau of Beijing) to finance certain of the Group's pipeline construction projects. Except for an interest-free loan of HK\$9,392,000 (2013: HK\$10,130,000), these loans bear interest at rates ranging from 2% to 6.3% per annum.
- (c) The Group's secured bank loans as at 31 December 2014 were secured by:
- (i) mortgages over certain waste treatment operation concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) for a then aggregate net carrying amount of HK\$1,119,826,000 (2013: Nil) as at 31 December 2014, which are under the management of the Group pursuant to the relevant service concession agreements entered into with the grantors (note 18);

BEIJING ENTERPRISES HOLDINGS LIMITED

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35. BANK AND OTHER BORROWINGS (continued)

Notes: (continued)

(c) (continued)

- (ii) a mortgage over plant and machinery of the Group with a net carrying amount of HK\$81,250,000 (2013: buildings of HK\$27,203,000) as at 31 December 2013 (note 14(b)); and
- (iii) a pledge over certain of the Group's trade receivables amounted to HK\$628,205,000 (note 26(d)) in 2013. The loan was repaid during the year and the related security was released.

(d) At 31 December 2014, the bank loans of the Group included a five-year HK\$3 billion syndicated loan and a five-year HK\$3 billion syndicated loan facility obtained by the Company in 2010 and 2014, which bear interest at HIBOR+0.85% and HKIBOR+1.7% respectively, and are fully payable on 2 August 2015 and 28 May 2019, respectively.

The loan 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 on the loan facilities:

- (i) if Beijing Enterprises Group does not or ceases to own, directly or indirectly, at least 40% of the beneficiary interest of the Company; and
- (ii) if Beijing Enterprises Group ceases to be controlled and supervised by the Beijing Municipal Government.

Within the best knowledge of the directors, neither of the above events took place during the year and as at the date of approval of these financial statements.

36. GUARANTEED SENIOR NOTES

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 and US\$1 billion, 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, the Guaranteed Senior Notes are guaranteed by the Company, of which, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, (i) US\$800,000,000, bearing interest at the rate of 4.5% per annum, will mature on 25 April 2022; (ii) US\$600,000,000, bearing interest at the rate of 5% per annum, will mature on 12 May 2021; and (iii) US\$400,000,000, bearing interest at the rate of 6.375% per annum, will mature on 12 May 2041. Further details of the Guaranteed Senior Notes are set out in the Company's announcements dated 19 April 2012 and 6 May 2011, respectively.

At 31 December 2014, the Guaranteed Senior Notes are repayable beyond five years and are carried in the consolidated statement of financial position at their amortised cost.

BEIJING ENTERPRISES HOLDINGS LIMITED

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37. CONVERTIBLE BONDS

Summary information of the Group's convertible bonds is set out as follows:

Group	Guaranteed Convertible Bonds (note (a))	Yanjing Brewery Convertible Bonds (note (b))
Issuance date	2 June 2009	15 October 2010
Maturity date	1 June 2014	14 October 2015
Original principal amount:		
HK\$'000	2,175,000	N/A
RMB'000	N/A	429,804
Coupon rate (per annum)	2.25%	0.5% - 1.4%
Conversion price per ordinary share of:		
– The Company (HK\$)	43.5	N/A
– Yanjing Brewery (RMB)	<u>N/A</u>	<u>7.58</u>

For accounting purposes, each batch of these convertible bonds is bifurcated into a liability component and an equity component or a derivative component, as appropriate, as further described in the accounting policy for “Convertible bonds” set out in note 2.4 to the financial statements. The following tables summarise the movements in the principal amounts, the liability component and derivative component of the Group's convertible bonds during the year:

Group		Guaranteed Convertible Bonds HK\$'000 (note (a))	Yanjing Brewery Convertible Bonds HK\$'000 (note (b))	Total HK\$'000
<u>Principal amount outstanding</u>	Note			
At 1 January 2013		2,175,000	102,935	2,277,935
Conversion to ordinary shares of the Company	32(a)	(1,501,730)	-	(1,501,730)
Conversion to ordinary shares of Yanjing Brewery		-	(10,128)	(10,128)
Redemption of convertible bonds		-	3,829	3,829
At 31 December 2013 and 1 January 2014		673,270	96,636	769,906
Conversion to ordinary shares of the Company	32(a)	(661,560)	-	(661,560)
Conversion to ordinary shares of Yanjing Brewery		-	(10,828)	(10,828)
Redemption of convertible bonds		(11,710)	-	(11,710)
Exchange realignment		-	(2,414)	(2,414)
At 31 December 2014		<u>-</u>	<u>83,394</u>	<u>83,394</u>

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NOTES TO FINANCIAL STATEMENTS

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37. CONVERTIBLE BONDS (continued)

Group (continued)		Guaranteed Convertible Bonds HK\$'000 (note (a))	Yanjing Brewery Convertible Bonds HK\$'000 (note (b))	Total HK\$'000
<u>Liability component</u>	Notes			
At 1 January 2013		2,165,206	94,107	2,259,313
Interest expense	7	35,932	1,957	37,889
Imputed interest expense	7	-	3,532	3,532
Interest paid		(27,847)	(541)	(28,388)
Conversion to ordinary shares of the Company	32	(1,500,237)	-	(1,500,237)
Conversion to ordinary shares of Yanjing Brewery		-	(9,120)	(9,120)
Redemption of convertible bonds		-	3,566	3,566
At 31 December 2013 and 1 January 2014		673,054	93,501*	766,555
Interest expense	7	6,118	918	7,036
Imputed interest expense	7	-	4,235	4,235
Interest paid		(127)	(918)	(1,045)
Conversion to ordinary shares of the Company	32	(667,335)	-	(667,335)
Conversion to ordinary shares of Yanjing Brewery		-	(10,843)	(10,843)
Redemption of convertible bonds		(11,710)	-	(11,710)
Exchange realignment		-	(2,337)	(2,337)
At 31 December 2014		-	84,556	84,556
<u>Derivative component</u>				
At 1 January 2013		-	9,428	9,428
Conversion to ordinary shares of Yanjing Brewery		-	(929)	(929)
Exchange realignment		-	352	352
At 31 December 2013 and 1 January 2014		-	8,851*	8,851
Conversion to ordinary shares of Yanjing Brewery		-	(991)	(991)
Exchange realignment		-	(221)	(221)
At 31 December 2014		-	7,639	7,639

* The carrying amount of HK\$93,501,000 and HK\$8,851,000 of the liability component and the derivative component of the Yanjing Brewery Convertible Bonds were classified as non-current liabilities as at 31 December 2013.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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37. CONVERTIBLE BONDS (continued)

Notes:

- (a) On 2 June 2009, Power Regal Group Limited (“Power Regal”, a wholly-owned subsidiary of the Company) issued convertible bonds with an aggregate principal amount of HK\$2.175 billion (the “Guaranteed Convertible Bonds”) to certain institutional investors. Pursuant to the convertible bond subscription agreement dated 25 April 2009, the convertible bonds were guaranteed by the Company, bore interest at the rate of 2.25% per annum and were convertible into ordinary shares of the Company at an initial conversion price of HK\$43.5 per share of the Company, subject to adjustments in certain events. All of the principal amount of the convertible bonds were converted or redeemed during the year. Further details of the Guaranteed Convertible Bonds were set out in the Company’s announcement dated 27 April 2009.

The fair value of the liability component of the Guaranteed Convertible Bonds was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The equity component of the Guaranteed Convertible Bonds was not significant to the Group and, accordingly, the whole amount of the Guaranteed Convertible Bonds, net of transaction costs, was accounted for as a financial liability of the Group.

During the year ended 31 December 2014, certain of the Guaranteed Convertible Bonds with an aggregate principal amount of HK\$661,560,000 (2013: HK\$1,501,730,000) were converted into 15,208,259 (2013: 34,522,509) ordinary shares of the Company by certain bondholders and the remaining principal amount of HK\$11,710,000 was redeemed.

- (b) On 15 October 2010, Yanjing Brewery, a subsidiary held indirectly by the Company, issued convertible bonds with an aggregate principal amount of RMB1.13 billion (the “Yanjing Brewery Convertible Bonds”) to the then existing shareholders of Yanjing Brewery. The Yanjing Brewery Convertible Bonds are convertible, at the option of the bondholders, into fully-paid ordinary shares of Yanjing Brewery at an initial conversion price of RMB21.86 per share of Yanjing Brewery and the conversion period is from 15 October 2010 to 14 October 2015, both dates inclusive. The Yanjing Brewery Convertible Bonds bear interest at 0.5%, 0.7%, 0.9%, 1.1% and 1.4% per annum in each of the annual convertible periods. The outstanding liability component of the convertible bonds of HK\$84,556,000 was classified as a current liability as at 31 December 2014. Further details of the Yanjing Brewery Convertible Bonds were set out in the Company’s announcement published in the Chinese website of the Hong Kong Stock Exchange on 12 October 2010.

On 10 February 2012, certain of the Yanjing Brewery Convertible Bonds with an aggregate principal amount of HK\$281,281,000 were redeemed by Yanjing Brewery at a consideration of RMB267 million upon the exercise of the early redemption option by the convertible bondholders. Further details were set out in the announcement of Yanjing Brewery published in the website of the Shenzhen Stock Exchange on 10 February 2012.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

37. CONVERTIBLE BONDS (continued)

Notes: (continued)

(b) (continued)

On 26 March 2012 and 7 June 2012, the conversion price of the Yanjing Brewery Convertible Bonds was adjusted from RMB21.86 to RMB15.37 and from RMB15.37 to RMB7.58, respectively, further details of which were set out in the announcements of Yanjing Brewery published in the website of the Shenzhen Stock Exchange on 24 March 2012 and 31 May 2012, respectively.

Based on the terms of the Yanjing Brewery Convertible Bonds, the conversion option of the Yanjing Brewery Convertible Bonds is classified as a derivative financial instrument (a financial liability at fair value through profit or loss) in these financial statements. The derivative component of the Yanjing Brewery Convertible Bonds is stated in the consolidated statement of financial position at fair value with any changes in fair value recognised in profit or loss.

The fair values of the derivative component of the Yanjing Brewery Convertible Bonds and the date of issue were determined by reference to valuations performed by an independent professionally qualified valuer using the Binomial Option Pricing Model in prior years. In the opinion of the directors, since the fair value movement of the Yanjing Brewery Convertible Bonds and the related financial impact on the Group's financial statements are expected to be insignificant during the years ended 31 December 2014 and 2013, no external valuation was performed on the fair value of the Yanjing Brewery Convertible Bonds as at 31 December 2014 and 2013.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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38. DEFINED BENEFIT PLANS

Certain employees of Beijing Gas, an indirectly-held wholly-owned subsidiary of the Company, can enjoy retirement benefits after retirement such as supplemental medical reimbursement, allowance and beneficiary benefits pursuant to certain of its defined benefit plans. The plans are exposed to interest rate risk and the risk of changes in the life expectancy for the employees.

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

	Supplemental post-retirement medical reimbursement plan HK\$'000	Supplemental post-retirement allowance and beneficiary benefit plans HK\$'000	Internal retirement benefit plan HK\$'000	Total HK\$'000
Year ended 31 December 2014				
Current service cost	20,673	3,178	-	23,851
Past service cost	400	61	36	497
Interest cost	21,019	6,396	289	27,704
Net benefit expense	<u>42,092</u>	<u>9,635</u>	<u>325</u>	<u>52,052</u>
Year ended 31 December 2013				
Current service cost	21,500	3,777	-	25,277
Past service cost	835	6,041	735	7,611
Interest cost	17,409	5,890	337	23,636
Net benefit expense	<u>39,744</u>	<u>15,708</u>	<u>1,072</u>	<u>56,524</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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38. DEFINED BENEFIT PLANS (continued)

(b) Present value of the defined benefit obligations

	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 2013	378,081	129,131	8,753	515,965
Net benefit expenses recognised in profit or loss	39,744	15,708	1,072	56,524
Benefits paid	(2,682)	(3,650)	(3,591)	(9,923)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	(14,028)	(23,282)	478	(36,832)
Exchange realignment	10,735	8,925	311	19,971
At 31 December 2013	<u>411,850</u>	<u>126,832</u>	<u>7,023</u>	545,705
Portion classified as current liabilities included in other payables and accruals (note 43)				<u>(10,050)</u>
Non-current portion				<u>535,655</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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38. DEFINED BENEFIT PLANS (continued)

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

	Supplemental post-retirement medical reimbursement plan HK\$'000	Supplemental post-retirement allowance and beneficiary benefit plans HK\$'000	Internal retirement benefit plan HK\$'000	Total HK\$'000
At 1 January 2014	411,850	126,832	7,023	545,705
Net benefit expenses recognised in profit or loss	42,091	9,635	326	52,052
Benefits paid	(3,961)	(3,816)	(2,088)	(9,865)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	100,928	7,990	(645)	108,273
Exchange realignment	(10,296)	(3,171)	(175)	(13,642)
At 31 December 2014	<u>540,612</u>	<u>137,470</u>	<u>4,441</u>	682,523
Portion classified as current liabilities included in other payables and accruals (note 43)				(9,864)
Non-current portion				<u>672,659</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

38. DEFINED BENEFIT PLANS (continued)

(c) Principal assumptions

The most recent actuarial valuation of the present value of the defined benefit obligations were carried out at 31 December 2014 by Towers Watson, using the projected unit credit method. The material actuarial assumptions used in determining the defined benefit obligations for the Group's plans are as follows:

	2014	2013
Discount rate	4.25%	5.25%
Healthcare cost inflation rate	<u>8.00%</u>	<u>8.00%</u>

A quantitative sensitivity analysis for significant assumptions as at 31 December 2014 is shown below:

	Increase in rate %	Increase/ (decrease) in net defined benefit obligations HK\$'000	Decrease in rate %	Increase/ (decrease) in net defined benefit obligations HK\$'000
Discount rate	0.25	(41,811)	0.25	45,588
Healthcare cost inflation rate	<u>1.00</u>	<u>169,274</u>	<u>1.00</u>	<u>(124,325)</u>

The sensitivity analysis above have 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 2014, the expected contribution to be made within the next 12 months out of the defined benefit obligations was HK\$9,864,000 (2013: HK\$10,050,000).

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

39. PROVISION FOR MAJOR OVERHAULS

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

The movements in provision for major overhauls of the toll road during the year are as follows:

	Group	
	2014 HK\$'000	2013 HK\$'000
At 1 January	30,544	29,414
Exchange realignment	<u>-</u>	<u>1,130</u>
At 31 December	<u>30,544</u>	<u>30,544</u>

No provision for major overhauls for the Group's waste treatment operations was recognised by the Group as the financial impact is insignificant to the consolidated financial statements.

40. OTHER NON-CURRENT LIABILITIES

		Group	
	Note	2014 HK\$'000	2013 HK\$'000
Other liabilities – non-current portion	43	40,082	34,614
Deferred income		<u>393,365</u>	<u>327,245</u>
		<u>433,447</u>	<u>361,859</u>

Note: Deferred income of the Group mainly represented subsidies received from third parties and government authorities in respect of certain projects for the construction of the Group's gas pipelines in Beijing for the delivery of natural gas. The subsidies are interest-free and not required to be repaid, and are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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41. DEFERRED TAX

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

	Group	
	2014 HK\$'000	2013 HK\$'000
Deferred tax assets	678,460	601,056
Deferred tax liabilities	(319,441)	(233,462)
	<u>359,019</u>	<u>367,594</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

41. DEFERRED TAX (continued)

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

Group	Attributable to										Net deferred tax assets/(liabilities) HK\$'000		
	Notes	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Depreciation allowances in excess of related depreciation HK\$'000	Other temporary differences related to property, plant and equipment HK\$'000	Transfer of assets from customers HK\$'000	Fair value adjustments on available-for-sale investments HK\$'000	Impairment provision and accrued expenses HK\$'000	Provision for bonus and defined benefit plans HK\$'000	Provision for major overhauls HK\$'000	Temporary differences related to service concession arrangements HK\$'000		Losses available for offsetting future taxable profits HK\$'000 (note (a))	Withholding tax HK\$'000 (note (b))
At 1 January 2013		63,783	(1,851)	30,881	(51,990)	(22,333)	287,864	120,651	8,850	(180,230)	17,800	(96,478)	176,947
Deferred tax credited/(charged) to profit or loss during the year	10	-	(52)	-	(22,328)	-	13,934	20,917	-	-	-	(25,547)	(13,076)
Deferred tax credited/(charged) to other comprehensive income during the year		-	-	-	-	20,941	-	(9,208)	-	-	-	-	11,733
Derecognised upon the transfer of receivables under a service concession arrangement		-	(71)	1,188	(7,433)	-	10,694	5,828	283	183,727	183	-	183,727
Exchange realignment		2,996	-	-	-	-	(1,908)	-	-	(3,497)	-	-	10,171
Disposal of subsidiaries	45	-	-	-	-	-	(1,908)	-	-	-	-	-	(1,908)
At 31 December 2013		66,779	(1,974)	32,069	(81,751)	(1,392)	310,584	138,188	9,133	-	17,983	(122,025)	367,594

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

41. DEFERRED TAX (continued)

Group (continued)

		Attributable to											
	Notes	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Depreciation allowances in excess of related depreciation HK\$'000	Other temporary differences related to property, plant and equipment HK\$'000	Transfer of assets from customers HK\$'000	Fair value adjustments on available-for-sale investments HK\$'000	Impairment provision and accrued expenses HK\$'000	Provision for bonus and defined benefit plans HK\$'000	Provision for major overhauls HK\$'000	Temporary differences related to service concession arrangements HK\$'000	Losses available for offsetting future taxable profits HK\$'000 (note (a))	Withholding tax HK\$'000 (note (b))	Net deferred tax assets/(liabilities) HK\$'000
	At 1 January 2014	66,779	(1,974)	32,069	(81,751)	(1,392)	310,584	138,188	9,133	-	17,983	(122,025)	367,594
	Deferred tax credited/(charged) to profit or loss during the year	1,649	(176)	-	(28,383)	-	53,981	7,358	-	-	-	-	34,429
	Deferred tax credited/(charged) to other comprehensive income during the year	-	-	-	-	(16,892)	-	27,069	-	-	-	-	10,177
	Derecognised upon the transfer of receivables under a service concession arrangement	(40,526)	-	-	-	-	-	-	-	-	-	-	-
	Acquisition of subsidiaries	(1,212)	49	(802)	2,044	50	(9,030)	(3,455)	(51)	-	(248)	-	(40,526)
	Exchange realignment	-	-	-	-	-	-	-	-	-	-	-	(12,655)
	At 31 December 2014	26,690	(2,101)	31,267	(108,090)	(18,234)	355,535	169,160	9,082	-	17,735	(122,025)	359,019

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

41. DEFERRED TAX (continued)

Notes:

(a) At 31 December 2014, deferred tax assets have not been recognised in respect of unused tax losses of HK\$3,527,014,000 (2013: losses of HK\$3,186,957,000) as they have been arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, tax losses of HK\$3,505,642,000 (2013: losses of HK\$3,165,585,000) will expire in one to five years.

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%, depending on the jurisdiction of the respective investment enterprises. The Group is therefore liable to withholding taxes on dividends declared by those subsidiaries, joint ventures and associates established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries, joint ventures and associates in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$10,700,006,000 (2013: HK\$9,732,390,000) as at 31 December 2014.

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

42. TRADE AND BILLS PAYABLES

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

	Group	
	2014	2013
	HK\$'000	HK\$'000
Within one year	1,820,704	1,920,092
One to two years	236,043	437,011
Two to three years	169,653	9,378
Over three years	12,003	16,744
	<u>2,238,403</u>	<u>2,383,225</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

42. TRADE AND BILLS PAYABLES (continued)

Included in the Group's trade and bills payables as at 31 December 2014 are amounts of HK\$51,061,000 (2013: HK\$41,028,000) and nil balance (2013: HK\$19,629,000) due to related companies and an associate, respectively, arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related companies and the associate to their major customers.

Certain of the Group's bills payable as at 31 December 2014 are secured by a pledge over certain of the Group's bank balances with an aggregate amount of HK\$28,809,000 (2013: HK\$32,383,000) (note 29(b)).

43. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Accruals		116,810	123,736	53,837	48,487
Defined benefit plans – current portion	38(b)	9,864	10,050	-	-
Other liabilities		5,360,149	7,740,581	8,839	9,385
Due to a holding company	28	1,880,364	900,000	1,880,364	900,000
Due to related parties	28	329,350	274,965	8,523	8,526
		<u>7,696,537</u>	<u>9,049,332</u>	<u>1,951,563</u>	<u>966,398</u>
Portion classified as current liabilities		<u>(7,656,455)</u>	<u>(9,014,718)</u>	<u>(1,951,563)</u>	<u>(966,398)</u>
Non-current portion	40	<u>40,082</u>	<u>34,614</u>	<u>-</u>	<u>-</u>

The Group's other liabilities as at 31 December 2014 included, inter alia, the following:

- (i) an amount of HK\$29,926,000 (2013: HK\$30,721,000) payable to the BMCDR in respect of a government surcharge collected on its behalf by the Group, further details of which are set out in note 29(a) to the financial statements; and
- (ii) construction project costs of HK\$121,848,000 (2013: HK\$115,433,000) 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.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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44. BUSINESS COMBINATIONS

The fair value of the identifiable assets and liabilities of the subsidiaries acquired during the year as at their respective dates of acquisition were as follows:

	Notes	2014			2013
		GSEI HK\$'000 (note (a)(iv))	Others HK\$'000 (notes (a)(i), (ii) and (iii))	Total HK\$'000	Total HK\$'000 (note (b))
Net assets acquired:					
Property, plant and equipment	14	624,723	531,360	1,156,083	981,586
Investment properties	15	-	-	-	45,812
Prepaid land premiums	16	60,303	47,114	107,417	32,835
Operating concession	18	455,562	397,395	852,957	-
Receivables under service concession		864,093	-	864,093	-
Other intangible assets	19	815	113,675	114,490	9,265
Investments in joint ventures		-	-	-	12,352
Investments in associates		745,087	-	745,087	102,038
Available-for-sale investments		3,000	-	3,000	-
Inventories		10,052	5,926	15,978	8,895
Amounts due from contract customers		-	-	-	909
Trade and bills receivables		64,323	56,682	121,005	88,618
Prepayments, deposits and other receivables		218,848	43,892	262,740	260,578
Income tax recoverable		-	21,018	21,018	3,053
Pledged bank balances and time deposits		-	-	-	5,779
Cash and cash equivalents		349,535	56,362	405,897	904,016
Bank and other borrowings		(1,315,092)	-	(1,315,092)	(273,418)
Other non-current liabilities		(40,112)	(39,873)	(79,985)	(161,146)
Deferred tax liabilities	41	-	(40,526)	(40,526)	-
Trade and bills payables		(62,328)	(11,030)	(73,358)	(150,312)
Other payables and accruals		(93,455)	(242,870)	(336,325)	(353,589)
		1,885,354	939,125	2,824,479	1,517,271
Non-controlling interests		(196,098)	-	(196,098)	(539,999)
		1,689,256	939,125	2,628,381	977,272
Goodwill on acquisition	17	2,110,392 [#]	198,619	2,309,011	83,184
		<u>3,799,648</u>	<u>1,137,744</u>	<u>4,937,392</u>	<u>1,060,456</u>

[#] Up to the date of approval of these financial statements, the Group had not completed the fair value measurement of the identifiable net assets of GSEI (as defined in note 31 to the financial statements) and the initial accounting for the acquisition was incomplete as at 31 December 2014. The goodwill on acquisition recognised by the Group represented the provisional amount estimated by the directors of the Company.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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44. BUSINESS COMBINATIONS (continued)

	2014			2013
	GSEI HK\$'000 (note (a)(iv))	Others HK\$'000 (notes (a)(i), (ii) and (iii))	Total HK\$'000	Total HK\$'000 (note (b))
Satisfied by:				
Cash	3,799,648	318,824	4,118,472	732,685
Issue of new ordinary shares by Beijing Development	-	818,920	818,920	-
Reclassification from interest in an associate to interest in a subsidiary	-	-	-	327,771
	<u>3,799,648</u>	<u>1,137,744</u>	<u>4,937,392</u>	<u>1,060,456</u>
Revenue for the year since acquisition	<u>-</u>	<u>21,540</u>	<u>21,540</u>	<u>219,245</u>
Loss for the year since acquisition	<u>-</u>	<u>(7,147)</u>	<u>(7,147)</u>	<u>(31,628)</u>

The Group has elected to measure the non-controlling interests in the subsidiaries acquired at the non-controlling interests' proportionate share of the identifiable net assets of the subsidiaries acquired.

The fair values (and their respective gross contractual amounts) of the trade receivables and deposits and other receivables as at their respective dates of acquisition amounted to HK\$121,005,000 (2013: HK\$88,618,000) and HK\$35,563,000 (2013: HK\$100,197,000), respectively.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2014			2013
	GSEI HK\$'000 (note (a)(iv))	Others HK\$'000 (notes (a)(i), (ii) and (iii))	Total HK\$'000	Total HK\$'000 (note (b))
Satisfied by:				
Cash and cash equivalents acquired	349,535	56,362	405,897	904,016
Cash consideration	<u>(3,799,648)</u>	<u>(318,824)</u>	<u>(4,118,472)</u>	<u>(732,685)</u>
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(3,450,113)</u>	<u>(262,462)</u>	<u>(3,712,575)</u>	<u>171,331</u>

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK\$5,393,483,000 (2013: HK\$4,754,660,000) and the Group's revenue (comprising turnover and other income and gains, net) would have been HK\$48,378,256,000 (2013: HK\$43,309,229,000).

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

44. BUSINESS COMBINATIONS (continued)

Notes:

- (a) Business combinations during the year ended 31 December 2014 mainly included the following transactions:
- (i) In January 2014, the Group acquired the entire equity interest in 鹤岗聚源煤层气有限责任公司 (“Hegang”) from an independent third party at a cash consideration of RMB38,755,000 (equivalent to HK\$48,444,000). Hegang is principally engaged in the provision of LNG in Heilongjiang, the PRC;
 - (ii) In April 2014, Beijing Development, a 50.36% held subsidiary of the Company, acquired the entire equity interests in and the shareholders’ loans of KCS Taian Investments Company Limited (“KCS Taian”) and KCS Changde Investments Company Limited (“KCS Changde”) from an independent third party at an aggregate consideration of RMB520,000,000. The consideration was satisfied by RMB86,790,000 (equivalent to HK\$107,880,000) in cash and RMB433,210,000 by the issue of 347,000,000 ordinary shares of Beijing Development at an issue price of HK\$1.60 per share (fair value of which on issue date was HK\$2.36 per share). KCS Taian and KCS Changde are principally engaged in the provision of solid waste treatment business in Shandong and Hunan, the PRC, respectively;
 - (iii) In April 2014, the Group acquired the entire equity interests in and the shareholders’ loans of KCS Siping Investments Company Limited (“KCS Siping”) from an independent third party at a cash consideration of RMB130,000,000 (equivalent to HK\$162,500,000). KCS Siping is principally engaged in the provision of solid waste treatment business in Jilin, the PRC; and
 - (iv) In December 2014, the Group acquired in aggregate 92.68% equity interests in Golden State Environmental Investment Corporation (“GSEI”) from two independent third parties at an aggregate cash consideration of USD490,277,000 (equivalent to HK\$3,804,551,000). GSEI is principally engaged in the solid waste treatment operations and sewage and water supply operations in Beijing and several other provinces in the PRC.

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44. BUSINESS COMBINATIONS (continued)

Notes: (continued)

- (b) Business combinations during the year ended 31 December 2013 mainly included the following transactions:
- (i) In February 2013, 177,000,000 of ordinary shares were issued by Beijing Development to the Group for a cash consideration of HK\$200,010,000. The equity interest in Beijing Development held by the Group increased from 42.87% to 54.71% upon the completion of the transaction and Beijing Development became a subsidiary of the Group;
 - (ii) In April 2013, the Group acquired an 80% equity interest in 北京北燃新奧京昌燃氣有限公司 (“Beijing Jingchang”) from an independent third party at a cash consideration of RMB13,462,000 (equivalent to HK\$17,040,000). Beijing Jingchang is principally engaged in the provision of natural gas transmission service in Beijing;
 - (iii) In May 2013, the Group acquired the entire equity interest in 北京安華恒泰投資有限公司 (“Auhua Hengtai”) from an independent third party at a cash consideration of RMB 42,150,000 (equivalent to HK\$53,350,000). Auhua Hengtai is directly interested in a 30% equity interest in 合肥中石油昆侖燃氣有限公司, which is principally engaged in pipeline gas supply in Hefei, Anhui Province, the PRC;
 - (iv) In June 2013, the Group acquired an 80% equity interest in 哈爾濱市雙琦環保資源利用有限公司 (“Harbin Huanbao”) from an independent third party at a cash consideration of RMB33,840,000 (approximately HK\$42,835,000). Harbin Huanbao has entered into a service concession arrangement with the Harbin Government on a BOT basis to operate a waste power plant in Harbin, Heilongjiang Province, the PRC; and
 - (v) In June 2013, the Group acquired an 80% equity interest in 陝西萬泉咸陽環保電力有限公司 (“Shaanxi Wanquan”) from an independent third party at a cash consideration of RMB160,000,000 (approximately HK\$202,530,000). Xianxi Wanquan has entered into an arrangement under a Build-Own-Operate basis with the Xianyang Government to operate a waste power plant in Xianyang, Shaanxi Province, the PRC.

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45. DISPOSAL OF SUBSIDIARIES

	2014 HK\$'000	2013 HK\$'000
Net assets disposed of:		
Property, plant and equipment	-	445,419
Investment in a joint venture	-	431,756
Amounts due from contract customers	-	21,172
Deferred tax assets (note 41)	-	1,908
Inventories	-	271
Trade and bills receivables	-	37,352
Prepayments, deposits and other receivables	-	240,384
Cash and cash equivalents	-	8,372
Trade and bills payables	-	(47,959)
Other payables and accruals	-	(336,017)
Income tax recoverables/(payables)	-	44,188
Bank and other borrowings	-	(324,076)
	-	522,770
Non-controlling interests	-	(94,926)
	-	427,844
Exchange fluctuation reserve realised	-	(15,081)
Reclassification from interests in subsidiaries to available-for-sale investments	-	(51,897)
Gain on disposal of interests in subsidiaries, net	-	58,896
Less: Unrealised portion in respect of disposal transactions with an associate	-	(32,961)
Gain on disposal of subsidiaries, net, recognised in profit or loss	-	25,935
	-	419,762
Satisfied by:		
Cash	-	139,475
Equity interests of subsidiaries given up, at fair value	-	280,287
	-	419,762

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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45. DISPOSAL OF SUBSIDIARIES (continued)

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

	2014 HK\$'000	2013 HK\$'000
Cash consideration	-	139,475
Cash and cash equivalents disposed of	-	(8,372)
Consideration received during the year	139,475	-
Consideration receivable as at 31 December	-	(139,475)
Exchange realignment	<u>(4,189)</u>	<u>-</u>
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	<u>135,286</u>	<u>(8,372)</u>

Disposal of subsidiaries during the year ended 31 December 2013 mainly include the following transactions:

- (i) On 26 September 2012, the Group entered into a master agreement with BE Water and two of its subsidiaries, pursuant to which the Group agreed to transferred its equity interests in 濰坊北控水務有限公司, Beijing Enterprises Water Company Limited (“BE Water (BVI)”) and 北控水務集團（海南）有限公司 to BE Water in exchange for an aggregate of 170,210,300 ordinary shares of BE Water. The transactions were completed during the year ended 31 December 2013.
- (ii) Pursuant to a share transfer agreement entered into between the Group and 北京京儀集團有限公司 (“Beijing Jingyi”, a fellow subsidiary of the Company) in September 2013, the Group disposed of an 85% equity interest in 北控綠產（青海）新能源有限公司 in September 2013 to Beijing Jingyi, for a cash consideration of RMB110,185,500 (equivalent to HK\$139,475,000). The transaction was completed in 2013 and the cash consideration was settled by Beijing Jingyi during the year.

46. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Apart from the transactions as detailed in notes 22, 37, 44 and 45 to the financial statements, the Group had no other major non-cash transactions of investing and financing activities during the years ended 31 December 2014 and 2013.

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NOTES TO FINANCIAL STATEMENTS

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47. CONTINGENT LIABILITIES

As at the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Guarantee in respect of a banking facility granted to a third party	-	151,333	-	151,333
Guarantee in respect of banking facilities granted to subsidiaries	-	-	1,637,678	-
Guarantees given in respect of the Guaranteed Senior Notes (note 36)	-	-	14,021,418	13,866,080
Guarantee given in respect of the Guaranteed Convertible Bonds (note 37(a))	-	-	-	673,270
	<u>-</u>	<u>151,333</u>	<u>15,659,096</u>	<u>14,690,683</u>

48. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for original terms ranging from 1 to 10 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:

	Group	
	2014 HK\$'000	2013 HK\$'000
Within one year	2,710	2,612
In the second to fifth years, inclusive	<u>-</u>	<u>110</u>
	<u>2,710</u>	<u>2,722</u>

At 31 December 2014, the Company did not have any non-cancellable operating lease arrangements as lessor (2013: Nil).

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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48. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its land, office properties and staff quarters under operating lease arrangements, with leases negotiated with original terms ranging from 2 to 30 years.

As at the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Within one year	75,686	165,545	12,638	14,667
In the second to fifth years, inclusive	124,873	181,824	134	40,787
After five years	<u>619,103</u>	<u>636,317</u>	<u>-</u>	<u>-</u>
	<u>819,662</u>	<u>983,686</u>	<u>12,772</u>	<u>55,454</u>

49. CAPITAL COMMITMENTS

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

	Group	
	2014 HK\$'000	2013 HK\$'000
Authorised, but not contracted for:		
Acquisition of interests in subsidiaries	<u>-</u>	<u>64,359</u>
	<u>-</u>	<u>64,359</u>
Contracted, but not provided for:		
Buildings	166,013	178,288
Plant and machinery	796,333	507,624
New service concession arrangements on a BOO basis	54,235	-
New service concession arrangements on a BOT basis	306,658	-
Capital contribution to an associate	-	771,205
	<u>1,323,239</u>	<u>1,457,117</u>
Total capital commitments	<u>1,323,239</u>	<u>1,521,476</u>

At 31 December 2014, the Company did not have any significant capital commitments (2013: Nil).

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NOTES TO FINANCIAL STATEMENTS

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50. RELATED PARTY DISCLOSURES

- (a) In addition to the transactions detailed elsewhere in these 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	2014 HK\$'000	2013 HK\$'000
Non-controlling equity holders of subsidiaries and their associates				
Yanjing Beer Group and its associates	Purchase of bottle labels [†]	(i)	125,731	151,146
	Purchase of bottle caps [†]	(i)	92,986	104,000
	Canning service fees paid [†]	(ii)	36,506	37,567
	Comprehensive support service fees paid [†]	(iii)	19,431	19,677
	Land rent expenses [†]	(iv)	2,311	2,341
	Trademark licensing fees paid [†]	(v)	74,505	81,424
	Less: Refund for advertising subsidies [†]	(v)	(4,271)	(7,875)
Fellow subsidiaries				
Beiran Enterprises and its subsidiaries	Sale of gas [#]	(vi)	34,380	30,810
	Engineering service income [#]	(vii)	22,173	61,291
	Comprehensive service income [#]	(vii)	25,063	8,816
	Sale of goods [#]	(x)	152,988	180,184
	Engineering service expenses [#]	(vii)	89,438	67,866
	Comprehensive service expenses [#]	(vii)	42,204	88,837
	Building rental expenses [#]	(ix)	78,301	88,472
Purchase of goods [#]	(ix)	142,708	194,558	
Beijing Jingyi	Construction fee ^α	(viii)	-	6,733
Associate				
PetroChina Beijing Gas	Natural gas transmission fee expenses	(vi)	-	2,606,389
Beijing Enterprises Group Finance Co. Ltd.	Interest expense	(x)	<u>14,753</u>	<u>328</u>

[†] 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.

^α This related party transaction, together with the disposal of equity interests in certain subsidiaries to BE Water and Beijing Jingyi (as further detailed in note 45 to the financial statement), also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

50. RELATED PARTY DISCLOSURES (continued)

(a) (continued)

Notes:

- (i) The purchase prices for bottle labels and bottle caps were determined by reference to the agreed prices for the preceding year and an annual adjustment determined by reference to the price index in Beijing in the preceding year.
- (ii) The canning service fees were charged at a rate equal to the costs of the canning services incurred by Yanjing Beer Group plus a mutually-agreed profit margin.
- (iii) The comprehensive support service fees paid include the following:
 - fees for security and canteen services which were determined based on the annual cost of labour, depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and
 - rental expenses, related to the premises occupied and used by Yanjing Brewery as its office, canteen and staff dormitories, which were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.
- (iv) The land rent expenses were charged at a mutually-agreed amount of RMB1,849,000 (2013: RMB1,849,000) per annum.
- (v) The trademark licensing fees paid were for the use of the “Yanjing” trademark and were determined based on 0.94% of the annual sales of beer and mineral water products made by Yanjing Brewery and at a rate of RMB0.008 per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Brewery Group would refund 20% of the trademark licensing fees 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 construction contract fee was mutually agreed between two parties.
- (ix) The purchase prices of goods and the building rentals were determined by reference to the then prevailing market rates.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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50. RELATED PARTY DISCLOSURES (continued)

(a) (continued)

Notes: (continued)

- (x) Beijing Enterprises Group Finance Co. Ltd. (“BE Group Finance”) is a 48.21% owned associate of the Group and also a subsidiary of Beijing Enterprises Group. BE Group Finance was established to act as platform for members of Beijing Enterprises Group for provision of intra-group facilities through financial products including deposit-taking, money-lending and custodian services.

Pursuant to a deposit services master agreement (the “Deposit Services Master Agreement”) entered into between the Company and BE Group Finance on 29 December 2014, the Group may, in its ordinary and usual course of business, place and maintain deposits with BE Group Finance on normal commercial terms from time to time. The term of the Deposit Services Master Agreement shall commence on the date of the Deposit Services Master Agreement and continue up to and including 31 December 2016. Subject to compliance with the Listing Rules, upon the expiration of such initial term, the Deposit Services Master Agreement may be renewed by the Company and BE Group Finance by agreement in writing. The daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the term of the Deposit Services Master Agreement will not exceed HK\$3,700 million. The deposit services provided by BE Group Finance constitute continuing connected transactions that are subject to the announcement, reporting and annual review requirements but exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Interest rates on deposits placed in and loans offered by BE Group Finance denominated in Renminbi were determined by reference to the then prevailing market rates offered by Peoples 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. No interest income was recognised in profit or loss during the year as the deposits were placed near the end of the financial year.

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.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

50. RELATED PARTY DISCLOSURES (continued)

(b) Outstanding balances with related parties

- (i) Details of the Group's balances with related parties included in trade and bills receivables, deposits and other debtors, and trade and bills payables and other payables and accruals are disclosed in notes 26(a), 27(b), 42 and 43 to the financial statements, respectively.
- (ii) Details of the balances with joint ventures, associates, holding companies, fellow subsidiaries and related parties are disclosed in notes 21, 22 and 28 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 businesses, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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50. RELATED PARTY DISCLOSURES (continued)

(d) Compensation of key management personnel of the Group

	2014 HK\$'000	2013 HK\$'000
Short term employee benefits	22,884	22,985
Pension scheme contributions	<u>24</u>	<u>22</u>
Total compensation paid to key management personnel	<u>22,908</u>	<u>23,007</u>

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

51. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain equity investments and the conversion option of the Yanjing Brewery Convertible Bonds being classified as available-for-sale investments and a financial liability at fair value through profit or loss, respectively, as disclosed in notes 23 and 37 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2014 and 2013 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

52. 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 23 to the financial statements, listed equity investments of the Group and the Company are stated at fair value based on their quoted market prices (as categorised within Level 1 of the fair value hierarchy); whilst the unlisted equity investments of the Group and the Company are stated at cost less any accumulated impairment losses because fair values of which cannot be reasonably assessed and therefore, no disclosure of the fair values of these financial instruments is made.

As disclosed in note 37(b) to the financial statements, the conversion option of the Yanjing Brewery Convertible Bonds is classified as a derivative financial instrument (a financial liability at fair value through profit or loss). In the opinion of the directors, since the financial impact of the fair value of the financial instrument is insignificant to the Group, no disclosure in respect of the valuation assumptions and their related effects on these financial instruments is made.

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

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other loans, the Guaranteed Senior Notes, convertible bonds and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as amounts due from/to contract customers, trade and bills receivables, deposits and other receivables, trade and bills payables, other payables and accruals, receivables under service concessions and amounts due from/to holding companies, fellow subsidiaries, an associate, joint ventures, and related parties.

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

Interest rate risk

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

Banks loans, the Guaranteed Senior Notes, convertible bonds, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. 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:

At 31 December 2014

	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 3 years HK\$'000	More than 3 years but less than 4 years HK\$'000	More than 4 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000	Effective interest rate %
Floating rate:								
Restricted cash and pledged deposits	58,735	-	-	-	-	-	58,735	0.35
Cash and cash equivalents	10,124,140	-	-	-	-	-	10,124,140	0.35
Bank and other borrowings	(13,964,004)	(235,363)	(404,767)	(215,613)	(3,188,690)	(172,996)	(18,181,433)	2.51
Fixed rate:								
Cash and cash equivalents	1,083,566	-	-	-	-	-	1,083,566	2.43
Bank and other borrowings	(3,602,922)	(171,883)	(138,243)	(162,750)	(137,751)	(698,313)	(4,911,862)	4.99
Convertible bonds	(84,556)	-	-	-	-	-	(84,556)	0.91
Guaranteed Senior Notes	-	-	-	-	-	(13,879,298)	(13,879,298)	5.36

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

At 31 December 2013

	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 3 years HK\$'000	More than 3 years but less than 4 years HK\$'000	More than 4 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000	Effective interest rate %
Floating rate:								
Restricted cash and pledged deposits	63,104	-	-	-	-	-	63,104	0.35
Cash and cash equivalents	7,662,639	-	-	-	-	-	7,662,639	0.35
Bank and other borrowings	<u>(4,626,732)</u>	<u>(3,511,809)</u>	<u>(110,623)</u>	<u>(123,444)</u>	<u>(275,326)</u>	<u>(272,053)</u>	<u>(8,919,987)</u>	<u>4.35</u>
Fixed rate:								
Cash and cash equivalents	3,132,828	-	-	-	-	-	3,132,828	3.14
Bank and other borrowings	(1,985,171)	(30,042)	(30,004)	(901)	(901)	(5,650)	(2,052,669)	5.56
Convertible bonds	(673,055)	(93,500)	-	-	-	-	(766,555)	1.02
Guaranteed Senior Notes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,866,081)</u>	<u>(13,866,081)</u>	<u>5.36</u>

At 31 December 2014, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other loans and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK\$24,498,000 (2013: HK\$8,573,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for 2013.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, 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
2014		
If Hong Kong dollar weakens against RMB by 5%	397,824	3,168,588
If Hong Kong dollar strengthens against RMB by 5%	<u>(397,824)</u>	<u>(3,168,588)</u>
2013		
If Hong Kong dollar weakens against RMB by 5%	320,526	2,757,905
If Hong Kong dollar strengthens against RMB by 5%	<u>(320,526)</u>	<u>(2,757,905)</u>

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.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group engages in certain cash income businesses, such as the expressway and toll road operations, and the Group has a very high debtor turnover rate and low credit risk in respect of these operations.

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

At the end of the reporting period, concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables under service concession arrangements and trade and bills receivables are set out in notes 18 and 26 to the financial statements, respectively.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from joint ventures and associates, deposits and other receivables and amounts due from holding companies, fellow subsidiaries and related parties, arises from default of the counterparty, with a maximum exposure to the carrying amounts of these instruments.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank loans, other loans, the Guaranteed Senior Notes and convertible bonds. In addition, banking facilities have been put in place for contingency purposes.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of short term loans to cover expected cash demands, subject to approval by management of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

At 31 December 2014

	On demand HK\$'000	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 3 years HK\$'000	More than 3 years but less than 4 years HK\$'000	More than 4 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000
Bank loans	-	14,079,184	748,567	858,084	670,240	3,483,924	941,041	20,781,040
Other loans	-	4,336,324	93,383	84,230	80,655	46,408	57,594	4,698,594
Guaranteed Senior Notes	-	706,726	706,726	706,726	706,726	706,726	19,669,315	23,202,945
Convertible bonds	-	84,556	-	-	-	-	-	84,556
Trade and bills payables	-	2,238,403	-	-	-	-	-	2,238,403
Accruals and other liabilities	-	5,446,741	40,082	-	-	-	-	5,486,823
Due to a holding company	1,880,364	-	-	-	-	-	-	1,880,364
Due to related parties	329,350	-	-	-	-	-	-	329,350
	<u>2,209,714</u>	<u>26,891,934</u>	<u>1,588,758</u>	<u>1,649,040</u>	<u>1,457,621</u>	<u>4,237,058</u>	<u>20,667,950</u>	<u>58,702,075</u>

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

At 31 December 2013

	On demand HK\$'000	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 3 years HK\$'000	More than 3 years but less than 4 years HK\$'000	More than 4 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000
Bank loans	-	6,867,893	3,117,883	92,655	94,339	197,244	186,948	10,556,962
Other loans	-	104,872	380,415	72,841	70,625	76,053	109,091	813,897
Guaranteed Senior Notes	-	707,638	707,638	707,638	707,638	707,638	19,264,013	22,802,203
Convertible bonds	-	681,943	97,820	-	-	-	-	779,763
Trade and bills payables	-	2,383,225	-	-	-	-	-	2,383,225
Accruals and other liabilities	-	7,839,753	34,614	-	-	-	-	7,874,367
Due to a holding company	900,000	-	-	-	-	-	-	900,000
Due to related parties	274,965	-	-	-	-	-	-	274,965
	<u>1,174,965</u>	<u>18,585,324</u>	<u>4,338,370</u>	<u>873,134</u>	<u>872,602</u>	<u>980,935</u>	<u>19,560,052</u>	<u>46,385,382</u>

Fair value risk

The Group's financial instruments that are carried in the financial statements at other than fair values are disclosed in note 52 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 2014 and 2013.

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.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings and the Guaranteed Senior Notes divided by the sum of total equity, interest-bearing bank borrowings and the Guaranteed Senior Notes. The gearing ratios as at the end of the reporting periods are as follows:

	Group	
	2014 HK\$'000	2013 HK\$'000
Guaranteed Senior Notes	13,879,298	13,866,081
Interest-bearing bank borrowings	<u>23,093,295</u>	<u>10,273,481</u>
Total Guarantee Senior Notes and interest-bearing bank borrowings	36,972,593	24,139,562
Total equity	<u>68,050,991</u>	<u>64,068,079</u>
Total equity and interest-bearing bank borrowings and Guarantee Senior Notes	<u>105,023,584</u>	<u>88,207,641</u>
Gearing ratio	<u>35%</u>	<u>27%</u>

54. OTHER FINANCIAL INFORMATION

The net current liabilities and total assets less current liabilities of the Group as at 31 December 2014 amounted to HK\$1,871,641,000 (2013: net current assets of HK\$302,701,000) and HK\$89,016,736,000 (2013: HK\$83,717,668,000), respectively.

55. EVENTS AFTER THE REPORTING PERIOD

On 26 November 2014, the Group entered into a conditional share purchase agreement with China Gas (an associate listed on the Hong Kong Main Board), pursuant to which the Group conditionally agreed to sell and China Gas conditionally agreed to purchase the entire equity interest in Beijing Gas Development Limited ("Beijing Gas Development", a wholly-owned subsidiary of the Group) at the initial consideration of RMB1,633 million (equivalent to approximately HK\$2,064 million), which shall be satisfied by China Gas allotting and issuing 149,122,250 ordinary shares to the Group.

The transaction was approved by an ordinary resolution at the special general meeting of shareholders of China Gas on 17 March 2015 and the transaction had not been completed as at the date of approval of these financial statements.

BEIJING ENTERPRISES HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

56. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated in these financial statements as a result of the completion of the initial accounting for the acquisition of China Gas, details of which are set out in note 22(b) of the financial statements.

57. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2015.

INDEPENDENT AUDITORS' REPORT



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

We have audited the consolidated financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 199, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITY (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

31 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000 (Restated)
REVENUE	5	42,360,528	35,569,649
Cost of sales		(34,023,315)	(28,207,604)
Gross profit		8,337,213	7,362,045
Gain on disposal of interests in subsidiaries, net	6	25,935	601,976
Gain on deemed disposal of partial interest in an associate	23(a)	581,428	–
Other income and gains, net	5	908,099	897,481
Selling and distribution expenses		(2,611,439)	(2,382,424)
Administrative expenses		(3,345,808)	(3,057,777)
Other operating expenses, net		(197,707)	(319,085)
PROFIT FROM OPERATING ACTIVITIES	7	3,697,721	3,102,216
Finance costs	8	(1,133,744)	(996,636)
Share of profits and losses of:			
Joint ventures	22(b)	(5,847)	(343)
Associates	23(b)	2,742,612	2,049,495
PROFIT BEFORE TAX		5,300,742	4,154,732
Income tax	11	(545,287)	(557,155)
PROFIT FOR THE YEAR		4,755,455	3,597,577
ATTRIBUTABLE TO:			
Shareholders of the Company	12	4,183,878	3,234,992
Non-controlling interests		571,577	362,585
		4,755,455	3,597,577
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	14		
Basic		HK\$3.61	HK\$2.84
Diluted		HK\$3.54	HK\$2.78

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	2013 HK\$'000	2012 HK\$'000 (Restated)
PROFIT FOR THE YEAR	4,755,455	3,597,577
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
Available-for-sale investments:		
Changes in fair value	550,728	95,318
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	(106,200)	(52,938)
Income tax effect	20,941	(22,333)
	465,469	20,047
Exchange differences:		
Translation of foreign operations	1,860,766	23,096
Reclassification adjustments for gain on disposal of interests in subsidiaries included in the consolidated statement of profit or loss	(15,081)	(353,123)
	1,845,685	(330,027)
Share of other comprehensive income of an associate	119,749	–
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	2,430,903	(309,980)
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
Defined benefit plans:		
Actuarial gains/(losses)	36,832	(84,107)
Income tax effect	(9,208)	21,027
	27,624	(63,080)
Share of other comprehensive income of an associate	13,072	–
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	40,696	(63,080)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX	2,471,599	(373,060)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	7,227,054	3,224,517
ATTRIBUTABLE TO:		
Shareholders of the Company	6,347,464	2,871,455
Non-controlling interests	879,590	353,062
	7,227,054	3,224,517

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	31 December 2013 HK\$'000	31 December 2012 HK\$'000 (Restated)	1 January 2012 HK\$'000 (Restated)
ASSETS				
Non-current assets:				
Property, plant and equipment	15	38,996,767	32,805,468	26,317,184
Investment properties	16	719,968	665,144	681,096
Prepaid land premiums	17	1,785,609	1,640,194	1,275,264
Goodwill	18	7,659,735	7,549,326	7,453,561
Operating concessions	19	606,292	419,238	1,225,011
Other intangible assets	20	64,120	19,650	23,681
Investments in joint ventures	22	217,350	136,706	210,878
Investments in associates	23	29,184,338	15,120,306	12,573,986
Available-for-sale investments	24	1,315,859	883,170	917,412
Amounts due from contract customers	27	947,102	769,559	566,032
Receivables under service concession arrangements	19	-	505,248	1,588,046
Prepayments, deposits and other receivables	29	1,316,771	1,139,600	430,583
Deferred tax assets	43	601,056	552,926	552,566
Total non-current assets		83,414,967	62,206,535	53,815,300
Current assets:				
Prepaid land premiums	17	53,509	43,643	30,165
Property held for sale	25	-	28,511	27,611
Inventories	26	5,661,492	5,913,959	5,285,611
Amounts due from contract customers	27	28,599	16,441	46,631
Receivables under service concession arrangements	19	701,582	1,007,375	1,003,260
Trade and bills receivables	28	4,393,374	2,403,154	1,586,438
Prepayments, deposits and other receivables	29	4,290,561	3,992,633	2,313,196
Other taxes recoverable		219,169	203,152	588,996
Restricted cash and pledged deposits	31	63,104	60,953	36,631
Cash and cash equivalents	32	10,795,467	12,236,964	12,579,439
Total current assets		26,206,857	25,906,785	23,497,978
Non-current asset and assets of disposal groups classified as held for sale	33	-	1,385,301	-
Total current assets		26,206,857	27,292,086	23,497,978
TOTAL ASSETS		109,621,824	89,498,621	77,313,278

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	31 December 2013 HK\$'000	31 December 2012 HK\$'000 (Restated)	1 January 2012 HK\$'000 (Restated)
EQUITY AND LIABILITIES				
Equity attributable to shareholders of the Company				
Issued capital	34	127,019	113,757	113,757
Reserves	36(a)(i)	53,130,524	38,951,411	37,110,463
Proposed final dividend	13	763,695	572,286	511,907
		54,021,238	39,637,454	37,736,127
Non-controlling interests		10,046,841	8,030,221	7,587,062
TOTAL EQUITY		64,068,079	47,667,675	45,323,189
Non-current liabilities:				
Bank and other borrowings	37	4,519,636	4,224,787	4,070,115
Guaranteed senior notes	38	13,866,081	13,853,502	7,699,084
Liability component of convertible bonds	39	93,501	2,259,313	2,711,835
Derivative component of convertible bonds	39	8,851	9,428	61,783
Defined benefit plans	40	535,655	507,148	353,775
Provision for major overhauls	41	30,544	29,414	196,157
Other non-current liabilities	42	361,859	244,060	239,320
Deferred tax liabilities	43	233,462	375,979	371,353
Total non-current liabilities		19,649,589	21,503,631	15,703,422
Current liabilities:				
Trade and bills payables	44	2,383,225	2,616,491	1,904,594
Amounts due to contract customers	27	325,794	177,874	123,822
Receipts in advance		5,690,597	3,418,479	3,446,916
Other payables and accruals	45	9,014,718	6,951,842	4,430,794
Income tax payables		378,319	504,624	342,313
Other taxes payable		821,418	240,517	333,277
Liability component of convertible bonds	39	673,054	-	-
Bank and other borrowings	37	6,617,031	6,276,941	5,704,951
		25,904,156	20,186,768	16,286,667
Liabilities directly associated with the assets of disposal groups classified as held for sale	33	-	140,547	-
Total current liabilities		25,904,156	20,327,315	16,286,667
TOTAL LIABILITIES		45,553,745	41,830,946	31,990,089
TOTAL EQUITY AND LIABILITIES		109,621,824	89,498,621	77,313,278

Wang Dong
Director

Zhou Si
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		Attributable to shareholders of the Company													
		Issued capital	Share premium account	Capital redemption reserve	Available-for-sale investment		Property revaluation reserve	Defined benefit plans reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Proposed final dividend	Non-controlling interests	Total equity	
Notes					HK\$'000	HK\$'000									HK\$'000
At 1 January 2012:															
As previously reported		113,757	20,738,291	238	877,842	(113,803)	33,980	-	5,124,354	3,623,668	6,699,433	511,907	37,609,667	7,587,062	45,196,729
Effect of adoption of HKAS 19 (2011)		2.2	-	-	-	-	-	143,489	-	-	(17,029)	-	126,460	-	126,460
As restated		113,757	20,738,291	238	877,842	(113,803)	33,980	143,489	5,124,354	3,623,668	6,682,404	511,907	37,736,127	7,587,062	45,323,189
Profit for the year, as restated		-	-	-	-	-	-	-	-	-	3,234,992	-	3,234,992	362,585	3,597,577
Other comprehensive income/(loss) for the year:															
Available-for-sale investments:															
Changes in fair value		-	-	-	-	75,636	-	-	-	-	-	-	75,636	19,682	95,318
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss		-	-	-	-	(42,351)	-	-	-	-	-	-	(42,351)	(10,587)	(52,938)
Income tax effect		-	-	-	-	(17,867)	-	-	-	-	-	-	(17,867)	(4,466)	(22,333)
Exchange differences:															
Reclassification adjustments for gain on disposal of interests in subsidiaries included in the consolidated statement of profit or loss		47	-	-	-	-	-	-	(338,998)	-	-	-	(338,998)	(14,125)	(353,123)
Translation of foreign operations		-	-	-	-	-	-	-	23,123	-	-	-	23,123	(27)	23,096
Defined benefit plans:															
Actuarial losses, as restated		-	-	-	-	-	-	(84,107)	-	-	-	-	(84,107)	-	(84,107)
Income tax effect, as restated		-	-	-	-	-	-	21,027	-	-	-	-	21,027	-	21,027
Total comprehensive income/(loss) for the year, as restated		-	-	-	-	15,418	-	(63,080)	(315,875)	-	3,234,992	-	2,871,455	353,062	3,224,517
Capital contribution from non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	88,836	88,836
Conversion of convertible bonds of a subsidiary		-	-	-	(161,058)	-	-	-	-	-	-	-	(161,058)	370,915	209,857
Acquisition of subsidiaries		46	-	-	-	-	-	-	-	-	-	-	-	15,144	15,144
Disposal of subsidiaries		47	-	-	(183,710)	-	-	-	-	(360,919)	544,629	-	-	(31,966)	(31,966)
Share of reserves of associates		-	-	-	(16,433)	-	-	-	-	2,657	1,006	-	(12,770)	-	(12,770)
Final 2011 dividend		-	-	-	-	-	-	-	-	-	-	(511,907)	(511,907)	-	(511,907)
Interim 2012 dividend		13	-	-	-	-	-	-	-	-	(284,393)	-	(284,393)	-	(284,393)
Proposed final 2012 dividend		13	-	-	-	-	-	-	-	-	(572,286)	572,286	-	-	-
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	(352,832)	(352,832)
Transfer to reserves		-	-	-	-	-	-	-	-	913,123	(913,123)	-	-	-	-
At 31 December 2012, as restated		113,757	20,738,291*	238*	516,641*	(98,385)*	33,980*	80,409*	4,808,479*	4,178,529*	8,693,229*	572,286	39,637,454	8,030,221	47,667,675

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		Attributable to shareholders of the Company													
		Issued capital	Share premium account	Capital redemption reserve	Capital reserve	Available-for-sale investment revaluation reserve	Property revaluation reserve	Defined benefit plans reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Proposed final dividend	Total	Non-controlling interests	Total equity
Notes		HK\$'000	HK\$'000	HK\$'000 <i>(note 36(a) (ii))</i>	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 <i>(note 36(a) (iii))</i>	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013:															
As previously reported		113,757	20,738,291	238	516,641	(98,385)	33,980	-	4,808,479	4,178,529	8,745,649	572,286	39,609,465	8,030,221	47,639,686
Effect of adoption of HKAS 19 (2011)		2.2	-	-	-	-	-	80,409	-	-	(52,420)	-	27,989	-	27,989
As restated		113,757	20,738,291	238	516,641	(98,385)	33,980	80,409	4,808,479	4,178,529	8,693,229	572,286	39,637,454	8,030,221	47,667,675
Profit for the year		-	-	-	-	-	-	-	-	-	4,183,878	-	4,183,878	571,577	4,755,455
Other comprehensive income/(loss) for the year:															
Available-for-sale investments:															
Changes in fair value		-	-	-	-	546,237	-	-	-	-	-	-	546,237	4,491	550,728
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss		-	-	-	-	(84,960)	-	-	-	-	-	-	(84,960)	(21,240)	(106,200)
Income tax effect		-	-	-	-	16,753	-	-	-	-	-	-	16,753	4,188	20,941
Exchange differences:															
Translation of foreign operations		-	-	-	-	-	-	-	1,540,192	-	-	-	1,540,192	320,574	1,860,766
Reclassification adjustments for gain on disposal of interests in subsidiaries included in the consolidated statement of profit or loss		47	-	-	-	-	-	-	(15,081)	-	-	-	(15,081)	-	(15,081)
Defined benefit plans:															
Actuarial gains		-	-	-	-	-	-	36,832	-	-	-	-	36,832	-	36,832
Income tax effect		-	-	-	-	-	-	(9,208)	-	-	-	-	(9,208)	-	(9,208)
Share of other comprehensive income of an associate		-	-	-	-	-	7,459	5,613	119,749	-	-	-	132,821	-	132,821
Total comprehensive income for the year		-	-	-	-	478,030	7,459	33,237	1,644,860	-	4,183,878	-	6,347,464	879,590	7,227,054
Capital contribution from non-controlling equity holders		-	-	-	(17,766)	-	-	-	-	-	-	-	(17,766)	1,024,367	1,006,601
Conversion of convertible bonds to ordinary shares		34	3,452	1,496,785	-	-	-	-	-	-	-	-	1,500,237	-	1,500,237
Issue of shares		34	9,810	7,372,215	-	-	-	-	-	-	-	-	7,382,025	-	7,382,025
Acquisition of subsidiaries		46	-	-	-	-	-	-	-	-	-	-	-	539,999	539,999
Disposal of subsidiaries		47	-	-	(22,637)	-	-	-	-	-	1,989	-	(20,648)	(94,926)	(115,574)
Share of reserves of associates		-	-	-	56,241	-	-	-	-	175	-	-	56,416	-	56,416
Final 2012 dividend		13	-	-	-	-	-	-	-	-	-	(572,286)	(572,286)	-	(572,286)
Interim 2013 dividend		13	-	-	-	-	-	-	-	-	-	(291,658)	(291,658)	-	(291,658)
Proposed final 2013 dividend		13	-	-	-	-	-	-	-	-	-	(763,695)	763,695	-	-
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	(332,410)	(332,410)
Transfer to reserves		-	-	-	-	-	-	-	-	457,303	(457,303)	-	-	-	-
At 31 December 2013		127,019	29,607,291*	238*	532,479*	379,645*	41,439*	113,646*	6,453,339*	4,636,007*	11,366,440*	763,695	54,021,238	10,046,841	64,068,079

* These reserve accounts comprise the consolidated reserves of HK\$53,130,524,000 (2012: HK\$38,951,411,000, as restated) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	<i>Notes</i>	2013 HK\$'000	2012 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		5,300,742	4,154,732
Adjustments for:			
Gain on disposal of interests in subsidiaries, net		(25,935)	(601,976)
Gain on deemed disposal of partial interest in an associate		(581,428)	–
Interest income	5	(177,922)	(253,779)
Transfer of assets from customers	5	(127,172)	(131,601)
Fair value gain on investment properties	5	–	(14,282)
Fair value gain on the derivative component of convertible bonds	5	–	(13,973)
Gain on disposal of available-for-sale investments carried at fair value	5	(106,200)	(52,938)
Gain on transfer of receivables under a service concession arrangement	5	(47,087)	–
Depreciation	7	2,240,146	1,800,332
Amortisation of operating concessions	7	7,483	52,810
Amortisation of computer software	7	6,140	9,988
Impairment of items of property, plant and equipment, net	7	4,004	115,941
Loss on early redemption of convertible bonds	7	–	30,663
Loss on disposal of items of property, plant and equipment, net	7	6,270	61,792
Provision against inventories, net		244	381
Reversal of impairment of trade and bills receivables, net	7	(6,036)	(35,542)
Impairment of other receivables, net	7	46,285	29,195
Finance costs	8	1,133,744	996,636
Share of profits and losses of joint ventures and associates		(2,736,765)	(2,049,152)
Operating profit before working capital changes		4,936,513	4,099,227

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	2013	2012
	HK\$'000	HK\$'000
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES (Continued)		
Operating profit before working capital changes	4,936,513	4,099,227
Increase in prepaid land premiums	(56,538)	(324,362)
Decrease/(increase) in inventories	482,326	(625,394)
Increase in amounts due from contract customers	(177,715)	(173,337)
Decrease in receivables under service concession arrangements	664,031	140,829
Increase in trade and bills receivables	(1,816,475)	(688,668)
Increase in prepayments, deposits and other receivables	(1,398,169)	(1,660,080)
Decrease/(increase) in other taxes recoverable	(16,017)	385,844
Increase/(decrease) in trade and bills payables	(432,057)	608,172
Increase in amounts due to contract customers	139,293	54,052
Increase/(decrease) in receipts in advance	2,113,541	(28,437)
Increase in other payables and accruals	849,033	2,696,935
Increase/(decrease) in other taxes payable	564,414	(92,760)
Increase in defined benefit plans	46,601	69,266
Increase in provision for major overhauls	-	42,933
Increase/(decrease) in other non-current liabilities	(54,106)	4,740
	<hr/>	<hr/>
Cash generated from operations	5,844,675	4,508,960
Dividends received from joint ventures and associates	1,025,857	1,367,584
Mainland China income tax paid	(717,275)	(495,502)
	<hr/>	<hr/>
Net cash flows from operating activities	6,153,257	5,381,042

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(6,411,305)	(8,128,137)
Proceeds from disposal of items of property, plant and equipment		30,040	57,623
Purchases of operating concessions		(176,154)	–
Purchases of other intangible assets		(36,044)	(5,957)
Acquisition of subsidiaries	46	171,331	(340,521)
Disposal of subsidiaries	47	(8,372)	(223,258)
Acquisition of/increase in investments in joint ventures and associates		(665,012)	(1,880,593)
Decrease/(increase) in amounts due from/to and loans to joint ventures and associates		(51,511)	17,689
Proceeds from disposal of an available-for-sale investment carried at fair value, net		181,120	124,004
Decrease in time deposits with maturity of more than three months when acquired		58,942	780,048
Decrease/(increase) in pledged deposits		3,628	(24,322)
Interest received		177,922	253,779
Net cash flows used in investing activities		(6,725,415)	(9,369,645)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		996,552	88,836
Issue of guaranteed senior notes		–	6,154,418
New loans		7,767,307	10,187,277
Repayment of loans		(7,481,830)	(9,451,042)
Redemption of convertible bonds		–	(330,352)
Interest paid		(1,165,315)	(1,073,165)
Dividends paid		(863,944)	(796,300)
Dividends paid to non-controlling equity holders		(332,410)	(352,832)
Net cash flows from/(used in) financing activities		(1,079,640)	4,426,840
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(1,651,798)	438,237
Cash and cash equivalents at beginning of year		11,515,682	11,077,445
Effect of foreign exchange rate changes, net		268,579	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		10,132,463	11,515,682

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	<i>Notes</i>	2013 HK\$'000	2012 HK\$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	32	7,725,743	5,474,868
Time deposits	32	3,132,828	6,823,049
Less: Restricted cash and pledged deposits	32	(63,104)	(60,953)
		<hr/>	<hr/>
Cash and cash equivalents as stated in the consolidated statement of financial position		10,795,467	12,236,964
Add: Cash and bank balances attributable to disposal groups	33	-	664
Less: Time deposits with maturity of more than three months when acquired		(663,004)	(721,946)
		<hr/>	<hr/>
Cash and cash equivalents as stated in the consolidated statement of cash flows		10,132,463	11,515,682
		<hr/> <hr/>	<hr/> <hr/>

STATEMENT OF FINANCIAL POSITION

31 December 2013

	<i>Notes</i>	2013 HK\$'000	2012 HK\$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	15	6,879	9,536
Investment properties	16	56,914	56,914
Investments in subsidiaries	21	48,054,713	35,097,780
Investments in joint ventures	22	-	2,581
Investments in associates	23	106,320	153,245
Available-for-sale investments	24	175,637	175,637
Prepayments, deposits and other receivables	29	-	660,000
		<hr/>	<hr/>
Total non-current assets		48,400,463	36,155,693
Current assets:			
Trade and bills receivables	28	1,128	1,095
Prepayments, deposits and other receivables	29	139,071	603,815
Cash and cash equivalents	32	1,658,686	4,543,243
		<hr/>	<hr/>
Total current assets		1,798,885	5,148,153
		<hr/>	<hr/>
TOTAL ASSETS		50,199,348	41,303,846
		<hr/> <hr/>	<hr/> <hr/>

STATEMENT OF FINANCIAL POSITION

31 December 2013

	<i>Notes</i>	2013 HK\$'000	2012 HK\$'000
EQUITY AND LIABILITIES			
Equity:			
Issued capital	34	127,019	113,757
Reserves	36(b)	29,627,143	21,048,626
Proposed final dividend	13	763,695	572,286
TOTAL EQUITY		<u>30,517,857</u>	<u>21,734,669</u>
Non-current liabilities:			
Bank and other borrowings	37	2,985,750	2,976,750
Due to subsidiaries	21	15,643,971	16,429,658
Total non-current liabilities		<u>18,629,721</u>	<u>19,406,408</u>
Current liabilities:			
Other payables and accruals	45	966,398	77,397
Income tax payable		85,372	85,372
Total current liabilities		<u>1,051,770</u>	<u>162,769</u>
TOTAL LIABILITIES		<u>19,681,491</u>	<u>19,569,177</u>
TOTAL EQUITY AND LIABILITIES		<u>50,199,348</u>	<u>41,303,846</u>

Wang Dong
Director

Zhou Si
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2013

1. CORPORATE INFORMATION

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

During the year, the Company and its subsidiaries (collectively the "Group") were involved in the following principal activities:

- the distribution and sale of piped natural gas, the provision of natural gas transmission, gas technology consultation and development services, surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repair and maintenance services in Beijing, the People's Republic of China (the "PRC")
- the production, distribution and sale of beer 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 in the PRC and Malaysia, sewage treatment, water treatment and distribution in the PRC and the Portuguese Republic, and the provision of consultancy services and the licensing of technical know-how that are related to sewage treatment in the PRC

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

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, certain available-for-sale investments and the derivative component of convertible bonds which have been measured at fair value; and (ii) non-current asset and disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs of disposal, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollar ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.1 BASIS OF PREPARATION (Continued)

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 19 (2011)	<i>Employee Benefits</i>
HKAS 27 (2011)	<i>Separate Financial Statements</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i> (early adopted)
HK(IFRIC)-Int 20 <i>Annual Improvements 2009-2011 Cycle</i>	<i>Stripping Costs in the Production Phase of a Surface Mine</i> Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 11, HKFRS 12, HKFRS 13, HKAS 19 (2011), amendments to HKFRS 10, HKFRS 11, HKFRS 12, HKAS 1 and HKAS 36 and certain amendments included in *Annual Improvements 2009-2011 Cycle*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

The principal effects of adopting these new and revised HKFRSs are as follows:

- (a) HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of the application of HKFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group. The Group has made significant judgements in determining whether it has control over another listed investee, details of which are set out in note 3 to the financial statements. The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

- (b) HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The classification of joint arrangements under HKFRS 11 depends on the parties' rights and obligations arising from the arrangements. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities of the arrangement and is accounted for on a line-by-line basis to the extent of the joint operators' rights and obligations in the joint operation. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement and is required to be accounted for using the equity method in accordance with HKAS 28 (2011). The application of HKFRS 11 does not change any of the joint arrangement conclusions of the Group in respect of its involvement with investees as at 1 January 2013 and the only impact is the change of the term "jointly-controlled entities" to "joint ventures" in the financial statements.
- (c) HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. Details of the disclosures for subsidiaries, joint ventures and associates are included in notes 21, 22 and 23 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

- (d) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.
- (e) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of investment properties and financial instruments are included in notes 16 and 54 to the financial statements.
- (f) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the remeasurement of defined benefit plans). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been restated to reflect the changes. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

- (g) HKAS 19 (2011) changes the accounting for defined benefit plans. The revised standard removes the choice to defer the recognition of actuarial gains and losses. All actuarial gains and losses are required to be recognised immediately in other comprehensive income. The interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a net interest amount under HKAS 19 (2011), which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period. Prior to the adoption of HKAS 19 (2011), the Group elected to recognise actuarial gains or losses as income or expense over the expected average remaining service periods of the employees participating in the defined benefit plan when the net cumulative unrecognised actuarial gains or losses for the plan at the end of the previous period exceeded 10% of the present value of the defined benefit obligation. Upon the adoption of HKAS 19 (2011), all actuarial gains and losses are recognised in other comprehensive income immediately. As a result, all deferred actuarial gains and losses as at 1 January 2012 and 31 December 2012 were recognised in OCI and the actuarial gains and losses recognised in the statement of profit or loss for the year ended 31 December 2012 was adjusted to other comprehensive income.

Furthermore, upon the adoption of HKAS 19 (2011), all past service costs are recognised at the earlier of when an amendment/curtailment occurs and when the related restructuring or termination costs are recognised. As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period. The amortisation of past service costs for the year ended 31 December 2012 has been adjusted. HKAS 19 (2011) also requires more extensive disclosures which are included in note 40 to the financial statements.

Other than the changes to the accounting for defined benefit plans, HKAS 19 (2011) also changes the timing of recognition for termination benefits and the classification of short term employee benefits. The revised standard requires termination benefits outside of a wider restructuring to be recognised only when the offer becomes legally binding and cannot be withdrawn. Under the revised standard, the distinction between short term and other long term employee benefits is now based on the expected timing of settlement rather than employee entitlement. As the Group does not have any significant employee benefits that are expected to be settled for more than twelve months after the reporting period or had no events giving rise to termination benefits, the changes to the accounting for these benefits have had no effect on the financial position or performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

(g) (Continued)

The effects of the changes to the accounting for the Group's defined benefit plans are summarised below:

Impact on the consolidated statement of profit or loss for the year ended 31 December:

	2013 HK\$'000	2012 HK\$'000
Increase in administrative expenses and decrease in profit before tax	(333)	(47,189)
Decrease in income tax	84	11,798
	<hr/>	<hr/>
Decrease in profit for the year and profit attributable to shareholders of the Company	(249)	(35,391)
	<hr/> <hr/>	<hr/> <hr/>
Decrease in earnings per share attributable to shareholders of the Company:		
Basic	(HK0.02 cents)	(HK3.11 cents)
	<hr/> <hr/>	<hr/> <hr/>
Diluted	(HK0.02 cents)	(HK2.98 cents)
	<hr/> <hr/>	<hr/> <hr/>

Impact on the consolidated statement of comprehensive income for the year ended 31 December:

	2013 HK\$'000	2012 HK\$'000
Decrease in profit for the year	(249)	(35,391)
Actuarial gains/(losses) on defined benefit plans	36,832	(84,107)
Decrease/(increase) in income tax	(9,208)	21,027
	<hr/>	<hr/>
Increase/(decrease) in other comprehensive income for the year, net of income tax	27,624	(63,080)
	<hr/>	<hr/>
Increase/(decrease) in total comprehensive income for the year and total comprehensive income attributable to shareholders of the Company	27,375	(98,471)
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

(g) (Continued)

Impact on the consolidated statement of financial position as at 31 December:

	2013 HK\$'000	2012 HK\$'000
Decrease in defined benefit obligations, which are classified as non-current liabilities	73,818	37,319
Decrease in deferred tax assets, which are classified as non-current assets	(18,454)	(9,330)
Increase in net assets and total equity	55,364	27,989

Impact on the consolidated statement of financial position as at 1 January 2012:

	HK\$'000
Decrease in defined benefit obligations, which are classified as non-current liabilities	168,615
Decrease in deferred tax assets, which are classified as non-current assets	(42,155)
Increase in net assets and total equity	126,460

- (h) The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group. Disclosures about the Group's impaired non-financial assets are included in note 18 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

(i) *Annual Improvements 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of standards. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- *HKAS 1 Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- *HKAS 32 Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with *HKAS 12 Income Taxes*. The amendment removes existing income tax requirements from *HKAS 32* and requires entities to apply the requirements in *HKAS 12* to any income tax arising from distributions to equity holders.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> ⁴
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i> ¹
HKAS 19 Amendments	Amendments to HKAS 19 <i>Employee Benefits – Defined Benefit Plans: Employee Contributions</i> ²
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ¹
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i> ¹
HK(IFRIC)-Int 21 <i>Annual Improvements 2010-2012 Cycle</i>	<i>Levies</i> ¹
<i>Annual Improvements 2011-2013 Cycle</i>	Amendments to a number of HKFRSs issued in January 2014 ²
HKFRS 14	Amendments to a number of HKFRSs issued in January 2014 ²
	<i>Regulatory Deferral Accounts</i> ³

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ Effective for annual periods beginning on or after 1 January 2016

⁴ No mandatory effective date yet determined but is available for adoption

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

- (a) HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(a) (Continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

(b) Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

- (c) The HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to set off” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SUBSIDIARIES

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 results of subsidiaries are included in the Company’s profit or loss to the extent of dividends received and receivable. The Company’s investments in subsidiaries are stated at cost less any accumulated impairment losses.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

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

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

The results of associates and joint ventures are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any accumulated impairment losses.

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*.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RELATED PARTIES

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUSINESS COMBINATIONS AND GOODWILL (Continued)

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 by 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 the statement of 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 that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUSINESS COMBINATIONS AND GOODWILL (Continued)

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 in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (Continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

FAIR VALUE MEASUREMENT

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAIR VALUE MEASUREMENT (Continued)

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.

INVESTMENT PROPERTIES

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENT PROPERTIES (Continued)

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 reserves 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.

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Non-current assets and disposal groups are 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 or disposal group 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 or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SERVICE CONCESSION ARRANGEMENTS

Consideration given by the grantor

A financial asset (receivable under 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 specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for "Investments and other financial assets" below.

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

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

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below. Costs relating to operating services are expensed in the period in which they are incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SERVICE CONCESSION ARRANGEMENTS (Continued)

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

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

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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

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

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

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

Operating concessions

Operating concessions represent the rights to operate an expressway and a toll road, sewage and water 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL) (Continued)

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 10 years.

Computer software

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

Research and development costs

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, goodwill, deferred tax assets, financial assets, inventories, amounts due from contract customers and non-current asset/disposal groups classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs 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 profit or loss in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS (Continued)

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

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

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

Financial assets at fair value through profit or loss are equity investments held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other operating expense in profit or loss. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy for "Other investment income" set out in "Revenue recognition" below.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)

Subsequent measurement (Continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate and transaction costs. The effective interest rate amortisation is included in "Revenue" or "Other income and gains, net", as appropriate, in profit or loss. The loss arising from impairment is recognised as other operating expenses in profit or loss.

(c) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments that are designated as available for sale. After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve, until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss as other income and gains or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the profit or loss as other operating expenses. Dividends earned whilst holding the available-for-sale financial investments are reported as investment income and are recognised as other income and gains in profit or loss in accordance with the policy set out in "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for these investments or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any accumulated impairment losses.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)

Impairment (Continued)

(a) Financial assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss as other operating expenses.

(b) Available-for-sale investments carried at fair value

For available-for-sale investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from the available-for-sale investment revaluation reserve and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss) is removed from the available-for-sale investment revaluation reserve and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in the available-for-sale investment revaluation reserve.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)

Impairment (Continued)

- (c) Available-for-sale investments carried at cost

If there is objective evidence that an impairment loss has been incurred on an unlisted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition

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

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

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

FINANCIAL LIABILITIES

Initial recognition and measurement

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES (Continued)

Subsequent measurement

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

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss represent conversion options of convertible bonds that exhibit characteristics of an embedded derivative. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(b) Loans and borrowings

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

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

Derecognition

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of best estimate of the expenditure required to settle the present obligation at the end of the reporting period and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

CONVERTIBLE BONDS

Convertible bonds containing an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component (conversion option).

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability or a current liability, as appropriate, on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option (the equity component) that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. In respect of the convertible bonds issued by the Company, the equity component is included in the Company's convertible bond equity reserve. In respect of the convertible bonds issued by a subsidiary, the equity component attributable to the Group is included in the consolidated capital reserve. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONVERTIBLE BONDS (Continued)

Convertible bonds containing an equity component (Continued)

Upon the exercise of the conversion options, the resulting shares issued are recorded by the relevant companies in the Group as additional share capital at the nominal value of the shares issued, and the excess of the total carrying amount of the liability and equity components of the convertible bonds over the nominal value of the shares issued is recorded in their respective share premium accounts. When convertible bonds are redeemed, the carrying amount of the equity component is transferred to retained profits as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognised in profit or loss. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits as a movement in reserves. No gain or loss is recognised in the statement of profit or loss upon conversion or expiration of the conversion option.

Convertible bonds containing a derivative component

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest rate method. The derivative component of the convertible bonds is measured at fair value with changes in fair value recognised in profit or loss. Upon the exercise of the conversion options, the resulting shares issued are recorded by the relevant entity in the Group as additional share capital at the nominal value of the shares issued, and the excess of the total carrying amount of the liability and derivative components of the convertible bonds over the nominal value of the shares issued is recorded in the entity's share premium account. When convertible bonds are redeemed, any difference between the amount paid and the total carrying amounts of the liability and derivative components is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OFFSETTING OF FINANCIAL INSTRUMENTS

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

PROPERTIES HELD FOR SALE

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

INVENTORIES

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

CONSTRUCTION CONTRACTS

Contract revenue comprises (i) the agreed contract amounts and appropriate amounts from variation orders, claims and incentive payments in respect of the construction services for comprehensive renovation projects and (ii) construction revenue recognised under Build-Operate-Transfer ("BOT") contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from the construction services for comprehensive renovation projects is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from the construction of waste power plants 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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONSTRUCTION CONTRACTS (Continued)

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

CONTRACTS FOR SERVICES

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

CASH AND CASH EQUIVALENTS

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROVISIONS

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

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

INCOME TAX

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or is deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation/amortisation charge.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT GRANTS (Continued)

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) toll revenue, on an accrual basis;
- (c) from construction contracts, on the percentage-of-completion basis, as further explained in the accounting policy for "Construction contracts" above;
- (d) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for "Contracts for services" above;
- (e) from licensing of technical know-how, when the related technique has been delivered and accepted;
- (f) rental income, on a time proportion basis over the lease terms; and
- (g) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a short period, when appropriate, to the net carrying amount of the financial asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SHARE-BASED PAYMENTS

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value of share options granted by the Company is determined by external valuers using the binomial lattice model.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SHARE-BASED PAYMENTS (Continued)

The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of earnings per share amounts.

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

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

OTHER EMPLOYEE BENEFITS

Pension schemes

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

For those employees that have not yet joined a pension scheme, the Group has accrued for the estimated future pension costs based on a percentage of their salaries. The related assets for the purpose of discharging such liabilities are not separately held from those of the Group.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER EMPLOYEE BENEFITS (Continued)

Other retirement benefits

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BORROWING COSTS

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

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

FOREIGN CURRENCIES

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCIES (Continued)

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

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

DIVIDENDS

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

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

ASSOCIATE

The Group regards Beijing Enterprises Water Group Limited ("BE Water", an entity listed on the Stock Exchange with its 45.33% equity interest held by the Group as at 31 December 2013) as an associate. In determining whether the Group has control over BE Water, the Group has taken into account its effective influence it may exercise over the decisions of BE Water's board of directors, including the voting rights held by the Group, the structure of the board of directors and senior management of BE Water and the expertise of directors designated by other shareholders. In the opinion of the directors, the Group did not have the sufficient ability to exercise power to control BE Water throughout the year ended 31 December 2013 and BE Water was accounted for as an associate in the Group's consolidated financial statements.

ESTIMATE OF GAS CONSUMPTION

Determination of the revenue for the distribution and sale of piped gas may include an estimation of the gas supplied to customers for whom actual metre reading is not available. The estimation is done mainly based on the past consumption records and the recent consumption pattern of individual customers.

In addition, with respect to the distribution and sale of piped gas, the Group recognises revenue from prepayments made by customers using integrated circuit cards ("IC card customers") upon their consumption of gas. The Group's management estimates the consumption of gas by IC card customers with reference to the average consumption volume of the customers for whom metre reading is available with similar consumption patterns.

The actual consumption could deviate from those estimates.

USEFUL LIVES AND RESIDUAL VALUES OF PROPERTY, PLANT AND EQUIPMENT

The Group's management determines the useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and hence depreciation in future periods.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

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 assets in the consolidated statement of financial position as at 31 December 2013 was HK\$7,659,735,000 (2012: HK\$7,549,326,000), details of which are set out in note 18 to the 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 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 or compensation to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2013 were HK\$38,996,767,000 (2012: HK\$32,805,468,000) and HK\$670,412,000 (2012: HK\$438,888,000), respectively, details of which are set out in notes 15, 19 and 20 to the financial statements.

IMPAIRMENT OF AVAILABLE-FOR-SALE INVESTMENTS

The Group follows the guidance of HKAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and the extent to which the estimated value of an investment is less than its cost; and the financial health of and the short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows. The carrying amount of available-for-sale investments carried as assets in the consolidated statement of financial position as at 31 December 2013 was HK\$1,315,859,000 (2012: HK\$883,170,000), details of which are set out in note 24 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

IMPAIRMENT OF RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS, TRADE AND BILLS RECEIVABLES AND OTHER RECEIVABLES

The Group's management determines the provision for impairment of receivables under service concession arrangements, trade and bills receivables and other receivables. This estimate is based on the evaluation of collectibility and aged analysis of accounts and on management's estimation in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been changed. The carrying amounts of receivables under service concession arrangements, trade and bills receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2013 were HK\$701,582,000 (2012: HK\$1,512,623,000), HK\$4,393,374,000 (2012: HK\$2,403,154,000) and HK\$4,819,293,000 (2012: HK\$4,170,262,000), respectively, details of which are set out in notes 19, 28 and 29 to the financial statements.

PROVISION AGAINST OBSOLETE AND SLOW-MOVING INVENTORIES

Management reviews the condition of inventories of the Group and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories carried as assets in the consolidated statement of financial position as at 31 December 2013 was HK\$5,661,492,000 (2012: HK\$5,913,959,000), details of which are set out in note 26 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

DEFINED BENEFIT PLANS

The present value of the retirement benefit obligations under the various defined benefit plans of the Group depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligations. Key assumptions for the obligations are based in part on the current market conditions. The carrying amount of the obligations carried as liabilities in the consolidated statement of financial position under defined benefit plans as at 31 December 2013 was HK\$545,705,000 (2012: HK\$515,965,000, as restated), details of which are disclosed in note 40 to the financial statements.

CURRENT TAX AND DEFERRED TAX

The Group is subject to income taxes in Hong Kong, Mainland China and overseas. The Group carefully evaluates tax implications of transactions in accordance with the prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of income tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2013 was HK\$378,319,000 (2012: HK\$504,624,000).

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried in the consolidated statement of financial position as at 31 December 2013 were HK\$601,056,000 (2012: HK\$552,926,000, as restated) and HK\$223,462,000 (2012: HK\$375,979,000), respectively, details of which are set out in note 43 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION

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

- (a) the piped gas operation segment engages in the distribution and sale of piped natural gas, the provision of natural gas transmission, gas technology consultation and development services, the surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repair and maintenance services;
- (b) the brewery operation segment produces, distributes and sells brewery products;
- (c) the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects in the PRC and Malaysia, sewage treatment, water treatment and distribution in the PRC and the Portuguese Republic, and the provision of consultancy services and the licensing of technical know-how that are related to sewage treatment in the PRC;
- (d) the expressway and toll road operations segment engages in the operation of the Capital Airport Expressway, which connects the Capital Airport and the city centre of Beijing (disposed of by the Group during the year ended 31 December 2012, details of which are set out in notes 6 and 47 to the financial statements), and the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC (which ceased operation during the year ended 31 December 2011, details of which are set out in note 19 (a)(ii) to the financial statements); and
- (e) the corporate and others segment comprises the construction of waste power plants, the construction of broadband infrastructure, the sale of software, the provision of Internet services and IT technical support and consultation services, property investment and corporate income and expense items.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION (Continued)

Group

Year ended 31 December 2013

	Piped gas operation HK\$'000	Brewery operation HK\$'000	Sewage and water treatment operations HK\$'000	Expressway and toll road operations HK\$'000	Corporate and others HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Segment revenue	25,159,146	16,836,952	-	-	364,430	-	42,360,528
Cost of sales	(21,953,351)	(11,821,943)	-	-	(248,021)	-	(34,023,315)
Gross profit	<u>3,205,795</u>	<u>5,015,009</u>	<u>-</u>	<u>-</u>	<u>116,409</u>	<u>-</u>	<u>8,337,213</u>
Profit from operating activities	1,706,754	1,376,690	-	-	614,277	-	3,697,721
Finance costs	(165,210)	(140,638)	-	-	(827,896)	-	(1,133,744)
Share of profits and losses of:							
Joint ventures	(5,561)	-	-	-	(286)	-	(5,847)
Associates	2,207,821	(2,899)	514,454	-	23,236	-	2,742,612
Profit/(loss) before tax	3,743,804	1,233,153	514,454	-	(190,669)	-	5,300,742
Income tax	(206,065)	(300,026)	-	-	(39,196)	-	(545,287)
Profit/(loss) for the year	<u>3,537,739</u>	<u>933,127</u>	<u>514,454</u>	<u>-</u>	<u>(229,865)</u>	<u>-</u>	<u>4,755,455</u>
Segment profit/(loss) attributable to shareholders of the Company	<u>3,520,112</u>	<u>357,986</u>	<u>514,454</u>	<u>-</u>	<u>(208,674)</u>	<u>-</u>	<u>4,183,878</u>
Segment assets	<u>64,223,753</u>	<u>24,934,992</u>	<u>9,492,533</u>	<u>541,531</u>	<u>14,332,614</u>	<u>(3,903,599)</u>	<u>109,621,824</u>
Segment liabilities	<u>19,444,955</u>	<u>9,424,766</u>	<u>766,389</u>	<u>232,646</u>	<u>19,588,588</u>	<u>(3,903,599)</u>	<u>45,553,745</u>
Other segment information:							
Interest income	31,968	27,129	-	-	118,825	-	177,922
Depreciation	1,187,761	1,037,450	130	-	14,805	-	2,240,146
Amortisation of operating concessions	-	-	-	-	7,483	-	7,483
Amortisation of other intangible assets	6,042	-	-	-	98	-	6,140
Impairment/provision/(reversal of impairment/provision) against segment assets, net *	(6,147)	4,927	-	-	45,473	-	44,253
Investments in joint ventures	205,364	-	-	-	11,986	-	217,350
Investments in associates	12,643,564	205,885	6,395,675	-	9,939,214	-	29,184,338
Capital expenditure **	4,473,865	1,904,833	38,923	-	250,486	-	6,668,107

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION (Continued)

Group (Continued)

Year ended 31 December 2012

	Piped gas operation HK\$'000 (Restated)	Brewery operation HK\$'000	Sewage and water treatment operations HK\$'000	Expressway and toll road operations HK\$'000	Corporate and others HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000 (Restated)
Segment revenue	20,644,716	14,442,726	185,549	150,022	146,636	-	35,569,649
Cost of sales	(17,974,593)	(9,942,636)	(4,841)	(213,293)	(72,241)	-	(28,207,604)
Gross profit	<u>2,670,123</u>	<u>4,500,090</u>	<u>180,708</u>	<u>(63,271)</u>	<u>74,395</u>	<u>-</u>	<u>7,362,045</u>
Profit/(loss) from operating activities	1,255,946	1,236,166***	184,384	(98,111)	523,831	-	3,102,216
Finance costs	(34,666)	(207,542)	(159)	(5,114)	(749,155)	-	(996,636)
Share of profits and losses of:							
Joint ventures	(343)	-	-	-	-	-	(343)
Associates	1,696,913	(1,553)	330,999	-	23,136	-	2,049,495
Profit/(loss) before tax	2,917,850	1,027,071	515,224	(103,225)	(202,188)	-	4,154,732
Income tax	(163,800)	(270,541)	(45,647)	(243)	(76,924)	-	(557,155)
Profit/(loss) for the year	<u>2,754,050</u>	<u>756,530</u>	<u>469,577</u>	<u>(103,468)</u>	<u>(279,112)</u>	<u>-</u>	<u>3,597,577</u>
Segment profit/(loss) attributable to shareholders of the Company	<u>2,752,436</u>	<u>348,860</u>	<u>469,577</u>	<u>(99,330)</u>	<u>(236,551)</u>	<u>-</u>	<u>3,234,992</u>
Segment assets	<u>44,511,225</u>	<u>23,973,359</u>	<u>7,032,770</u>	<u>1,991,483</u>	<u>16,262,690</u>	<u>(4,272,906)</u>	<u>89,498,621</u>
Segment liabilities	<u>13,604,124</u>	<u>10,949,960</u>	<u>1,002,626</u>	<u>539,759</u>	<u>20,007,383</u>	<u>(4,272,906)</u>	<u>41,830,946</u>
Other segment information:							
Interest income	40,891	24,433	189,036	13,527	168,618	-	436,505
Depreciation	814,466	964,540	1,672	10,939	8,715	-	1,800,332
Amortisation of operating concessions	-	-	-	52,810	-	-	52,810
Amortisation of other intangible assets	9,849	-	-	-	139	-	9,988
Impairment/provision/(reversal of impairment/provision) against segment assets, net *	(40,211)	7,916	-	19	142,251	-	109,975
Fair value gain on investment properties	-	-	-	-	14,282	-	14,282
Provision for major overhauls	-	-	-	42,933	-	-	42,933
Investments in joint ventures	136,706	-	-	-	-	-	136,706
Investments in associates	10,227,107	3,152	4,048,196	-	841,851	-	15,120,306
Capital expenditure **	<u>5,479,991</u>	<u>2,296,416</u>	<u>195</u>	<u>3,805</u>	<u>453,862</u>	<u>-</u>	<u>8,234,269</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION (Continued)

- * 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, trade and bills receivables and other receivables.
- ** Capital expenditure consists of additions of property, plant and equipment, operating concessions and other intangible assets, excluding assets from the acquisition of subsidiaries.
- *** The amount included a fair value gain on the derivative component of convertible bonds of HK\$13,973,000, which was wholly attributable to non-controlling shareholders of the relevant subsidiary company recognised during the year ended 31 December 2012 and therefore did not affect the profit attributable to shareholders of the Company for the year ended 31 December 2012.

GEOGRAPHICAL INFORMATION

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the assets of the Group are located in Mainland China. Accordingly, in the opinion of the directors, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

INFORMATION ABOUT MAJOR CUSTOMERS

During each of the years ended 31 December 2013 and 2012, none of the Group's individual customers contributed to 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents: (1) the aggregate of the invoiced value of goods sold, net of value-added tax, consumption tax and government surcharges, and after allowances for returns and trade discounts; (2) the aggregate of toll revenue, net of business tax; (3) an appropriate proportion of contract revenue of construction contracts and service contracts, net of value-added tax, business tax and government surcharges; and (4) the imputed interest income on receivables under service concession arrangements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

5. REVENUE, OTHER INCOME AND GAINS, NET (Continued)

An analysis of the Group's revenue, other income and gains, net is as follows:

	<i>Notes</i>	2013 HK\$'000	2012 HK\$'000
Revenue			
Piped gas operation		25,159,146	20,644,716
Brewery operation		16,836,952	14,442,726
Sewage and water treatment operations [§]		-	185,549
Expressway and toll road operations		-	150,022
Corporate and others		364,430	146,636
		42,360,528	35,569,649
Other income			
Bank interest income		177,922	253,779
Rental income		30,592	14,627
Service income		-	30,147
Government grants*		123,194	210,492
Transfer of assets from customers	15	127,172	131,601
Others		216,705	155,094
		675,585	795,740
Gains, net			
Fair value gain on investment properties	16	-	14,282
Fair value gain on the derivative component of convertible bonds	39	-	13,973
Gain on disposal of available-for-sale investments carried at fair value		106,200	52,938
Gain on transfer of receivables under a service concession arrangement [@]		47,087	-
Foreign exchange differences, net		79,227	20,548
		232,514	101,741
Other income and gains, net		908,099	897,481

NOTES TO FINANCIAL STATEMENTS

31 December 2013

5. REVENUE, OTHER INCOME AND GAINS, NET (Continued)

- § Imputed interest income of HK\$182,726,000 on receivables under service concession arrangements recognised during the year ended 31 December 2012 was included in the revenue derived from "Sewage and water treatment operations" disclosed above.
- * The government grants represented government subsidies, corporate income tax and turnover tax refunds. Turnover tax includes value-added tax, city construction tax and education surcharge. The government grants are unconditional, except for certain grants which must be utilised for the development of the Company's subsidiaries.
- ® The gain on transfer of receivables under a service concession arrangement arose from the transfer of the Future Income (as defined in note 33 to the financial statements) to BE Water during the year, details of which are set out in note 33 to the financial statements.

6. GAIN ON DISPOSAL OF INTERESTS IN SUBSIDIARIES, NET

The gain on disposal of interests in subsidiaries recognised during the year ended 31 December 2012 arose from the disposal of the Group's equity interest in Beijing Enterprises (Motorway) Limited ("BE Motorway", a wholly-owned subsidiary of the Company which holds a 96% equity interest in Beijing Capital Expressway Development Co., Ltd. ("Capital Expressway Company")). Details of the operations of Capital Expressway Company and the disposal transaction are set out in notes 19(a)(i) and 47 to the financial statements, respectively.

Details of the gain on disposal of interests in subsidiaries recognised during the year ended 31 December 2013 are set out in notes 33 and 47 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

7. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	2013 HK\$'000	2012 HK\$'000 (Restated)
Cost of inventories sold		33,755,633	27,902,611
Cost of services provided		260,199	252,183
Depreciation	15	2,240,146	1,800,332
Amortisation of prepaid land premiums	17	73,948	33,221
Amortisation of operating concessions*	19	7,483	52,810
Amortisation of computer software**	20	6,140	9,988
Research and development expenditure		88,742	15,664
Loss on early redemption of convertible bonds		-	30,663
Loss on disposal of items of property, plant and equipment, net		6,270	61,792
Minimum lease payments under operating leases:			
Land and buildings		231,839	170,620
Plant and machinery		-	2,098
		231,839	172,718
Auditors' remuneration		8,800	8,800
Employee benefit expense (including directors' remuneration – note 9):			
Salaries, allowances and benefits in kind		3,774,552	3,503,680
Net pension scheme contributions		512,401	427,732
Net benefit expense of defined benefit plans**	40	56,524	83,738
		4,343,477	4,015,150
Provision for major overhauls	41	-	42,933
Impairment of items of property, plant and equipment, net***	15	4,004	115,941
Reversal of impairment of trade and bills receivables, net	28(c)	(6,036)	(35,542)
Impairment of other receivables, net	29(c)	46,285	29,195
Net rental income on investment properties less direct operating expenses of HK\$15,271,000 (2012: HK\$12,986,000)		(28,618)	(14,262)

NOTES TO FINANCIAL STATEMENTS

31 December 2013

7. PROFIT FROM OPERATING ACTIVITIES (Continued)

- * The amortisation of operating concessions for the year is included in "Cost of sales" on the face of the consolidated statement of profit or loss.
- ** The amortisation of computer software and the net benefit expenses of defined benefit plans for the year are included in "Administrative expenses" on the face of the consolidated statement of profit or loss.
- *** The net impairment of items of property, plant and equipment for the year are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss.

8. FINANCE COSTS

		Group	
	<i>Notes</i>	2013	2012
		HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years		414,757	396,321
Interest on guaranteed senior notes		722,170	627,186
Interest on convertible bonds	39	37,889	64,819
Imputed interest on convertible bonds	39	3,532	3,481
		<hr/>	<hr/>
Total interest expense		1,178,348	1,091,807
Increase in discounted amounts of provision for major overhauls arising from the passage of time	41	-	5,004
		<hr/>	<hr/>
Total finance costs		1,178,348	1,096,811
Less: Interest included in construction in progress		(44,604)	(100,175)
		<hr/>	<hr/>
		1,133,744	996,636
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2013

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2013 HK\$'000	2012 HK\$'000
Fees	3,117	2,610
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	18,054	18,909
Pension scheme contributions	22	21
	18,076	18,930
	21,193	21,540

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 2013				
Executive directors:				
Mr. Wang Dong	173	3,910	-	4,083
Mr. Zhou Si	173	3,339	-	3,512
Mr. Zhang Honghai	173	2,845	-	3,018
Mr. Lin Fusheng	38	1,372	-	1,410
Mr. Li Fucheng	400	-	-	400
Mr. Hou Zibo	143	-	-	143
Mr. Liu Kai	143	-	-	143
Mr. Lei Zhengang	143	-	-	143
Mr. E Meng	143	2,375	-	2,518
Mr. Jiang Xinhao	143	2,375	-	2,518
Mr. Tam Chun Fai	143	1,838	22	2,003
	1,815	18,054	22	19,891
Non-executive director:				
Mr. Guo Pujin	150	-	-	150
	1,965	18,054	22	20,041

NOTES TO FINANCIAL STATEMENTS

31 December 2013

9. DIRECTORS' REMUNERATION (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Independent non-executive directors:				
Mr. Wu Jiesi	207	-	-	207
Mr. Robert A. Theleen	207	-	-	207
Mr. Lam Hoi Ham	207	-	-	207
Mr. Fu Tingmei	207	-	-	207
Mr. Sze Chi Ching	162	-	-	162
Mr. Shi Hanmin	162	-	-	162
	1,152	-	-	1,152
Total directors' remuneration	3,117	18,054	22	21,193

NOTES TO FINANCIAL STATEMENTS

31 December 2013

9. DIRECTORS' REMUNERATION (Continued)

Year ended	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
31 December 2012				
Executive directors:				
Mr. Wang Dong	150	3,690	–	3,840
Mr. Zhang Honghai	150	2,622	–	2,772
Mr. Lin Fusheng	150	3,283	–	3,433
Mr. Li Fucheng	400	–	–	400
Mr. Zhou Si	150	3,126	–	3,276
Mr. Hou Zibo	90	–	–	90
Mr. Guo Pujin	200	–	–	200
Mr. Liu Kai	120	–	–	120
Mr. Lei Zhengang	120	–	–	120
Mr. E Meng	120	2,211	–	2,331
Mr. Jiang Xinhao	120	2,211	–	2,331
Mr. Tam Chun Fai	120	1,766	21	1,907
	<u>1,890</u>	<u>18,909</u>	<u>21</u>	<u>20,820</u>
Independent non-executive directors:				
Mr. Wu Jiesi	180	–	–	180
Mr. Robert A. Theleen	180	–	–	180
Mr. Lam Hoi Ham	180	–	–	180
Mr. Fu Ting Mei	180	–	–	180
	<u>720</u>	<u>–</u>	<u>–</u>	<u>720</u>
Total directors' remuneration	<u>2,610</u>	<u>18,909</u>	<u>21</u>	<u>21,540</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during each of the years ended 31 December 2013 and 2012 are directors of the Company, details of whose remuneration for these years are set out in note 9 to the financial statements.

11. INCOME TAX

	Group	
	2013	2012
	HK\$'000	HK\$'000 (Restated)
Current – PRC:		
Mainland China	532,211	654,047
Underprovision in prior years	–	2,985
Deferred (<i>note 43</i>)	13,076	(99,877)
	<hr/>	<hr/>
Total tax expense for the year	545,287	557,155
	<hr/> <hr/>	<hr/> <hr/>

No provision for Hong Kong profits tax has been made for the year ended 31 December 2013 as the Group did not generate any assessable profits in Hong Kong during the year (2012: Nil). 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

11. 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:

Group – 2013

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	353,140		4,947,602		5,300,742	
Tax expense at the statutory tax rate	58,268	16.5	1,236,901	25.0	1,295,169	24.4
Lower tax rate for specific provinces or enacted by local authority	-	-	(483,149)	(9.8)	(483,149)	(9.1)
Profits and losses attributable to joint ventures and associates	(89,339)	(25.3)	(330,351)	(6.6)	(419,690)	(7.9)
Income not subject to tax	(129,670)	(36.7)	(81,931)	(1.7)	(211,601)	(4.0)
Expenses not deductible for tax	141,481	40.1	13,396	0.3	154,877	2.9
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	-	-	25,547	0.5	25,547	0.5
Tax losses not recognised as deferred tax assets	19,260	5.4	188,068	3.8	207,328	3.9
Tax losses utilised from previous periods	-	-	(23,194)	(0.5)	(23,194)	(0.4)
Tax expense at the Group's effective tax rate	-	-	545,287	11.0	545,287	10.3

NOTES TO FINANCIAL STATEMENTS

31 December 2013

11. INCOME TAX (Continued)

Group – 2012

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000 (Restated)	%	HK\$'000 (Restated)	%
Profit before tax	<u>487,280</u>		<u>3,667,452</u>		<u>4,154,732</u>	
Tax expense at the statutory tax rate	80,402	16.5	916,862	25.0	997,264	24.0
Lower tax rate for specific provinces or enacted by local authority	–	–	(457,935)	(12.5)	(457,935)	(11.0)
Adjustments in respect of current tax of previous periods	–	–	2,985	0.1	2,985	0.1
Profits and losses attributable to joint ventures and associates	(53,264)	(10.9)	(265,181)	(7.2)	(318,445)	(7.7)
Income not subject to tax	(166,693)	(34.2)	(34,825)	(0.9)	(201,518)	(4.9)
Expenses not deductible for tax	120,982	24.8	108,124	3.0	229,106	5.5
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	–	–	(12,730)	(0.3)	(12,730)	(0.3)
Effect of withholding tax on the disposal of interest in a PRC subsidiary	–	–	84,230	2.3	84,230	2.0
Tax losses not recognised as deferred tax assets	18,573	3.8	225,526	6.0	244,099	5.9
Tax losses utilised from previous periods	–	–	(9,901)	(0.3)	(9,901)	(0.2)
Tax expense at the Group's effective tax rate	<u>–</u>	<u>–</u>	<u>557,155</u>	<u>15.2</u>	<u>557,155</u>	<u>13.4</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2013

12. PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2013 includes a profit of HK\$149,480,000 (2012: HK\$787,247,000) which has been dealt with in the financial statements of the Company.

A reconciliation of the amount of consolidated profit for the year attributable to shareholders of the Company dealt with in the financial statements of the Company to the Company's profit for the year is as follows:

	2013	2012
	HK\$'000	HK\$'000
Amount of consolidated profit for the year attributable to shareholders of the Company dealt with in the financial statements of the Company	149,480	787,247
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and payable during the year	615,390	–
Company's profit for the year (<i>note 36(b)</i>)	764,870	787,247

13. DIVIDENDS

	2013	2012
	HK\$'000	HK\$'000
Interim – HK\$0.25 (2012: HK\$0.25) per ordinary share	291,658	284,393
Proposed final – HK\$0.60 (2012: HK\$0.50) per ordinary share	763,695	572,286
	1,055,353	856,679

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount for the year is based on the profit for the year attributable to shareholders of the Company, adjusted to reflect the effect of the deemed conversion of all dilutive convertible bonds of the Group at the beginning of the year, and the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed conversion of those convertible bonds of the Group which are convertible into ordinary shares of the Company at the beginning of the year.

The calculation of the basic and diluted earnings per share amounts is based on the following data:

	2013 HK\$'000	2012 HK\$'000 (Restated)
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	4,183,878	3,234,992
Interest expense for the year relating to the liability component of the dilutive convertible bonds of the Group	35,932	62,844
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	4,219,810	3,297,836

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (Continued)

	2013	2012
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	1,160,128,990	1,137,571,000
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	30,935,982	50,000,000
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	<u>1,191,064,972</u>	<u>1,187,571,000</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2013

15. PROPERTY, PLANT AND EQUIPMENT

Group

		Leasehold	Gas	Gas metres	Furniture,	Motor	Construction	Total
	Land and	improve-	Gas	plant and	and office	vehicles	in progress	
Notes	buildings	ments	pipelines	machinery	equipment			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(notes (a) and (b))						(note (c))	
Year ended 31 December 2013								
At 1 January 2013:								
Cost	9,169,940	23,044	13,750,650	14,469,404	731,023	692,293	6,409,963	45,246,317
Accumulated depreciation and impairment	(1,790,080)	(10,534)	(2,321,283)	(7,378,661)	(453,260)	(340,997)	(146,034)	(12,440,849)
Net carrying amount	<u>7,379,860</u>	<u>12,510</u>	<u>11,429,367</u>	<u>7,090,743</u>	<u>277,763</u>	<u>351,296</u>	<u>6,263,929</u>	<u>32,805,468</u>
Net carrying amount:								
At 1 January 2013	7,379,860	12,510	11,429,367	7,090,743	277,763	351,296	6,263,929	32,805,468
Acquisition of subsidiaries	46 17,538	-	86,321	23,022	15,716	13,303	825,686	981,586
Additions	252,692	-	144,213	266,221	122,119	117,179	5,553,485	6,455,909
Transfer of assets from customers	5 -	-	63,002	64,170	-	-	-	127,172
Transfer from construction in progress	1,860,113	-	1,959,989	1,692,011	18,847	10,909	(5,541,869)	-
Depreciation provided during the year	(336,423)	(2,522)	(740,181)	(1,027,528)	(73,129)	(60,363)	-	(2,240,146)
Impairment during the year recognised in profit or loss	-	-	-	-	(4,004)	-	-	(4,004)
Transfer of assets from property held for sale	28,511	-	-	-	-	-	-	28,511
Disposal of subsidiaries	-	-	-	(395,444)	-	(3,279)	(31,796)	(430,519)
Disposals	(5,995)	-	(33)	(14,872)	(348)	(15,062)	-	(36,310)
Reclassification	10,487	-	(2,338)	2,216	(10,228)	(137)	-	-
Exchange realignment	306,910	191	458,962	280,730	11,565	14,304	236,438	1,309,100
At 31 December 2013	<u>9,513,693</u>	<u>10,179</u>	<u>13,399,302</u>	<u>7,981,269</u>	<u>358,301</u>	<u>428,150</u>	<u>7,305,873</u>	<u>38,996,767</u>
At 31 December 2012:								
Cost	11,716,565	23,619	16,575,183	16,575,984	912,275	845,136	7,457,100	54,105,862
Accumulated depreciation and impairment	(2,202,872)	(13,440)	(3,175,881)	(8,594,715)	(553,974)	(416,986)	(151,227)	(15,109,095)
Net carrying amount	<u>9,513,693</u>	<u>10,179</u>	<u>13,399,302</u>	<u>7,981,269</u>	<u>358,301</u>	<u>428,150</u>	<u>7,305,873</u>	<u>38,996,767</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2013

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

Notes	Land and buildings HK\$'000 (notes (a) and (b))	Leasehold improvements HK\$'000	Gas pipelines HK\$'000	Gas metres and other plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000 (note (c))	Total HK\$'000
Year ended 31 December 2012								
At 1 January 2012:								
Cost	8,663,490	23,017	11,225,971	12,654,051	692,846	636,472	3,385,429	37,281,276
Accumulated depreciation and impairment	(1,673,133)	(7,975)	(1,905,493)	(6,516,251)	(429,564)	(285,642)	(146,034)	(10,964,092)
Net carrying amount	<u>6,990,357</u>	<u>15,042</u>	<u>9,320,478</u>	<u>6,137,800</u>	<u>263,282</u>	<u>350,830</u>	<u>3,239,395</u>	<u>26,317,184</u>
Net carrying amount:								
At 1 January 2012	6,990,357	15,042	9,320,478	6,137,800	263,282	350,830	3,239,395	26,317,184
Acquisition of subsidiaries	46 87,423	-	16,569	126,778	235	23,249	4,440	258,694
Additions	188,042	27	32,425	402,230	62,143	68,170	7,475,275	8,228,312
Transfer of assets from customers	5 -	-	91,048	40,553	-	-	-	131,601
Transfer from construction in progress	595,991	-	2,382,302	1,331,963	11,962	1,991	(4,324,209)	-
Transfer from/(to) investment properties	16 54,127	-	-	-	-	-	(14,037)	40,090
Transfer to property held for sale	-	-	-	-	-	-	(900)	(900)
Transfer to assets of disposal groups held for sale	33 (7,179)	-	-	(7,360)	(46)	(315)	-	(14,900)
Depreciation provided during the year	(239,299)	(2,559)	(415,396)	(999,663)	(56,259)	(87,156)	-	(1,800,332)
Impairment during the year recognised in profit or loss	-	-	-	-	-	-	(115,941)	(115,941)
Disposal of subsidiaries	47 (90,137)	-	-	(21,729)	(3,579)	(3,386)	(94)	(118,925)
Disposals	(40,051)	-	(379)	(75,654)	(290)	(3,041)	-	(119,415)
Reclassification	(159,414)	-	2,320	155,825	315	954	-	-
At 31 December 2012	<u>7,379,860</u>	<u>12,510</u>	<u>11,429,367</u>	<u>7,090,743</u>	<u>277,763</u>	<u>351,296</u>	<u>6,263,929</u>	<u>32,805,468</u>
At 31 December 2012:								
Cost	9,169,940	23,044	13,750,650	14,469,404	731,023	692,293	6,409,963	45,246,317
Accumulated depreciation and impairment	(1,790,080)	(10,534)	(2,321,283)	(7,378,661)	(453,260)	(340,997)	(146,034)	(12,440,849)
Net carrying amount	<u>7,379,860</u>	<u>12,510</u>	<u>11,429,367</u>	<u>7,090,743</u>	<u>277,763</u>	<u>351,296</u>	<u>6,263,929</u>	<u>32,805,468</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2013

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Year ended 31 December 2013			
At 1 January 2013:			
Cost	9,989	4,192	14,181
Accumulated depreciation	(2,664)	(1,981)	(4,645)
Net carrying amount	7,325	2,211	9,536
Net carrying amount:			
At 1 January 2013	7,325	2,211	9,536
Depreciation provided during the year	(1,998)	(659)	(2,657)
At 31 December 2013	5,327	1,552	6,879
At 31 December 2013:			
Cost	9,989	4,192	14,181
Accumulated depreciation	(4,662)	(2,640)	(7,302)
Net carrying amount	5,327	1,552	6,879
Year ended 31 December 2012			
At 1 January 2012:			
Cost	9,989	4,192	14,181
Accumulated depreciation	(666)	(1,143)	(1,809)
Net carrying amount	9,323	3,049	12,372
Net carrying amount:			
At 1 January 2012	9,323	3,049	12,372
Depreciation provided during the year	(1,998)	(838)	(2,836)
At 31 December 2012	7,325	2,211	9,536
At 31 December 2012:			
Cost	9,989	4,192	14,181
Accumulated depreciation	(2,664)	(1,981)	(4,645)
Net carrying amount	7,325	2,211	9,536

NOTES TO FINANCIAL STATEMENTS

31 December 2013

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

- (a) Land and buildings of the Group included above as at 31 December 2013 and 2012 are held under the following lease terms:

Group

	2013			2012		
	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Cost:						
Long term leases	23,313	-	23,313	23,313	-	23,313
Medium term leases	-	11,693,252	11,693,252	-	9,146,627	9,146,627
	23,313	11,693,252	11,716,565	23,313	9,146,627	9,169,940

- (b) At 31 December 2013, a building of the Group situated in Mainland China with a net carrying amount of HK\$27,203,000 (2012: HK\$27,000,000) was pledged to secure a bank loan granted to the Group (note 37(d)(i)).
- (c) During the year ended 31 December 2012, impairments of RMB93,912,000 (equivalent to HK\$115,941,000, at the then exchange rate) were recognised in profit or loss on certain construction in progress of a PRC subsidiary for the production of concentrating photovoltaic modules, in view of the downturn of the solar power generation industry. The assets impaired were reported in the corporate and others segment, which is set out in note 4 to the financial statements.

16. INVESTMENT PROPERTIES

	Notes	Group		Company	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Carrying amount at 1 January		665,144	681,096	56,914	49,136
Acquisition of a subsidiary	46	45,812	41,604	-	-
Transfer to property, plant and equipment, net	15	-	(40,090)	-	-
Transfer to prepaid land premiums	17	-	(31,748)	-	-
Fair value gain on revaluation	5	-	14,282	-	7,778
Exchange realignment		9,012	-	-	-
Carrying amount at 31 December		719,968	665,144	56,914	56,914

NOTES TO FINANCIAL STATEMENTS

31 December 2013

16. INVESTMENT PROPERTIES (Continued)

Notes:

- (a) The investment properties are leased to third parties under operating leases, further summary details of which are included in note 50(a) to the financial statements.
- (b) The investment properties of the Group as at 31 December 2013 and 2012 are held under the following lease terms:

Group

	2013			2012		
	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Long term leases	21,550	-	21,550	21,550	-	21,550
Medium term leases	-	698,418	698,418	-	643,594	643,594
	21,550	698,418	719,968	21,550	643,594	665,144

The Company's investment property is situated in Mainland China and held under a medium term lease.

- (c) At 31 December 2013, the investment properties were revalued based on valuations performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, using the direct comparison approach or income approach. In the opinion of the directors, no fair value gain was recognised on the Group's investment properties during the year ended 31 December 2013 as the fair value movement of the Group's investment properties was insignificant during the year.
- (d) Each year, the Group's chief financial officer decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's chief financial officer has discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

Fair value hierarchy disclosure

The fair value 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. 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, since the financial impact of the Group's investment properties on the financial statements is insignificant, information in respect of the valuation techniques used and key inputs to the valuation of investment properties is not disclosed in the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

17. PREPAID LAND PREMIUMS

		Group	
	<i>Notes</i>	2013 HK\$'000	2012 HK\$'000
Carrying amount at 1 January		1,683,837	1,305,429
Acquisition of subsidiaries	46	32,835	22,298
Additions		130,486	357,583
Transfer from investment properties	16	-	31,748
Amortisation provided during the year		(73,948)	(33,221)
Exchange realignment		65,908	-
		<hr/> 1,839,118	<hr/> 1,683,837
Carrying amount at 31 December		1,839,118	1,683,837
Portion classified as current assets		(53,509)	(43,643)
		<hr/> 1,785,609	<hr/> 1,640,194
Non-current portion		1,785,609	1,640,194

All leasehold lands of the Group as at 31 December 2013 are situated in Mainland China and held under medium term leases.

18. GOODWILL

		Group	
		2013 HK\$'000	2012 HK\$'000
Cost and net carrying amount:			
At 1 January		7,549,326	7,453,561
Acquisition of subsidiaries (<i>note 46</i>)		83,184	95,765
Exchange realignment		27,225	-
		<hr/> 7,659,735	<hr/> 7,549,326
At 31 December		7,659,735	7,549,326

NOTES TO FINANCIAL STATEMENTS

31 December 2013

18. GOODWILL (Continued)

IMPAIRMENT TESTING OF GOODWILL

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

		Group	
		2013	2012
	<i>Notes</i>	HK\$'000	HK\$'000
Piped gas operation	<i>(i)</i>	7,029,625	7,022,337
Brewery operation	<i>(ii)</i>	518,138	498,948
Others		111,972	28,041
		7,659,735	7,549,326

- (i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by CB Richard Ellis Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections for the first five-year period is 10.63% (2012: 11%), which is determined by reference to the average rates for similar industry and the business risk of the relevant business unit. A growth rate of 3% (2012: 3%) is used for the perpetual period.
- (ii) Goodwill attributable to the brewery operation mainly arose from the Group's investments in Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), the recoverable amount of which was determined on the fair value less costs 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 2013.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2013 (2012: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

18. GOODWILL (Continued)

IMPAIRMENT TESTING OF GOODWILL (Continued)

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 attributable to the piped gas operation:

- Budgeted turnover

The budgeted turnover is based on projected piped gas sales volume.

- Budgeted gross margins

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

- Discount rate

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

- Business environment

- There will be no major changes in the existing political, legal and economic conditions in Mainland China and other locations in which the assessed entity carried on its business.
- As the gas supply network has already been set up in most urban areas in Beijing, where the Group's piped gas operation is located, and due to the high degree of idiosyncratic features of the gas supply business, the high construction and fixed costs in establishing another gas supply network in these urban districts in Beijing are too huge for other operators to enter these regions. Therefore, in the opinion of the directors, the Group's piped gas operation can generate income perpetually.

NOTES TO FINANCIAL STATEMENTS

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19. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into certain service concession arrangements with certain governmental authorities in Mainland China on a Build-Operate-Transfer ("BOT") or a Transfer-Operate-Transfer ("TOT") basis in respect of its expressway and toll road operations, sewage and water treatment operations and solid waste treatment operations. These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 30 years (the "service concession periods"), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to, where appropriate, use all the property, plant and equipment of the infrastructures, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the infrastructures, and retain the beneficial entitlement to any residual interest in the infrastructures at the end of the term of the service concession periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the infrastructures to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes. The accounting policies in respect of the classification of the service concession arrangements between intangible assets (operating concessions) and financial assets (receivables under service concession arrangements) are set out under the heading of "Service concession arrangements" in note 2.4 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

19. SERVICE CONCESSION ARRANGEMENTS (Continued)

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

OPERATING CONCESSIONS

	Group	
	2013	2012
	HK\$'000	HK\$'000
	<i>(note (a))</i>	<i>(note (a))</i>
At 1 January:		
Cost	1,777,107	2,529,816
Accumulated amortisation	(1,357,869)	(1,304,805)
	419,238	1,225,011
Net carrying amount	419,238	1,225,011
Net carrying amount:		
At 1 January	419,238	1,225,011
Additions	176,154	–
Amortisation provided during the year	(7,483)	(52,810)
Disposal of a subsidiary <i>(note 47)</i>	–	(752,963)
Exchange realignment	18,383	–
At 31 December	606,292	419,238
At 31 December:		
Cost	2,023,997	1,777,107
Accumulated amortisation	(1,417,705)	(1,357,869)
Net carrying amount	606,292	419,238

NOTES TO FINANCIAL STATEMENTS

31 December 2013

19. SERVICE CONCESSION ARRANGEMENTS (Continued)

RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

	Group	
	2013	2012
	HK\$'000	HK\$'000
Receivables under service concession arrangements wholly attributable to sewage and water treatment operations (<i>notes (b) and (c)</i>)	701,582	1,512,623
Portion classified as current assets	(701,582)	(1,007,375)
	<hr/>	<hr/>
Non-current portion	-	505,248
	<hr/> <hr/>	<hr/> <hr/>

Notes:

(a) The operating concessions of the Group are mainly attributable to expressway (disposed of during the year ended 31 December 2012) and toll road operations and details of the service concession arrangements are as follows:

- (i) In connection with a group reorganisation undertaken by the Group prior to the listing of the Company's shares on the Main Board of the Stock Exchange in 1997, Capital Expressway Company (a then 96% indirectly-owned subsidiary of the Company) was established in the PRC with an initial term of 30 years commencing on 13 March 1997. Pursuant to the approval documents issued by the Beijing Municipal Government in March and April 1997, the right to operate the Capital Airport Expressway and the right to use the land on which the Capital Airport Expressway is adhered for a period of 30 years commencing on 1 January 1997 were injected into Capital Expressway Company as part of the capital contributions from one of its equity holders.

During the year ended 31 December 2012, the entire equity interest of Capital Expressway Company was disposed of by the Group, details of which are disclosed in notes 6 and 47 to the financial statements.

- (ii) Pursuant to a co-operative joint venture agreement dated 18 July 2001 entered into between Hong Kong Zhong Ji Facility Investment Co., Ltd., a 96.5% indirectly-owned subsidiary of the Company, and 深圳市石觀公路有限公司 ("Shiguan Road Limited") for the establishment of Shenzhen Guanshun Road & Bridge Co., Ltd. ("Shenzhen Guanshun", a 53.08% indirectly-owned subsidiary of the Company), and as approved by the relevant government authorities, Shiguan Road Limited transferred to Shenzhen Guanshun at a total consideration of RMB652 million an operating right to operate the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC, for a period of 20 years commencing on 12 April 2002.

The Group was ordered by the Shenzhen Municipal Government to stop charging the public for the use of the Shenzhen Shiguan Road and Bridge operated by Shenzhen Guanshun by 31 December 2011.

The Group is currently negotiating with relevant government authorities in Shenzhen to work out a scheme relating to severance, compensation and all other matters to prepare for the cessation of the toll road operation of Shenzhen Guanshun, however, no concrete detail of the scheme has been reached as at the date of approval of these financial statements. In the opinion of the directors, no impairment provision against the operating concession in respect of the Shenzhen Shiguan Road and Bridge is considered necessary as at 31 December 2013 (2012: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

19. SERVICE CONCESSION ARRANGEMENTS (Continued)

Notes: (Continued)

- (b) Details of the Group's sewage and water treatment operations under service concession arrangements are as follows:

Pursuant to a concession agreement (the "Concession Agreement") dated 13 July 1998 entered into between the Company and 北京市自來水集團有限責任公司 ("Beijing Water"), the Company acquired at a consideration of RMB1.5 billion an operating right from Beijing Water to operate a water purification and treatment plant, No. 9 Phase I, in Beijing (the "No. 9 Water Plant") and sell purified water, for a period of 20 years commencing on 24 November 1998. Beijing Water had guaranteed the Company a net cash inflow of RMB210 million from the water purification and treatment business for each of the years in the concession period. The concession right so granted was subsequently transferred by the Company to Beijing Bei Kong Water Production Co., Ltd., a wholly-owned subsidiary set up by the Company for the purpose of holding this concession right and engaging in the water purification and treatment operations.

Pursuant to a supplemental agreement entered into between Beijing Water and the Company in April 2011, commencing on 1 January 2011, the water purification and treatment income receivable by the Group would be determined based on the actual water purification and treatment volume, subject to a minimum volume guaranteed by Beijing Water. In the opinion of the directors, as a result of the revised arrangement, the estimated net cash inflow receivable by the Group under this service concession arrangement was decreased to RMB190 million for each of the remaining years in the concession period.

As detailed in note 33 to the financial statements, pursuant to the Master Agreement (as defined in note 33), the Group agreed to pay any amount so received as water purification fee under the Concession Agreement to BE Water, an associate of the Group, after deducting all state and local taxes in Mainland China and operating costs in respect of the operation of the No.9 Water Plant commencing from 1 January 2013 to 31 December 2018. Accordingly, the carrying amount of the Future Income (as defined in note 33) receivable by the Group under the Concession Agreement as at 31 December 2012 had been classified as a non-current asset held for sale in the consolidated statement of financial position and was derecognised by the Group upon the completion of the transaction in February 2013.

The amount of HK\$701,582,000 (2012: HK\$1,007,375,000) included in the current portion of "Receivables under service concession arrangements" as at 31 December 2013 represented the outstanding water purification fee receivable by the Company from Beijing Water prior to the transfer of the Future Income to BE Water.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

19. SERVICE CONCESSION ARRANGEMENTS (Continued)

Notes: (Continued)

- (c) In respect of the Group's receivables under service concession arrangements, aged analyses of receivables under service concession arrangements are closely monitored in order to minimise any credit risk associated with the receivables.

An aged analysis of receivables under service concession arrangements as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Billed:		
Within one year	-	327,484
One to two years	358,585	1,685
Two to three years	342,997	372,102
Over three years	-	306,104
	701,582	1,007,375
Unbilled	-	505,248
	701,582	1,512,623

An aged analysis of the billed receivables under service concession arrangements that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Less than one year past due	-	327,484
One to two years past due	358,585	1,685
Two to three years past due	342,997	372,102
Over three years past due	-	306,104
	701,582	1,007,375

The above receivables were due from Beijing Water as grantor in respect of the No.9 Water Plant under a service concession arrangement. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO FINANCIAL STATEMENTS

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20. OTHER INTANGIBLE ASSETS

Group

	Patents HK\$'000	Computer software HK\$'000	Total HK\$'000
Year ended 31 December 2013			
At 1 January 2013:			
Cost	-	48,800	48,800
Accumulated amortisation	-	(29,150)	(29,150)
Net carrying amount	-	19,650	19,650
Net carrying amount:			
At 1 January 2013	-	19,650	19,650
Acquisition of a subsidiary (note 46)	-	9,265	9,265
Additions	-	36,044	36,044
Amortisation provided during the year	-	(6,140)	(6,140)
Exchange alignment	-	5,301	5,301
At 31 December 2013	-	64,120	64,120
At 31 December 2013:			
Cost	-	127,540	127,540
Accumulated amortisation	-	(63,420)	(63,420)
Net carrying amount	-	64,120	64,120
Year ended 31 December 2012			
At 1 January 2012:			
Cost	6,793	76,607	83,400
Accumulated amortisation and impairment	(6,793)	(52,926)	(59,719)
Net carrying amount	-	23,681	23,681
Net carrying amount:			
At 1 January 2012	-	23,681	23,681
Additions	-	5,957	5,957
Amortisation provided during the year	-	(9,988)	(9,988)
At 31 December 2012	-	19,650	19,650
At 31 December 2012:			
Cost	-	48,800	48,800
Accumulated amortisation	-	(29,150)	(29,150)
Net carrying amount	-	19,650	19,650

NOTES TO FINANCIAL STATEMENTS

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21. INTERESTS IN SUBSIDIARIES

		Company	
		2013	2012
	<i>Notes</i>	HK\$'000	HK\$'000
Investments in subsidiaries, included in non-current assets:			
Unlisted shares or investments, at cost		20,129,953	19,411,644
Due from subsidiaries	<i>(a)</i>	28,229,096	15,990,472
Impairment of unlisted shares or investments	<i>(b)</i>	(89,789)	(89,789)
Impairment of amounts due from subsidiaries	<i>(c)</i>	(214,547)	(214,547)
		48,054,713	35,097,780
Due to subsidiaries, included in non-current liabilities	<i>(a)</i>	(15,643,971)	(16,429,658)
Total interests in subsidiaries		32,410,742	18,668,122

Notes:

(a) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts due from subsidiaries are considered as quasi-equity loans to the subsidiaries.

The amounts due to subsidiaries are unsecured, interest-free and are expected to be repayable after one year.

(b) An impairment was recognised for certain unlisted shares or investments with an aggregate carrying amount of HK\$197,000,000 (before deducting the impairment loss) (2012: HK\$197,000,000) as at the end of the reporting period because these subsidiaries have been loss-making for some time.

(c) There was no movement in the provision for impairment of amounts due from subsidiaries during the years ended 31 December 2013 and 2012.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

21. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(d) Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
北京市燃氣集團有限責任公司 ("Beijing Gas") ^a	PRC/Mainland China	RMB3,983,630,000	-	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	-	80	Investment holding
Beijing Yanjing Brewery Company Limited *	PRC/Mainland China	RMB2,808,451,958	-	45.97 [†]	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan") [#]	PRC/Mainland China	RMB250,000,000	-	23.00 [†]	Production and sale of beer
燕京啤酒(包頭雪鹿) 股份有限公司	PRC/ Mainland China	RMB547,300,000	-	39.56 [†]	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	-	34.83 [†]	Production and sale of beer
燕京啤酒(桂林玉林) 股份有限公司	PRC/Mainland China	RMB430,000,000	-	35.29 [†]	Production and sale of beer
燕京啤酒(赤峰)有限責任公司	PRC/Mainland China	RMB367,110,200	-	41.84 [†]	Production and sale of beer
燕京啤酒(新疆)有限責任公司	PRC/Mainland China	RMB742,450,000	-	45.99 [†]	Production and sale of beer
燕京啤酒(衡陽)有限公司	PRC/Mainland China	RMB525,660,000	-	44.31 [†]	Production and sale of beer
燕京啤酒(萊州)有限公司	PRC/Mainland China	RMB187,053,800	-	69.00	Production and sale of beer
燕京啤酒(仙桃)有限公司	PRC/Mainland China	RMB292,353,000	-	45.99 [†]	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	-	80.00	Production and sale of beer
燕京啤酒(四川)有限公司	PRC/Mainland China	RMB480,000,000	-	45.89 [†]	Production and sale of beer
燕京啤酒(晉中)有限公司	PRC/Mainland China	RMB250,000,000	-	45.99 [†]	Production and sale of beer
廣東燕京啤酒有限公司	PRC/Mainland China	RMB809,880,000	-	59.49	Production and sale of beer
新疆燕京農產品開發有限公司	PRC/Mainland China	RMB230,000,000	-	45.99 [†]	Production and sale of raw materials
Beijing Development (Hong Kong) Limited ("Beijing Development") [∆]	Hong Kong	HK\$854,960,000	1.73	54.68	System integration and provision of information technology technical support and consultation services

NOTES TO FINANCIAL STATEMENTS

31 December 2013

21. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(d) (Continued)

- ° This entity is registered as a wholly-foreign-owned enterprise under PRC law.
- † These entities are accounted for as subsidiaries by virtue of the Company's control over them through non-wholly owned subsidiaries.
- * Shares of Yanjing Brewery are listed on the Shenzhen Stock Exchange.
- # Shares of Yanjing Huiquan are listed on the Shanghai Stock Exchange.
- Ω Shares of Beijing Development are listed on the Main Board of the Stock Exchange.

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

(e) Material non-wholly owned subsidiary disclosure

Details of Yanjing Investment (a 80% indirectly-owned subsidiary which holds 57.48% equity interests in Yanjing Brewery, shares of which are listed on the Shenzhen Stock Exchange) and its subsidiaries (collectively the "Yanjing Investment Group") that have material non-controlling interests are set out below:

	2013	2012
Percentage of equity interest held by non-controlling interests	20%	20%
	2013	2012
	HK\$'000	HK\$'000
Profit for the year allocated to non-controlling interests	575,141	407,670
Dividends paid to non-controlling interests of the Yanjing Investment Group	299,457	311,767
Accumulated balances of non-controlling interests at the reporting dates	9,223,926	7,679,770

NOTES TO FINANCIAL STATEMENTS

31 December 2013

21. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(e) Material non-wholly owned subsidiary disclosure (Continued)

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

	2013	2012
	HK\$'000	HK\$'000
Revenue	16,836,952	14,442,726
Total expenses	(15,903,825)	(13,686,196)
Profit for the year	933,127	756,530
Total comprehensive income for the year	870,325	749,016
Current assets	8,494,418	8,995,138
Non-current assets	16,440,574	14,978,221
Current liabilities	(9,300,971)	(10,605,027)
Non-current liabilities	(123,795)	(344,933)
Net cash flows from operating activities	3,551,872	1,682,843
Net cash flows used in investing activities	(1,882,285)	(2,212,078)
Net cash flows from/(used in) in financing activities	(1,849,070)	1,540,539
Net increase/(decrease) in cash and cash equivalents	(179,483)	1,011,304

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

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22. INTERESTS IN JOINT VENTURES

	Notes	Group		Company	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Investments in joint ventures, included in non-current assets:					
Share of net assets	(b)	217,350	134,125	-	-
Due from joint ventures	(c)	-	2,581	-	2,581
		217,350	136,706	-	2,581
Due from joint ventures, included in current assets	29	53,559	-	-	-
Total interests in joint ventures		270,909	136,706	-	2,581

Notes:

(a) Particulars of the principal joint ventures, which are all indirectly held by the Company, are as follows:

Company name	Place of registration and business	Nominal value of registered capital	Percentage of			Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing	
烏審旗京騰天然氣有限公司	PRC/Mainland China	RMB99,000,000	49	49	49	Sale of natural gas
北京中石化北燃清潔能源 科技有限公司	PRC/Mainland China	RMB98,000,000	50	50	50	Sale of natural gas
北京華電北燃能源有限公司	PRC/Mainland China	RMB50,000,000	40	40	40	Supply of electricity

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

NOTES TO FINANCIAL STATEMENTS

31 December 2013

22. INTERESTS IN JOINT VENTURES (Continued)

Notes: (Continued)

- (b) The following tables illustrate the aggregate financial information of the Group's joint ventures, which are not individually material:

	2013	2012
	HK\$'000	HK\$'000
Share of the joint ventures' assets and liabilities		
Non-current assets	286,563	94,938
Current assets	144,398	74,522
Non-current liabilities	(53,895)	(134)
Current liabilities	(159,716)	(35,201)
	<hr/>	<hr/>
Net assets	217,350	134,125
	<hr/> <hr/>	<hr/> <hr/>
Share of the joint ventures' results		
Loss for the year and total comprehensive loss for the year	(5,847)	(343)
	<hr/> <hr/>	<hr/> <hr/>
Aggregate carrying amount of the Group's investments in the joint ventures	217,350	136,706
	<hr/> <hr/>	<hr/> <hr/>

- (c) The amounts due from joint ventures are unsecured, interest-free and have no fixed terms of repayment.

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23. INTERESTS IN ASSOCIATES

	Notes	Group		Company	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Investments in associates, included in non-current assets:					
Unlisted shares, at cost		-	-	106,128	46,168
Shares listed in Hong Kong, at cost		-	-	-	46,814
Share of net assets	(b)	21,611,585	13,262,789	-	59,960
Investment deposits		975,467	1,490,154	-	-
Due from/(to) associates	(c)	(1,745)	303	192	303
Goodwill on acquisition	(d)	6,599,031	367,060	-	-
		29,184,338	15,120,306	106,320	153,245
Dividend receivable from an associate, included in current assets	29	695,538	843,733	-	-
Total interests in associates		29,879,876	15,964,039	106,320	153,245

Notes:

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

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Percentage of			Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing	
中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas")	PRC/Mainland China	RMB10,240,000,000	40	40	40	Provision of natural gas transmission services
China Gas Holdings Limited ^a ("China Gas")	Bermuda/Hong Kong	HK\$49,888,846	21.13	21.13	21.13	Distribution and sale of piped natural gas, sale of liquefied petroleum gas; and gas connection
Beijing Enterprises Water Group Limited ^a	Bermuda/Hong Kong	HK\$843,598,132	45.33	45.33	45.33	Sewage treatment, reclaimed water treatment, water distribution and construction services

NOTES TO FINANCIAL STATEMENTS

31 December 2013

23. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

(a) (Continued)

- Ω Shares of China Gas are listed on the Main Board of the Stock Exchange. The market value of the shares of China Gas held by the Group as at 31 December 2013, based on its then published price quotation, amounted to approximately HK\$12,016,605,000.
- π Shares of BE Water are listed on the Main Board of the Stock Exchange. The market value of the shares of BE Water held by the Group as at 31 December 2013, based on its then published price quotation, amounted to approximately HK\$18,624,671,000. In October 2013, the Group's equity interest in BE Water was diluted from 49.76% to 45.33% upon the issue of 750,000,000 ordinary shares by BE Water to certain investors and a gain on deemed disposal of HK\$581,428,000 was recognised by the Group as a result of the transaction.

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

(b) Material associates disclosures

In the opinion of the directors, the material associates of the Group accounted for using the equity method include the following three entities:

- (i) PetroChina Beijing Gas, which is engaged in the provision of natural gas transmission services in the PRC;
- (ii) BE Water, which is principally engaged in the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects in the PRC and Malaysia, sewage treatment, water treatment and distribution in the PRC and the Portuguese Republic, and the provision of consultancy services and the licensing of technical know-how that are related to sewage treatment in the PRC;
- (iii) China Gas, which is principally engaged in the distribution and sale of piped natural gas, sale of liquefied petroleum gas, and gas connection in the PRC.

Pursuant to a sale and purchase agreement (the "Sale and Purchase Agreement") dated 29 July 2013 entered into between the Group and BE Group BVI, the immediate holding company, the Group agreed to acquire 1,054,088,132 ordinary shares of China Gas from BE Group BVI, which shall be settled by the payment of a cash consideration of HK\$2 billion and the issue of 113,125,226 ordinary shares by the Company. Pursuant to a supplemental agreement dated 10 October 2013 entered into between the same parties, the number of consideration shares to be issued by the Company was reduced to 98,100,000 and all other major terms and conditions of the Sale and Purchase Agreement remained unchanged. The transaction was completed on 18 December 2013 and China Gas became an associate of the Group.

HK\$1.1 billion of the cash consideration was offset against an amount due from BE Group BVI and the remaining amount of HK\$900 million payable to BE Group BVI remained unsettled as at 31 December 2013 and was included in other payables and accruals, further details of which are set out in note 30(c) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

23. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

(b) Material associates disclosures (Continued)

The following table illustrates the summarised financial information of the above three material associates, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	PetroChina Beijing Gas		BE Water		China Gas	
	2013	2012	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets	1,354,717	2,340,846	15,212,240	13,679,203	14,272,979	-
Non-current assets	37,450,025	31,636,129	28,974,430	17,610,677	30,225,606	-
Current liabilities	(7,546,881)	(5,637,848)	(11,650,828)	(9,258,283)	(12,454,425)	-
Non-current liabilities	(10,078,031)	(11,693,383)	(16,611,400)	(11,300,104)	(14,545,738)	-
Net assets	21,179,830	16,645,744	15,924,442	10,731,493	17,498,422	-
Less: Non-controlling interests	(9,724)	(8,670)	(2,626,811)	(2,264,369)	(2,310,540)	-
Net assets attributable to shareholders of the associates	21,170,106	16,637,074	13,297,631	8,467,124	15,187,882	-
Net assets, excluding goodwill of the associate	-	-	13,411,580	8,969,342	14,422,948	-
Reconciliation to the Group's interest in the associates						
Proportion of the Group's ownership	40%	40%	45.33%	44.11%	21.13%	N/A
Group's share of net assets of the associates, excluding goodwill recognised by the Group	8,468,042	6,654,830	6,027,816	3,734,848	3,209,200	-
Goodwill on acquisition recognised by the Group	-	-	424,091	309,401	6,172,825 [#]	-
Other reconciling items	-	-	(56,233)	3,804	-	-
Carrying amount of the investment	8,468,042	6,654,830	6,395,674	4,048,053	9,382,025	-
Other disclosures						
Revenues	11,704,490	11,171,691	6,406,455	3,727,379	-	-
Profit for the year	5,541,439	4,291,200	1,145,398	867,150	-	-
Other comprehensive income	-	-	342,111	1,385	-	-
Total comprehensive income for the year	5,541,439	4,291,200	1,487,509	868,535	-	-
Share of the associates' profit for the year	2,215,582	1,715,664	514,454	330,999	-	-
Dividend received by the Group	695,538	843,733	172,096	152,378	-	-

[#] Up to the date of approval of these financial statements, the Group had not completed the fair value measurement of the identifiable net assets of the China Gas Group and the initial accounting for the acquisition was incomplete. The goodwill on acquisition recognised by the Group represented the provision amount estimated by the directors of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

23. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

(b) Material associates disclosures (Continued)

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

	2013	2012
	HK\$'000	HK\$'000
Share of the associates' profit and total comprehensive income for the year	12,576	2,832
The Group's share of net assets of the associates, excluding goodwill recognised by the Group	3,962,760	2,869,307
Goodwill on acquisition recognised by the Group	2,115	57,659

(c) The amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of repayment.

(d) The movements of the amount of the goodwill included in investments in associates during the year are as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Cost and net carrying amount:		
At 1 January	367,060	367,060
Acquisition of an additional interest in an associate	6,287,515	–
Reclassification from an investment in an associate to an investment in a subsidiary	(55,622)	–
Exchange realignment	78	–
At 31 December	6,599,031	367,060

NOTES TO FINANCIAL STATEMENTS

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24. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Listed equity investments, at fair value	961,852	587,264	43,063	43,063
Unlisted equity investments, at cost	365,365	307,264	132,574	132,574
Impairment	(11,358)	(11,358)	-	-
	<u>1,315,859</u>	<u>883,170</u>	<u>175,637</u>	<u>175,637</u>

The unlisted equity investments of the Group and the Company are not stated at fair value but at cost because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant for these investments and the probabilities of the various estimates cannot be reasonably assessed.

25. PROPERTY HELD FOR SALE

The property held for sale of the Group as at 31 December 2012 was situated in Mainland China and was constructed for the intention of selling to Beijing Development, a then associate of the Group. Since Beijing Development became a subsidiary of the Group during the year as a result of the acquisition of additional ordinary shares of Beijing Development by the Group in February 2013 (as further detailed in note 46 to the financial statements), the property was accounted for by the Group as an item of property, plant and equipment in the consolidated statement of financial position as at 31 December 2013.

26. INVENTORIES

	Group	
	2013 HK\$'000	2012 HK\$'000
Raw materials	4,642,402	4,546,410
Work in progress	441,741	549,333
Finished goods	577,349	818,216
	<u>5,661,492</u>	<u>5,913,959</u>

NOTES TO FINANCIAL STATEMENTS

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27. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group	
	2013	2012
	HK\$'000	HK\$'000
Amounts due from contract customers:		
Non-current portion	947,102	769,559
Current portion	28,599	16,441
	975,701	786,000
Amounts due to contract customers	(325,794)	(177,874)
	649,907	608,126
Contract costs incurred plus recognised profits less recognised losses to date	1,393,823	1,062,319
Less: Progress billings received and receivable	(743,916)	(454,193)
	649,907	608,126

28. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade and bills receivables	4,618,375	2,631,609	1,128	1,095
Impairment <i>(note (c))</i>	(225,001)	(228,455)	-	-
	4,393,374	2,403,154	1,128	1,095

NOTES TO FINANCIAL STATEMENTS

31 December 2013

28. TRADE AND BILLS RECEIVABLES (Continued)

Notes:

- (a) Included in the Group's trade and bills receivables as at 31 December 2013 was an aggregate amount of HK\$73,324,000 (2012: HK\$33,765,000) due from certain fellow subsidiaries of the Group arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the Group to its major customers.
- (b) The various group companies have different credit policies, depending on the requirements of their markets and the businesses in which they operate. Aged analyses of trade and bills receivables are prepared and closely monitored in order to minimise any credit risk associated with the receivables.

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

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Billed:				
Within one year	2,260,699	1,027,936	-	1,095
One to two years	66,176	24,639	1,128	-
Two to three years	34,955	13,269	-	-
Over three years	28,804	17,742	-	-
	2,390,634	1,083,586	1,128	1,095
Unbilled	2,002,740	1,319,568	-	-
	4,393,374	2,403,154	1,128	1,095

- (c) The movements in the Group's provision for impairment of trade and bills receivables during the year are as follows:

	Group	
	2013 HK\$'000	2012 HK\$'000
At 1 January	228,455	277,609
Reversal of impairment during the year recognised in the statement of profit or loss, net (note 7)	(6,036)	(35,542)
Amount written off as uncollectible	(6,048)	(13,612)
Exchange realignment	8,630	-
At 31 December	225,001	228,455

NOTES TO FINANCIAL STATEMENTS

31 December 2013

28. TRADE AND BILLS RECEIVABLES (Continued)

Notes: (Continued)

(c) (Continued)

The above provision for impairment of trade and bills receivables represented provision for individually impaired trade and bills receivables with an aggregate carrying amount of HK\$285,210,000 (2012: HK\$288,664,000). The individually impaired trade receivables relate to customers that were in financial difficulties or were in default or delinquency in principal payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the billed trade and bills receivables as at the end of the reporting period that are not considered to be impaired is as follows:

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Neither past due nor impaired	2,077,769	620,120	-	-
Less than one year past due	178,860	347,606	-	-
More than one year past due	73,796	55,651	1,128	1,095
	2,330,425	1,023,377	1,128	1,095

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

Receivables that were past due but not impaired relate to a number of independent customers that either have a good track record with the Group or are in negotiation with the Group over the amounts or terms of repayment. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and/or the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

(d) At 31 December 2013, trade receivables of the Group of HK\$628,205,000 (2012: HK\$448,725,000) were pledged to secure a bank loan granted to the Group (note 37(d)(iii)).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	Group		Company	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Prepayments		788,039	961,971	566	546
Deposits and other debtors	(a)	3,569,085	1,938,753	11,633	12,542
Dividend receivable from an associate	(b)	695,538	843,733	-	-
Due from holding companies	30	303,646	312,658	110,047	119,059
Due from fellow subsidiaries	30	227,778	1,147,320	12,439	1,129,919
Due from joint ventures	30	53,559	-	-	-
Due from related parties	30	82,672	3,354	4,386	1,749
		5,720,317	5,207,789	139,071	1,263,815
Impairment	(c)	(112,985)	(75,556)	-	-
		5,607,332	5,132,233	139,071	1,263,815
Portion classified as current assets		(4,290,561)	(3,992,633)	(139,071)	(603,815)
Non-current portion		1,316,771	1,139,600	-	660,000

Notes:

- (a) The Group's deposits and other debtors as at 31 December 2013 included, inter alia, the following:
- (i) certain deposits of HK\$222,295,000 (2012: HK\$450,493,000) in total paid for the construction or purchase buildings, pipelines, equipment and machinery. The deposits were classified as non-current assets; and
 - (ii) an amount of RMB600 million (equivalent to approximately HK\$769,231,000) (2012: Nil) advanced to a local government authority for an investment in a wastage treatment plant project in Haidian district in Beijing, the PRC. The amount is unsecured, bears interest at 8.5% per annum and is fully repayable in April 2016 and was classified as a non-current asset.

The Group's deposits and other debtors as at 31 December 2012 also included investment deposits of HK\$20,522,000 in total paid for the incorporation or acquisition of subsidiaries in Mainland China. The deposits were classified as non-current assets.

- (b) The balances represented the dividends declared to the Group by PetroChina Beijing Gas, an associate of the Group, in respect of its financial years ended 31 December 2013 and 2012, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) The movements in provision for impairment during the year are as follows:

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
At 1 January	75,556	46,761	-	-
Impairment during the year recognised in profit or loss, net (note 7)	46,285	29,195	-	-
Amount written off as uncollectible	(16,711)	(400)	-	-
Acquisition of a subsidiary	6,804	-	-	-
Disposal of subsidiaries	(1,303)	-	-	-
Exchange realignment	2,354	-	-	-
At 31 December	112,985	75,556	-	-

The above provision for impairment of deposits and other debtors of the Group represented provision for individually impaired deposits and other debtors with an aggregate carrying amount of HK\$182,036,000 (2012: HK\$144,607,000).

30. DUE FROM/TO HOLDING COMPANIES/FELLOW SUBSIDIARIES/JOINT VENTURES/RELATED PARTIES

The amounts due from/to holding companies, fellow subsidiaries, joint ventures and related parties are unsecured, interest-free and have no fixed terms of repayment, except for the following:

- an amount of RMB110,185,500 (approximately HK\$139,475,000) (2012: Nil) due from a fellow subsidiary in respect of the acquisition of an 85% equity interest in 北控綠產(青海)新能源有限公司 (a then 85% indirectly-held subsidiary of the Group) by the fellow subsidiary. The amount will be settled by four instalments, as further detailed in note 47 to the financial statements;
- an amount of RMB40,000,000 (equivalent to HK\$51,280,000) (2012: Nil) due from a joint venture, which is unsecured, bears interest at 6% per annum and is fully repayable in two equal instalments on 6 March 2014 and 30 June 2014, respectively. Interest income of RMB1,577,000 (equivalent to HK\$1,996,000) (2012: Nil) was recognised in profit or loss in respect of the loan; and

NOTES TO FINANCIAL STATEMENTS

31 December 2013

30. DUE FROM/TO HOLDING COMPANIES/FELLOW SUBSIDIARIES/JOINT VENTURES/RELATED PARTIES (Continued)

- (c) an amount of HK\$1,100,000,000 due from a fellow subsidiary as at 31 December 2012 with respect to the disposal of the interest in BE Motorway (notes 6 and 47). During the year ended 31 December 2013, the amount was offset against the amount payable to BE Group BVI in respect of the acquisition of shares of China Gas, further details of which are set out in note 23(b)(iii) to the financial statements.

The balances with fellow subsidiaries, associates and related companies of the Group included in trade and bills receivables, trade and bills payables, and other liabilities are disclosed in notes 28(a), 44 and 45 to the financial statements, respectively.

31. RESTRICTED CASH AND PLEDGED DEPOSITS

		Group	
	<i>Notes</i>	2013 HK\$'000	2012 HK\$'000
Restricted cash	<i>(a)</i>	30,721	29,583
Pledged deposits	<i>(b)</i>	32,383	31,370
Restricted cash and pledged deposits		63,104	60,953

Notes:

- (a) Restricted cash of the Group mainly represented the proceeds of a government surcharge of HK\$30,721,000 (2012: HK\$29,583,000) collected by Beijing Gas, a wholly-owned subsidiary indirectly held the Company, from piped gas customers on behalf of 北京市發展和改革委員會 (the Beijing Municipal Commission of Development and Reform) (the "BMCDR") prior to 2003. The proceeds held on behalf of the BMCDR, which are deposited in a specific bank account of the Group, together with any interest earned therefrom, are repayable to the BMCDR (note 45(i)).
- (b) Bank balances of HK\$32,383,000 (2012: HK\$31,370,000) as at 31 December 2013 were pledged to secure certain trade finance facilities (note 44) granted to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

32. CASH AND CASH EQUIVALENTS

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Cash and bank balances				
other than time deposits	7,725,743	5,474,868	31,128	209,895
Time deposits	3,132,828	6,823,049	1,627,558	4,333,348
	10,858,571	12,297,917	1,658,686	4,543,243
Less: Restricted cash and pledged deposits (note 31)	(63,104)	(60,953)	-	-
Cash and cash equivalents	10,795,467	12,236,964	1,658,686	4,543,243

Notes:

- (a) At 31 December 2013, the cash and bank balances of the Group denominated in RMB amounted to approximately HK\$7.5 billion (2012: HK\$6.7 billion). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.
- (b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

33. NON-CURRENT ASSET AND ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

On 26 September 2012, the Company and two subsidiaries (collectively, the "Vendors") entered into a master agreement (the "Master Agreement") with BE Water and two of its subsidiaries (collectively, the "Purchasers"), pursuant to which the Vendors agreed to transfer the following assets to BE Water in exchange for a total of 776,810,838 new ordinary shares of BE Water at HK\$1.62 per share:

- (i) all water purification fee to be received by the Group from Beijing Water under the Concession Agreement (as defined in note 19(b) to the financial statements), and after deducting all state and local taxes in Mainland China and operating costs in respect of the operation of the No. 9 Water Plant commencing from 1 January 2013 to 31 December 2018 (the "Future Income");
- (ii) the entire equity interest in 濰坊北控水務有限公司 ("BE Water (Weifang)"), which principally engaged in the centralised supply of drinking water, reuse of water, operation and management of a water plant and a sewage treatment plant, installation and maintenance of water facilities, sale of plumbing equipment, and sewage treatment services and utilisation;
- (iii) the entire equity interest in Beijing Enterprises Water Company Limited ("BE Water (BVI)"), which holds a 50.5% equity interest in BJA Holdings Company Limited ("BJA"). BJA is directly interested in a 67% equity interest in Beijing Anling Water Technology Company Limited, a joint venture of BJA principally engaged in the construction and operations of Phase A of No. 10 water plant in Beijing; and
- (iv) the 90% equity interest in 北控水務集團(海南)有限公司 ("BE Water (Hainan)"), which is principally engaged in water project and waste treatment (excluding dangerous wastes) project investments.

The Master Agreement was approved by the independent shareholders of BE Water at a special general meeting of BE Water held on 18 December 2012. The transfers of assets other than the equity interest in BE Water (Hainan) under the Master Agreement were completed in February 2013 and the transfer of the equity interest in BE Water (Hainan) was completed in May 2013.

At 31 December 2012, the carrying amount of the Future Income receivable by the Company under the Concession Agreement was classified as a non-current asset held for sale and BE Water (Weifang) and BE Water (BVI) were classified as disposal groups held for sale. As there were restrictions stipulated in the constitutional documents of BE Water (Hainan) with respect to the transfer of its equity interest, the equity interest in BE Water (Hainan) was not available for immediate sale as at 31 December 2012 and hence BE Water (Hainan) was not classified as a disposal group held for sale as at that date.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

33. NON-CURRENT ASSET AND ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE (Continued)

The major classes of assets and liabilities classified as held for sale are as follows:

	2013	2012
	HK\$'000	HK\$'000
Assets		
Property, plant and equipment	-	14,900
Investment in a joint venture	-	431,756
Receivables under service concession arrangements	-	937,854
Inventories	-	94
Prepayments, deposits and other receivables	-	33
Cash and bank balances	-	664
	<hr/>	<hr/>
Non-current asset and assets of disposal groups classified as held for sale	-	1,385,301
	<hr/>	<hr/>
Liabilities		
Trade payables	-	(30)
Other payables and accruals	-	(140,457)
Income tax payable	-	(60)
	<hr/>	<hr/>
Liabilities directly associated with the assets of disposal groups classified as held for sale	-	(140,547)
	<hr/>	<hr/>
Net assets directly associated with the non-current asset and disposal groups held for sale	-	1,244,754
	<hr/> <hr/>	<hr/> <hr/>
Exchange fluctuation reserve of the disposal groups	-	12,894
	<hr/> <hr/>	<hr/> <hr/>

The assets and liabilities classified as held for sale and the equity interest in BE Water (Hainan) were derecognised by the Group during the year upon completion of the transactions and details of the disposal of the equity interests in BE Water (Weifang), BE Water (BVI) and BE Water (Hainan) are set out in note 47(a)(i) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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34. SHARE CAPITAL

SHARES

	2013 HK\$'000	2012 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	200,000	200,000
Issued and fully paid:		
1,270,193,509 (2012: 1,137,571,000) ordinary shares of HK\$0.10 each	127,019	113,757

A summary of the movements in the Company's issued share capital during the years ended 31 December 2013 and 2012 is as follows:

	Number of ordinary shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2012, 31 December 2012, 1 January 2013	1,137,571,000	113,757	20,738,291	20,852,048
Conversion of convertible bonds to ordinary shares	(a) 34,522,509	3,452	1,496,785	1,500,237
Issue of shares	(b) 98,100,000	9,810	7,372,215	7,382,025
At 31 December 2013	1,270,193,509	127,019	29,607,291	29,734,310

NOTES TO FINANCIAL STATEMENTS

31 December 2013

34. SHARE CAPITAL (Continued)

SHARES (Continued)

Notes:

- (a) During the year ended 31 December 2013, certain of the Company's Guaranteed Convertible Bonds (as defined in note 39(a) to the financial statements) with an aggregate principal amount of HK\$1,501,730,000 were converted into 34,522,509 ordinary shares of the Company by certain bondholders and credited to the Company's issued capital and share premium account, after deduction of issue expenses of HK\$1,493,000. Details of the transaction are set out in note 39(a) to the financial statements.
- (b) As detailed in note 23(b)(iii) to the financial statements, the Group acquired certain equity interests in China Gas and part of the consideration was settled by the issue of 98,100,000 ordinary shares by the Company and the transaction was completed on 18 December 2013. The fair value of these ordinary shares, determined by reference to the closing quoted market price of the Company's ordinary shares on the Stock Exchange at the date of the completion of the acquisition, amounted to HK\$7,382,025,000.

SHARE OPTIONS

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

35. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which became effective on 17 October 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The purpose of the Scheme is to attract and retain the best quality personnel of the Group for the development of the Group's operations; to provide additional incentives to employees, officers and directors of the Group; and to promote the long term financial success of the Company by aligning the interests of option holders to those of shareholders. The directors of the Company may, at their discretion, invite employees (including executive directors) and non-executive directors of the Company and any of its subsidiaries, to take up share options to subscribe for ordinary shares of the Company at HK\$1 per grant of share options.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of ordinary shares of the Company in issue at any time. The total number of ordinary shares of the Company issued and to be issued upon exercise of share options (whether exercised or outstanding) in any 12-month period granted to any one person must not exceed 1% of the total number of ordinary shares of the Company in issue.

A share option granted under the Scheme is personal to the grantee and shall not be assignable or transferable.

NOTES TO FINANCIAL STATEMENTS

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35. SHARE OPTION SCHEME (Continued)

The period during which a share option granted under the Scheme may be exercised will be determined by the directors at their discretion, save that no share option may be exercised later than 10 years after the grant date. No option may be granted more than 10 years after the date of approval of the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's ordinary shares on the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the Company's ordinary shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of an ordinary share of the Company.

All share options granted under the Scheme in prior years were either exercised or forfeited in prior years. There was no grant of share options during the years ended 31 December 2013 and 2012 and there was no share option outstanding under the Scheme as at these dates.

36. RESERVES

(a) Group

- (i) 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.
- (ii) The capital redemption reserve represents the par value of ordinary shares of the Company which had been repurchased and cancelled.
- (iii) 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 2013 were distributable in the form of cash dividends.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

36. RESERVES (Continued)

(b) Company

		Share premium account	Capital redemption reserve	Capital reserve	Available- for-sale investment revaluation reserve	Property revaluation reserve	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2012		20,738,291	238	13,220	(22,773)	17,561	371,521	21,118,058
Profit for the year and total comprehensive income for the year	12	-	-	-	-	-	787,247	787,247
Interim 2012 dividend	13	-	-	-	-	-	(284,393)	(284,393)
Proposed final 2012 dividend	13	-	-	-	-	-	(572,286)	(572,286)
At 31 December 2012 and 1 January 2013		20,738,291	238	13,220	(22,773)	17,561	302,089	21,048,626
Profit for the year and total comprehensive income for the year	12	-	-	-	-	-	764,870	764,870
Conversion of convertible bonds to ordinary shares	34(a)	1,496,785	-	-	-	-	-	1,496,785
Issue of shares	34(b)	7,372,215	-	-	-	-	-	7,372,215
Interim 2013 dividend	13	-	-	-	-	-	(291,658)	(291,658)
Proposed final 2013 dividend	13	-	-	-	-	-	(763,695)	(763,695)
At 31 December 2013		29,607,291	238	13,220	(22,773)	17,561	11,606	29,627,143

NOTES TO FINANCIAL STATEMENTS

31 December 2013

37. BANK AND OTHER BORROWINGS

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Bank loans:				
Secured	1,377,622	1,040,536	-	-
Unsecured	8,911,251	8,901,850	2,985,750	2,976,750
	10,288,873	9,942,386	2,985,750	2,976,750
Other loans, unsecured	847,794	559,342	-	-
Total bank and other borrowings	11,136,667	10,501,728	2,985,750	2,976,750
Analysed into:				
Bank loans repayable:				
Within one year	6,488,221	6,171,467	-	-
In the second year	3,091,397	267,644	2,985,750	-
In the third to fifth years, inclusive	355,403	3,198,092	-	2,976,750
Beyond five years	353,852	305,183	-	-
	10,288,873	9,942,386	2,985,750	2,976,750
Other loans repayable:				
Within one year	128,810	105,474	-	-
In the second year	450,454	81,165	-	-
In the third to fifth years, inclusive	185,796	210,357	-	-
Beyond five years	82,734	162,346	-	-
	847,794	559,342	-	-
Total bank and other borrowings	11,136,667	10,501,728	2,985,750	2,976,750
Portion classified as current liabilities	(6,617,031)	(6,276,941)	-	-
Non-current portion	4,519,636	4,224,787	2,985,750	2,976,750

NOTES TO FINANCIAL STATEMENTS

31 December 2013

37. BANK AND OTHER BORROWINGS (Continued)

Notes:

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

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
HK\$	2,985,750	2,976,750	2,985,750	2,976,750
RMB	7,905,075	7,185,417	-	-
US\$	237,325	330,601	-	-
Euro	8,517	8,960	-	-
	11,136,667	10,501,728	2,985,750	2,976,750

- (b) Included in the Group's bank and other borrowings as at 31 December 2013 are:
- (i) amortised cost of an interest-free loan of HK\$148,622,000 (2012: HK\$143,117,000) granted from a non-controlling equity holder of a subsidiary;
 - (ii) an amount of RMB250,000,000 (equivalent to HK\$320,513,000) (2012: Nil) due to an associate, which bears interest at 5.54% per annum. Interest expenses of RMB259,000 (equivalent to HK\$328,000) (2012: Nil) was recognised in profit and loss during the year in respect of the loan; and
 - (iii) certain bank and other loans, with an aggregate carrying amount of HK\$397,443,000 (2012: HK\$423,012,000), that were utilising the proceeds from certain loans granted by three overseas governments and the Asian Development Bank to the PRC government and a number of loans from 北京市财政局 (the Finance Bureau of Beijing) to finance certain of the Group's pipeline construction projects. Except for an interest-free loan of HK\$10,130,000 (2012: HK\$10,587,000), these loans bear interest at rates ranging from 2% to 6.3% per annum.
- (c) The Group's unsecured bank loans of HK\$333,333,000 (2012: HK\$1,469,138,000) as at 31 December 2013 were guaranteed by the non-controlling equity holder of a PRC subsidiary of the Group.
- (d) The Group's secured bank loans as at 31 December 2013 were secured by:
- (i) a mortgage over a building of the Group with a net carrying amount of HK\$27,203,000 (2012: HK\$27,000,000) as at 31 December 2013 (note 15(b));
 - (ii) mortgages over the Group's concession right and receivables under a concession right of two waste power plants, respectively, which were under construction as at 31 December 2013 and 2012; and
 - (iii) a pledge over certain of the Group's trade receivables amounting to HK\$628,205,000 (2012: HK\$448,725,000) (note 28(d)).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

37. BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

- (e) At 31 December 2013, the bank loans of the Group included a five-year HK\$3 billion syndicated loan facility obtained by the Company in 2010, which bears interest at HIBOR+0.85% and is fully payable on 2 August 2015.

The loan 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 on the loan facilities:

- (i) if Beijing Enterprises Group does not or ceases to own, directly or indirectly, at least 40% of the beneficiary interest of the Company; and
- (ii) if Beijing Enterprises Group ceases to be controlled and supervised by the Beijing Municipal Government.

Within the best knowledge of the directors, neither of the above events took place during the year and as at the date of approval of these financial statements.

38. GUARANTEED SENIOR NOTES

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 and US\$1 billion, 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, the Guaranteed Senior Notes are guaranteed by the Company, of which, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, (i) US\$800,000,000, bearing interest at the rate of 4.5% per annum, will mature on 25 April 2022; (ii) US\$600,000,000, bearing interest at the rate of 5% per annum, will mature on 12 May 2021; and (iii) US\$400,000,000, bearing interest at the rate of 6.375% per annum, will mature on 12 May 2041. Further details of the Guaranteed Senior Notes are set out in the Company's announcements dated 19 April 2012 and 6 May 2011, respectively.

At 31 December 2013, the Guaranteed Senior Notes are repayable beyond five years and are carried in the consolidated statement of financial position at their amortised cost.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

39. CONVERTIBLE BONDS

Summary information of the Group's convertible bonds is set out as follows:

Group

	Guaranteed Convertible Bonds <i>(note (a))</i>	Yanjing Brewery Convertible Bonds <i>(note (b))</i>
Issuance date	2 June 2009	15 October 2010
Maturity date	1 June 2014	14 October 2015
Original principal amount:		
HK\$'000	2,175,000	N/A
RMB'000	N/A	429,804
Coupon rate (per annum)	2.25%	0.5% – 1.4%
Conversion price per ordinary share of:		
– The Company (HK\$)	43.5	N/A
– Yanjing Brewery (RMB)	N/A	7.58

NOTES TO FINANCIAL STATEMENTS

31 December 2013

39. CONVERTIBLE BONDS (Continued)

For accounting purposes, each batch of these convertible bonds is bifurcated into a liability component and an equity component or a derivative component, as appropriate, as further described in the accounting policy for “Convertible bonds” set out in note 2.4 to the financial statements. The following tables summarise the movements in the principal amounts, the liability component and derivative component of the Group’s convertible bonds during the year:

Group

	Guaranteed Convertible Bonds HK\$'000 <i>(note (a))</i>	Yanjing Brewery Convertible Bonds HK\$'000 <i>(note (b))</i>	Total HK\$'000
Principal amount outstanding			
At 1 January 2012	2,175,000	564,610	2,739,610
Conversion to ordinary shares of Yanjing Brewery	–	(180,394)	(180,394)
Redemption of convertible bonds	–	(281,281)	(281,281)
At 31 December 2012 and 1 January 2013	2,175,000	102,935	2,277,935
Conversion to ordinary shares of the Company	(1,501,730)	–	(1,501,730)
Conversion to ordinary shares of Yanjing Brewery	–	(10,128)	(10,128)
Exchange realignment	–	3,829	3,829
At 31 December 2013	673,270	96,636	769,906

NOTES TO FINANCIAL STATEMENTS

31 December 2013

39. CONVERTIBLE BONDS (Continued)

Group (Continued)

	Guaranteed Convertible Bonds	Yanjing Brewery Convertible Bonds	Total
	HK\$'000	HK\$'000	HK\$'000
	<i>(note (a))</i>	<i>(note (b))</i>	
Liability component			
At 1 January 2012	2,151,299	560,536	2,711,835
Interest expense <i>(note 8)</i>	62,844	1,975	64,819
Imputed interest expense <i>(note 8)</i>	–	3,481	3,481
Interest paid	(48,937)	(721)	(49,658)
Conversion to ordinary shares of Yanjing Brewery	–	(171,475)	(171,475)
Redemption of convertible bonds	–	(299,689)	(299,689)
	<hr/>	<hr/>	<hr/>
At 31 December 2012 and 1 January 2013	2,165,206	94,107	2,259,313
Interest expense <i>(note 8)</i>	35,932	1,957	37,889
Imputed interest expense <i>(note 8)</i>	–	3,532	3,532
Interest paid	(27,847)	(541)	(28,388)
Conversion to ordinary shares of the Company	(1,500,237)	–	(1,500,237)
Conversion to ordinary shares of Yanjing Brewery	–	(9,120)	(9,120)
Exchange realignment	–	3,566	3,566
	<hr/>	<hr/>	<hr/>
At 31 December 2013	673,054*	93,501*	766,555
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2013

39. CONVERTIBLE BONDS (Continued)

Group (Continued)

	Guaranteed Convertible Bonds	Yanjing Brewery Convertible Bonds	Total
	HK\$'000	HK\$'000	HK\$'000
	<i>(note (a))</i>	<i>(note (b))</i>	
Derivative component			
At 1 January 2012	–	61,783	61,783
Fair value gain on revaluation <i>(note 5)</i>	–	(13,973)	(13,973)
Conversion to ordinary shares of Yanjing Brewery	–	(38,382)	(38,382)
At 31 December 2012 and 1 January 2013	–	9,428	9,428
Conversion to ordinary shares of Yanjing Brewery	–	(929)	(929)
Exchange realignment	–	352	352
At 31 December 2013	–	8,851*	8,851

* The carrying amount of HK\$673,054,000 of the liability component of the Guaranteed Convertible Bonds was classified as a current liability as at 31 December 2013, whereas the respective carrying amounts of the liability component and the derivative component of the Yanjing Brewery Convertible Bonds were classified as non-current liabilities as at that date.

Notes:

(a) On 2 June 2009, Power Regal Group Limited ("Power Regal", a wholly-owned subsidiary of the Company) issued convertible bonds with an aggregate principal amount of HK\$2.175 billion (the "Guaranteed Convertible Bonds") to certain institutional investors. Pursuant to the convertible bond subscription agreement dated 25 April 2009, the convertible bonds are guaranteed by the Company, bear interest at the rate of 2.25% per annum and are convertible into ordinary shares of the Company at an initial conversion price of HK\$43.5 per share of the Company, subject to adjustments in certain events. The outstanding principal amount of the convertible bonds, if not converted, will be repaid on the maturity date of 2 June 2014 at 100% of the outstanding amount. The outstanding liability component of the convertible bonds of HK\$673,054,000 was classified as current liability as at 31 December 2013. Further details of the Guaranteed Convertible Bonds are set out in the Company's announcement dated 27 April 2009.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

39. CONVERTIBLE BONDS (Continued)

Notes: (Continued)

(a) (Continued)

The fair value of the liability component of the Guaranteed Convertible Bonds was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The equity component of the Guaranteed Convertible Bonds is not significant to the Group and accordingly, the whole amount of the Guaranteed Convertible Bonds, net of transaction costs, is accounted for as a financial liability of the Group.

During the year ended 31 December 2013, certain of the Guaranteed Convertible Bonds with an aggregate principal amount of HK\$1,501,730,000 were converted into 34,522,509 ordinary shares of the Company by certain bondholders (2012: Nil).

(b) On 15 October 2010, Yanjing Brewery, a subsidiary held indirectly as to 45.99% by the Company, issued convertible bonds with an aggregate principal amount of RMB1.13 billion (the "Yanjing Brewery Convertible Bonds") to the then existing shareholders of Yanjing Brewery. The Yanjing Brewery Convertible Bonds are convertible, at the option of the bondholders, into fully-paid ordinary shares of Yanjing Brewery at an initial conversion price of RMB21.86 per share of Yanjing Brewery and the conversion period is from 15 October 2010 to 14 October 2015, both dates inclusive. The Yanjing Brewery Convertible Bonds bear interests at 0.5%, 0.7%, 0.9%, 1.1% and 1.4% per annum in each of the annual convertible periods. The outstanding liability component of the convertible bonds of HK\$93,501 was classified as non-current liability as at 31 December 2013. Further details of the Yanjing Brewery Convertible Bonds are set out in the Company's announcement published in the Chinese website of the Stock Exchange on 12 October 2010.

On 10 February 2012, certain of the Yanjing Brewery Convertible Bonds with an aggregate principal amount of HK\$281,281,000 were redeemed by Yanjing Brewery at a consideration of RMB267 million upon the exercise of the early redemption option by the convertible bondholders. Further details are set out in the announcement of Yanjing Brewery published in the website of the Shenzhen Stock Exchange on 10 February 2012.

On 26 March 2012 and 7 June 2012, the conversion price of the Yanjing Brewery Convertible Bonds was changed from RMB21.86 to RMB15.37 and from RMB15.37 to RMB7.58, respectively, further details of which are set out in the announcements of Yanjing Brewery published in the website of the Shenzhen Stock Exchange on 24 March 2012 and 31 May 2012, respectively.

Based on the terms of the Yanjing Brewery Convertible Bonds, the conversion option of the Yanjing Brewery Convertible Bonds is classified as a derivative financial instrument (a financial liability at fair value through profit or loss) in these financial statements. The derivative component of the Yanjing Brewery Convertible Bonds is stated in the consolidated statement of financial position at fair value with any changes in fair value recognised in profit or loss.

The fair values of the derivative component of the Yanjing Brewery Convertible Bonds as at 31 December 2012 and the date of issue were determined by reference to valuations performed by CB Richard Ellis Limited, independent professionally qualified valuer, using the Binomial Option Pricing Model. In the opinion of the directors, since the fair value movement of the Yanjing Brewery Convertible Bonds and the related financial impact to the Group's financial statements is expected to be insignificant during the year ended 31 December 2013, no external valuation was performed on the fair value of the Yanjing Brewery Convertible Bonds as at 31 December 2013.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

40. DEFINED BENEFIT PLANS

Certain employees of Beijing Gas, an indirectly-held wholly-owned subsidiary of the Company, can enjoy retirement benefits after retirement such as supplemental medical reimbursement, allowance and beneficiary benefits pursuant to certain of its defined benefit plans. The plans are exposed to interest rate risk and the risk of changes in the life expectancy for the employees.

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

	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement benefit plan	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2013				
Current service cost	21,500	3,777	-	25,277
Past service cost	835	6,041	735	7,611
Interest cost	17,409	5,890	337	23,636
Net benefit expense	39,744	15,708	1,072	56,524
Year ended 31 December 2012 (Restated)				
Current service cost	12,114	3,516	-	15,630
Past service cost	51,664	748	-	52,412
Interest cost	10,056	5,198	442	15,696
Net benefit expense	73,834	9,462	442	83,738

NOTES TO FINANCIAL STATEMENTS

31 December 2013

40. DEFINED BENEFIT PLANS (Continued)

(b) Present value of the defined benefit obligations

	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement benefit plan	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2012:				
As previously reported	377,656	130,690	17,206	525,552
Effect of adoption of HKAS 19 (2011) (note 2.2)	(152,794)	(10,799)	(5,022)	(168,615)
As restated	224,862	119,891	12,184	356,937
Net benefit expenses recognised in profit or loss, as restated	73,834	9,462	442	83,738
Benefits paid	(1,942)	(2,769)	(4,106)	(8,817)
Actuarial losses on obligations, recognised in other comprehensive income, as restated	81,327	2,547	233	84,107
At 31 December 2012, as restated	<u>378,081</u>	<u>129,131</u>	<u>8,753</u>	515,965
Portion classified as current liabilities included in other payables and accruals (note 45)				<u>(8,817)</u>
Non-current portion				<u>507,148</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2013

40. DEFINED BENEFIT PLANS (Continued)

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

	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 2013:				
As previously reported	403,727	137,382	12,175	553,284
Effect of adoption of HKAS 19 (2011) (note 2.2)	(25,646)	(8,251)	(3,422)	(37,319)
As restated	378,081	129,131	8,753	515,965
Net benefit expenses recognised				
in profit or loss	39,744	15,708	1,072	56,524
Benefits paid	(2,682)	(3,650)	(3,591)	(9,923)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	(14,028)	(23,282)	478	(36,832)
Exchange realignment	10,735	8,925	311	19,971
At 31 December 2013	411,850	126,832	7,023	545,705
Portion classified as current liabilities included in other payables and accruals (note 45)				(10,050)
Non-current portion				535,655

NOTES TO FINANCIAL STATEMENTS

31 December 2013

40. DEFINED BENEFIT PLANS (Continued)

(c) Principal assumptions

The most recent actuarial valuation of the present value of the defined benefit obligations were carried out at 31 December 2013 by Towers Watson, using the projected unit credit method. The material actuarial assumptions used in determining the defined benefit obligations for the Group's plans are as follows:

	2013	2012
Discount rate	5.25%	4.50%
Healthcare cost inflation rate	8.00%	8.00%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2013 is shown below:

	Increase in rate %	Increase/ (decrease) in net defined benefit obligations HK\$'000	Decrease in rate %	Increase/ (decrease) in net defined benefit obligations HK\$'000
Discount rate	0.25	(24,006)	0.25	26,041
Healthcare cost inflation rate	1.00	96,142	1.00	(70,331)

The sensitivity analyses above have 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 2013, the expected contribution to be made within the next 12 months out of the defined benefit obligations is HK\$10,050,000 (2012: HK\$8,817,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

41. PROVISION FOR MAJOR OVERHAULS

Pursuant to the service concession arrangements on the Group's expressway and toll road operations, the Group has contractual obligations to maintain the infrastructures it operates to a specified level of serviceability and/or to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession periods. These contractual obligations to maintain or restore the infrastructures, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs are collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis and revised where appropriate.

The movements in provision for major overhauls of the expressway and the toll road during the year are as follows:

		Group	
	<i>Notes</i>	2013	2012
		HK\$'000	HK\$'000
At 1 January		29,414	196,157
Additional provision	7	-	42,933
Increase in discounted amounts arising from the passage of time	8	-	5,004
Disposal of a subsidiary	47	-	(214,680)
Exchange realignment		1,130	-
		30,544	29,414

42. OTHER NON-CURRENT LIABILITIES

		Group	
		2013	2012
		HK\$'000	HK\$'000
Other liabilities – non-current portion (<i>note 45</i>)		34,614	128,585
Deferred income (<i>note</i>)		327,245	115,475
		361,859	244,060

Note: Deferred income of the Group mainly represented subsidies received from third parties and government authorities in respect of certain projects for the construction of the Group's gas pipelines in Beijing for the delivery of natural gas. The subsidies are interest-free and not required to be repaid, and are recognised in profit or loss on the straight-line basis over the expected useful life of the relevant assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

43. DEFERRED TAX

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

	31 December 2013 HK\$'000	Group 31 December 2012 HK\$'000 (Restated)	1 January 2012 HK\$'000 (Restated)
Deferred tax assets	601,056	552,926	552,566
Deferred tax liabilities	(233,462)	(375,979)	(371,353)
	367,594	176,947	181,213

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

Group

Notes	Attributable to											Net deferred tax assets/(liabilities) HK\$'000
	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Depreciation allowances in excess of related depreciation HK\$'000	Other temporary differences related to property, plant and equipment HK\$'000	Transfer of assets from customers HK\$'000	Fair value adjustments on available-for-sale investments HK\$'000	Impairment Provision and accrued expenses HK\$'000	Provision for bonus and defined benefit plans HK\$'000	Provision for major overhauls HK\$'000	Temporary differences related to service concession arrangements HK\$'000	Losses available for offsetting future taxable profits HK\$'000 (note (a))	Withholding tax HK\$'000 (note (b))	
At 1 January 2012:												
As previously reported	70,914	(1,799)	30,881	(51,990)	-	237,644	125,077	96,348	(190,330)	15,831	(109,208)	223,368
Effect of adoption of HKAS 19 (2011)	-	-	-	-	-	-	(42,155)	-	-	-	-	(42,155)
As restated	70,914	(1,799)	30,881	(51,990)	-	237,644	82,922	96,348	(190,330)	15,831	(109,208)	181,213
Acquisition of subsidiaries	46	(7,131)	-	-	-	(5,466)	-	-	-	-	-	(12,597)
Deferred tax credited/(charged) to profit or loss during the year, as restated	11	-	(52)	-	-	55,686	16,702	2,742	10,100	1,969	12,730	99,877
Deferred tax credited/(charged) to other comprehensive income during the year, as restated		-	-	-	(22,333)	-	21,027	-	-	-	-	(1,306)
Disposal of subsidiaries	47	-	-	-	-	-	-	(90,240)	-	-	-	(90,240)
At 31 December 2012, as restated		63,783	(1,851)	30,881	(51,990)	(22,333)	287,864	120,651	8,850	(180,230)	17,800	176,947

NOTES TO FINANCIAL STATEMENTS

31 December 2013

43. DEFERRED TAX (Continued)

Group (Continued)

Notes	Attributable to											Net deferred tax assets/(liabilities) HK\$'000	
	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 and provision of expenses HK\$'000	Provision for bonus and defined benefit plans HK\$'000	Provision for major overhauls HK\$'000	Temporary differences related to service concession arrangements HK\$'000	Losses available for offsetting future taxable profits HK\$'000 <i>(note (a))</i>	Withholding tax HK\$'000 <i>(note (b))</i>		
At 1 January 2013:													
As previously reported	63,783	(1,851)	30,881	(51,990)	(22,333)	287,864	129,981	8,850	(180,230)	17,800	(96,478)	186,277	
Effect of adoption of HKAS 19 (2011)	2.2	-	-	-	-	-	(9,330)	-	-	-	-	(9,330)	
As restated	63,783	(1,851)	30,881	(51,990)	(22,333)	287,864	120,651	8,850	(180,230)	17,800	(96,478)	176,947	
Deferred tax credited/(charged) to profit or loss during the year	11	-	(52)	-	(22,328)	-	13,934	20,917	-	-	(25,547)	(13,076)	
Deferred tax credited/(charged) to other comprehensive income during the year		-	-	-	20,941	-	(9,208)	-	-	-	-	11,733	
Derecognised upon the transfer of receivables under a service concession arrangement		-	-	-	-	-	-	-	183,727	-	-	183,727	
Disposal of subsidiaries	47	-	-	-	-	(1,908)	-	-	-	-	-	(1,908)	
Exchange realignment		2,996	(71)	1,188	(7,433)	-	10,694	5,828	283	(3,497)	183	10,171	
At 31 December 2013		66,779	(1,974)	32,069	(81,751)	(1,392)	310,584	138,188	9,133	-	17,983	(122,025)	367,594

Notes:

- (a) At 31 December 2013, deferred tax assets have not been recognised in respect of unused tax losses of HK\$3,186,957,000 (2012: HK\$2,428,684,000) as they have been arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, tax losses of HK\$3,165,585,000 (2012: HK\$2,408,976,000) will expire in one to five years.
- (b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%, depending on the jurisdiction of the respective investment enterprises. The Group is therefore liable to withholding taxes on dividends declared by those subsidiaries, joint ventures and associates established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries, joint ventures and associates in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$9,732,390,000 (2012: HK\$6,943,379,000) as at 31 December 2013.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

43. DEFERRED TAX (Continued)

Notes: (Continued)

- (c) There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders. In addition, in the opinion of the directors, there are no income tax consequences regarding the Group's convertible bonds and hence, no deferred tax liabilities have been provided in respect of the convertible bonds.

44. TRADE AND BILLS PAYABLES

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

	Group	
	2013	2012
	HK\$'000	HK\$'000
Within one year	1,920,092	2,546,259
One to two years	437,011	48,430
Two to three years	9,378	7,485
Over three years	16,744	14,317
	2,383,225	2,616,491

Included in the Group's trade and bills payables as at 31 December 2013 are amounts of HK\$41,028,000 (2012: HK\$14,177,000) and HK\$19,629,000 (2012: HK\$71,021,000) due to related companies and an associate, respectively, arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related companies and the associate to their major customers.

Certain of the Group's bills payable as at 31 December 2013 are secured by a pledge over certain of the Group's bank balances with an aggregate amount of HK\$32,383,000 (2012: HK\$31,370,000) (note 31(b)).

NOTES TO FINANCIAL STATEMENTS

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45. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Accruals		123,736	132,475	48,487	50,748
Defined benefit plans – current portion	40(b)	10,050	8,817	-	-
Other liabilities		7,740,581	6,674,714	9,385	18,126
Due to a holding company	30	900,000	-	900,000	-
Due to related parties	30	274,965	264,421	8,526	8,523
		9,049,332	7,080,427	966,398	77,397
Portion classified as current liabilities		(9,014,718)	(6,951,842)	(966,398)	(77,397)
Non-current portion	42	34,614	128,585	-	-

The Group's other liabilities as at 31 December 2013 included, inter alia, the following:

- (i) an amount of HK\$30,721,000 (2012: HK\$29,583,000) 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 31(a) to the financial statements; and
- (ii) construction project costs of HK\$115,433,000 (2012: HK\$114,358,000) payable to certain fellow subsidiaries of the Group. The balances with the fellow subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

46. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year as at their respective dates of acquisition were as follows:

	Notes	2013 HK\$'000 (note (a))	2012 HK\$'000 (note (b))
Net assets acquired:			
Property, plant and equipment	15	981,586	258,694
Investment properties	16	45,812	41,604
Prepaid land premiums	17	32,835	22,298
Other intangible assets	20	9,265	–
Investments in joint ventures		12,352	–
Investments in associates		102,038	725
Inventories		8,895	5,399
Amounts due from contract customers		909	–
Trade and bills receivables		88,618	93,869
Prepayments, deposits and other receivables		260,578	32,111
Income tax recoverable		3,053	–
Pledged bank balances and time deposit		5,779	–
Cash and cash equivalents		904,016	40,923
Trade and bills payables		(150,312)	(103,755)
Other payables and accruals		(353,589)	(75,960)
Income tax payables		–	(2,488)
Bank and other borrowings		(273,418)	–
Other non-current liabilities		(161,146)	–
Deferred tax liabilities	43	–	(12,597)
		1,517,271	300,823
Non-controlling interests		(539,999)	(15,144)
		977,272	285,679
Goodwill on acquisition	18	83,184	95,765
		1,060,456	381,444
Satisfied by:			
Cash		732,685	381,444
Reclassification from interest in an associate to interest in a subsidiary		327,771	–
		1,060,456	381,444
Revenue for the year since acquisition		219,245	188,907
Profit/(loss) for the year since acquisition		(31,628)	36,873

NOTES TO FINANCIAL STATEMENTS

31 December 2013

46. BUSINESS COMBINATIONS (Continued)

The Group has elected to measure the non-controlling interests in the subsidiaries acquired at the non-controlling interests' proportionate share of the identifiable net assets of the subsidiaries acquired.

The fair values (and their respective gross contractual amounts) of the trade receivables and deposits and other receivables as at their respective dates of acquisition amounted to HK\$88,618,000 (2012: HK\$93,869,000) and HK\$100,197,000 (2012: HK\$21,090,000), respectively.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2013 HK\$'000 <i>(note (a))</i>	2012 HK\$'000 <i>(note (b))</i>
Cash and cash equivalents acquired	904,016	40,923
Cash consideration	(732,685)	(381,444)
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	171,331	(340,521)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK\$4,754,660,000 (2012: HK\$3,605,458,000, as restated) and the Group's revenue (comprising turnover and other income and gains, net) would have been HK\$43,309,229,000 (2012: HK\$36,581,950,000).

Notes:

(a) Business combinations during the year ended 31 December 2013 mainly included the following transactions:

- (i) In February 2013, 177,000,000 of ordinary shares were issued by Beijing Development to the Group for a cash consideration of HK\$200,010,000. The equity interest in Beijing Development held by the Group increased from 42.87% to 54.71% upon the completion of the transaction and Beijing Development became a subsidiary of the Group;
- (ii) In April 2013, the Group acquired an 80% equity interest in 北京北燃新奧京昌燃氣有限公司 ("Beijing Jingchang") from an independent third party for a cash consideration of RMB13,462,000 (equivalent to HK\$17,040,000). Beijing Jingchang is principally engaged in the provision of natural gas transmission service in Beijing;
- (iii) In May 2013, the Group acquired the entire equity interest in 北京安華恒泰投資有限公司 ("Auhua Hengtai") from an independent third party for a cash consideration of RMB42,150,000 (equivalent to HK\$53,350,000). Auhua Hengtai is directly interested in a 30% equity interest in 合肥中石油昆侖燃氣有限公司, which is principally engaged in pipeline gas supply in Hefei, Anhui Province, the PRC;

NOTES TO FINANCIAL STATEMENTS

31 December 2013

46. BUSINESS COMBINATIONS (Continued)

Notes: (Continued)

(a) (Continued)

- (iv) In June 2013, the Group acquired an 80% equity interest in 哈爾濱市雙琦環保資源利用有限公司 (“Harbin Huanbao”) from an independent third party for a cash consideration of RMB33,840,000 (equivalent to HK\$42,835,000). Harbin Huanbao has entered into a service concession arrangement with the Harbin Government on a BOT basis to operate a waste power plant in Harbin, Heilongjiang Province, the PRC; and
- (v) In June 2013, the Group acquired an 80% equity interest in 陝西萬泉咸陽環保電力有限公司 (“Shaanxi Wanquan”) from an independent third party for a cash consideration of RMB160,000,000 (equivalent to HK\$202,530,000). Xianxi Wanquan has entered into an arrangement under a Build-Own-Operate basis with the Xianyang Government to operate a waste power plant in Xianyang Shaanxi Province, the PRC.

(b) Business combinations during the year ended 31 December 2012 mainly included the following transactions:

- (i) In February 2012, the Group acquired a 95% equity interest in 北京京燃燃氣有限公司 (“Beijing Jingran”) from an independent third party for a cash consideration of RMB38,760,000 (equivalent to HK\$47,852,000). Beijing Jingran is principally engaged in the provision of natural gas transmission service in Beijing;
- (ii) In May 2012, Beijing Gas acquired the entire equity interest in 北京綠源達壓縮天然氣有限公司 (“Luyuanda”) from 北京北燃實業有限公司 (“Beiran Enterprises”, a fellow subsidiary of the Company with a common ultimate holding company) for a cash consideration of RMB235,000,000 (equivalent to HK\$285,444,000). Luyuanda is principally engaged in the operation of autogas filling stations (gas-oil mixture) and sale of natural gas in Beijing. In respect of this acquisition, a profit guarantee was given by Beiran Enterprises, pursuant to which the annual net profit of Luyuanda for each of the years ended 31 December 2012 and 2011 shall not be less than RMB17.85 million, with any shortfall, after adjusting by a formula, would be compensated by Beiran Enterprises to Beijing Gas. The guarantee was met by Luyuanda and hence there would not be any adjustment to the consideration given for the acquisition; and
- (iii) In May 2012, the Group acquired the entire equity interest in 北京世紀隆昌商貿有限公司 (“Shiji Longchang”) from independent third parties for a cash consideration of RMB39,000,000 (equivalent to HK\$48,148,000). Shiji Longchang is principally engaged in property investment and material trading in Beijing.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

47. DISPOSAL OF SUBSIDIARIES

	<i>Notes</i>	2013 HK\$'000	2012 HK\$'000
Net assets disposed of:			
Property, plant and equipment	15, 33	445,419	118,925
Operating concessions	19	-	752,963
Investment in a joint venture		431,756	-
Available-for-sale investments		-	5,556
Amounts due from contract customers		21,172	-
Deferred tax assets	43	1,908	90,240
Inventories		271	1,970
Trade and bills receivables		37,352	1,372
Prepayments, deposits and other receivables		240,384	3,022
Cash and cash equivalents		8,372	493,258
Trade and bills payables		(47,959)	-
Other payables and accruals		(336,017)	(88,293)
Income tax recoverables/(payables)		44,188	(1,647)
Bank and other borrowings		(324,076)	(9,573)
Provision for major overhauls	41	-	(214,680)
		522,770	1,153,113
Non-controlling interests		(94,926)	(31,966)
		427,844	1,121,147
Exchange fluctuation reserve realised		(15,081)	(353,123)
Reclassification from interests in subsidiaries to available-for-sale investments		(51,897)	-
Gain on disposal of interests in subsidiaries, net		58,896	601,976
Less: Unrealised portion in respect of disposal transactions with an associate		(32,961)	-
Gain on disposal of subsidiaries, net, recognised in profit or loss		25,935	601,976
		419,762	1,370,000
Satisfied by:			
Cash		139,475	1,370,000
Equity interests of subsidiaries given up, at fair value		280,287	-
		419,762	1,370,000

NOTES TO FINANCIAL STATEMENTS

31 December 2013

47. DISPOSAL OF SUBSIDIARIES (Continued)

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

	2013	2012
	HK\$'000	HK\$'000
Cash consideration	139,475	1,370,000
Cash and cash equivalents disposed of	(8,372)	(493,258)
Consideration receivable as at 31 December (<i>note 30</i>)	(139,475)	(1,100,000)
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(8,372)	(223,258)
	<hr/> <hr/>	<hr/> <hr/>

Notes:

(a) Disposal of subsidiaries during the year ended 31 December 2013 mainly included the following transactions:

- (i) Pursuant to the Master Agreement (as defined in note 33 to the financial statements), the Group transferred its equity interests in BE Water (Weifang), BE Water BVI and BE Water (Hainan) to BE Water in exchange for an aggregate of 170,210,300 ordinary shares of BE Water. The transactions were completed during the year ended 31 December 2013 and details of which are set out in note 33 to the financial statements.
- (ii) Pursuant to a share transfer agreement entered into between the Group and 北京京儀集團有限責任公司 ("Beijing Jingyi", a fellow subsidiary of the Company) in September 2013, the Group disposed of an 85% equity interest in 北控綠產(青海)新能源有限公司 in September 2013 to Beijing Jingyi for a cash consideration of RMB110,185,500 (equivalent to HK\$139,475,000).

The cash consideration shall be settled by four instalments, with the first and second instalments of RMB33,055,650 (equivalent to HK\$41,843,000) each to be settled within five business days and three months, respectively, upon completion of the transaction; and the third and final instalments of RMB22,037,100 (equivalent to HK\$27,895,000) each to be settled within six months and one year, respectively, upon completion of the transaction.

Subsequent to the reporting period, in January and February 2014, the first and second instalments with an aggregate amount of RMB66,111,300 (equivalent to HK\$84,758,080) had been settled by Beijing Jingyi.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

47. DISPOSAL OF SUBSIDIARIES (Continued)

Notes: (Continued)

(b) Disposal of subsidiaries during the year ended 31 December 2012 included the following transaction:

Pursuant to a share transfer agreement dated 15 November 2012 between the Company as the vendor and Shi Hong Investments Limited ("Shi Hong", a fellow subsidiary) as the purchaser, the Company sold the entire equity interest in BE Motorway to Shi Hong for a cash consideration of RMB1.114 billion (equivalent to HK\$1.37 billion). BE Motorway is an investment holding company, holding a 96% equity interest in Capital Expressway Company.

The cash consideration is to be settled by six instalments, with the first instalment of RMB219,547,500 (equivalent to HK\$270,000,000) to be settled upon completion of the transaction and the remaining five instalments of RMB178,890,500 (equivalent to HK\$220,000,000) each to be settled on the date which falls 6 months, 1 year, 1.5 years, 2 years and 2.5 years of the completion date of the transaction, respectively. The first instalment had been settled during the year ended 31 December 2012 and the remaining balance was offset against the consideration payables by the Group to BE Group BVI in respect of the acquisition of the equity interest in China Gas during the year ended 31 December 2013, details of which are set out in notes 23(b)(iii) and 30 to the financial statements.

48. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

MAJOR NON-CASH TRANSACTIONS

Apart from the transactions detailed in notes 6, 23, 39, 46 and 47 to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2013 and 2012.

49. CONTINGENT LIABILITIES

At 31 December 2013, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantee in respect of a banking facility granted to a third party	151,333	450,000	151,333	450,000
Guarantees given in respect of the Guaranteed Senior Notes (note 38)	-	-	13,866,080	13,844,616
Guarantee given in respect of the Guaranteed Convertible Bonds (note 39(a))	-	-	673,270	2,175,000
	151,333	450,000	14,690,683	16,469,616

NOTES TO FINANCIAL STATEMENTS

31 December 2013

50. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16) under operating lease arrangements, with leases negotiated for original terms ranging from 1 to 8 years. The terms of the leases generally require the tenants to pay security deposits.

At 31 December 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Within one year	2,612	2,521
In the second to fifth years, inclusive	110	232
	2,722	2,753

At 31 December 2013, the Company did not have any non-cancellable operating lease arrangements as lessor (2012: Nil).

(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 2 to 30 years.

At 31 December 2013, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	165,545	74,732	14,667	2,662
In the second to fifth years, inclusive	181,824	196,891	40,787	40,787
After five years	636,317	637,663	-	-
	983,686	909,286	55,454	43,449

NOTES TO FINANCIAL STATEMENTS

31 December 2013

51. CAPITAL COMMITMENTS

At 31 December 2013, the Group had the following capital commitments as at the end of the reporting period:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Authorised, but not contracted for:		
Acquisition of interests in subsidiaries	64,359	2,519
	64,359	2,519
Contracted, but not provided for:		
Buildings	178,288	155,989
Plant and machinery	507,624	1,132,390
Capital contribution to an associate	771,205	1,099,342
	1,457,117	2,387,721
Total capital commitments	1,521,476	2,390,240

At 31 December 2013, the Company did not have any significant capital commitments (2012: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

52. RELATED PARTY DISCLOSURES

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group entered into the following material transactions with related parties during the year:

Name of related party	Nature of transaction	Notes	2013	2012
			HK\$'000	HK\$'000
Non-controlling equity holders of subsidiaries and their associates				
Yanjing Beer Group and its associates	Purchase of bottle labels ^γ	(i)	151,146	150,842
	Purchase of bottle caps ^γ	(i)	104,000	99,346
	Canning service fees paid ^γ	(ii)	37,567	46,336
	Comprehensive support service fees paid ^γ	(iii)	19,677	19,191
	Land rent expenses ^γ	(iv)	2,341	2,283
	Trademark licensing fees paid ^γ	(v)	81,424	73,214
	Less: Refund for advertising subsidies ^γ	(v)	(7,875)	(8,417)
Fellow subsidiaries				
Beiran Enterprises and its subsidiaries	Sale of gas [#]	(vi)	30,810	46,149
	Engineering service income [#]	(vii)	61,291	7,701
	Comprehensive service income [#]	(vii)	8,816	25,512
	Sale of goods [#]	(x)	180,184	106,437
	Engineering service expenses [#]	(vii)	67,866	77,093
	Comprehensive service expenses [#]	(vii)	88,837	–
	Building rental expenses [#]	(ix)	88,472	71,725
	Purchase of goods [#]	(ix)	194,558	24,933
Beijing Jingyi	Construction fee ^α	(viii)	6,733	395,379
Associate				
PetroChina Beijing Gas	Natural gas transmission fee expenses	(vi)	2,606,389	4,289,601

^γ These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules that are exempted from the reporting, announcement and independent shareholders' approval requirements.

[#] These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules that are exempted from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements.

^α This related party transaction, together with the disposal of equity interests in certain subsidiaries to BE Water and Beijing Jingyi (as further detailed in note 47 to the financial statement), also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

52. 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 included the following:
 - fees for security and canteen services which were determined based on the annual cost of labour, depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and
 - rental expenses, related to the premises occupied and used by Yanjing Brewery as its office, canteen and staff dormitories, which were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.
- (iv) The land rent expenses were charged at a mutually-agreed amount of RMB1,849,000 (2012: RMB1,849,000) per annum.
- (v) The trademark licensing fees paid were for the use of the “Yanjing” trademark and were determined based on 1% 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 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 construction contract fee was mutually agreed between two parties.
- (ix) The purchase prices of goods and the building rentals were determined by reference to the then prevailing market rates.
- (x) The selling prices of goods were determined on a cost-plus basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

52. RELATED PARTY DISCLOSURES (Continued)

(b) Outstanding balances with related parties

- (i) Details of the Group's balances with related parties included in trade and bills receivables, deposits and other debtors, and trade and bills payables and other payables and accruals are disclosed in notes 28(a), 29(a), 44 and 45 to the financial statements, respectively.
- (ii) Details of the balances with joint ventures, associates, holding companies, fellow subsidiaries and related parties are disclosed in notes 22, 23 and 30 to the financial statements, respectively.
- (iii) Details of the guarantees given by related parties in respect of the Group's bank and other borrowings are disclosed in note 37(c) to the financial statements.

(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, provision of sewage treatment services, 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 businesses, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(d) Compensation of key management personnel of the Group

	2013	2012
	HK\$'000	HK\$'000
Short term employee benefits	22,985	22,884
Pension scheme contributions	22	21
Total compensation paid to key management personnel	23,007	22,905

Further details of directors' emoluments are included in note 9 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

53. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain equity investments and the conversion option of the Yanjing Brewery Convertible Bonds being classified as available-for-sale investments and a financial liability at fair value through profit or loss, respectively, as disclosed in notes 24 and 39 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2013 and 2012 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

54. 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 24 to the financial statements, listed equity investments of the Group and the Company are stated at fair value based on their quoted market prices (as categorised within Level 1 of the fair value hierarchy); whilst the unlisted equity investments of the Group and the Company are stated at cost less any accumulated impairment losses because fair values of which cannot be reasonably assessed and therefore, no disclosure of the fair values of these financial instruments is made.

As disclosed in note 39(b) to the financial statements, the conversion option of the Yanjing Brewery Convertible Bonds is classified as a derivative financial instrument (a financial liability at fair value through profit or loss). In the opinion of the directors, since the financial impact of the fair value of the financial instrument is insignificant to the Group, no disclosure in respect of the valuation assumptions and their related effects on this financial instrument is made.

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

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55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other loans, the Guaranteed Senior Notes, convertible bonds and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as amounts due from/to contract customers, trade and bills receivables, deposits and other receivables, trade and bills payables, other payables and accruals and amounts due from/to holding companies, fellow subsidiaries, an associate, joint ventures, and related parties.

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

INTEREST RATE RISK

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

Bank loans, the Guaranteed Senior Notes, convertible bonds, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

INTEREST RATE RISK (Continued)

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments as at the end of the reporting period that are exposed to interest rate risk:

At 31 December 2013

	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 3 years HK\$'000	More than 3 years but less than 4 years HK\$'000	More than 4 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000	Effective interest rate %
Floating rate:								
Restricted cash and pledged deposits	63,104	-	-	-	-	-	63,104	0.35
Cash and cash equivalents	7,662,639	-	-	-	-	-	7,662,639	0.35
Bank and other borrowings	(4,626,732)	(3,511,809)	(110,623)	(123,444)	(275,326)	(272,053)	(8,919,987)	4.35
Fixed rate:								
Cash and cash equivalents	3,132,828	-	-	-	-	-	3,132,828	3.14
Bank and other borrowings	(1,985,171)	(30,042)	(30,004)	(901)	(901)	(5,650)	(2,052,669)	5.56
Convertible bonds	(673,055)	(93,500)	-	-	-	-	(766,555)	1.02
Guaranteed Senior Notes	-	-	-	-	-	(13,866,081)	(13,866,081)	5.36

NOTES TO FINANCIAL STATEMENTS

31 December 2013

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

INTEREST RATE RISK (Continued)

At 31 December 2012

	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 3 years HK\$'000	More than 3 years but less than 4 years HK\$'000	More than 4 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000	Effective interest rate %
Floating rate:								
Restricted cash and pledged deposits	60,953	-	-	-	-	-	60,953	0.35
Cash and cash equivalents	5,413,915	-	-	-	-	-	5,413,915	0.35
Bank and other borrowings	(5,545,157)	(312,935)	(3,097,092)	(127,750)	(117,873)	(366,860)	(9,567,667)	4.62
Fixed rate:								
Cash and cash equivalents	6,823,049	-	-	-	-	-	6,823,049	3.12
Bank and other borrowings	(696,409)	(28,917)	(28,880)	(856)	(856)	(6,483)	(762,401)	5.16
Convertible bonds	-	(2,165,206)	(94,107)	-	-	-	(2,259,313)	0.97
Guaranteed Senior Notes	-	-	-	-	-	(13,853,502)	(13,853,502)	5.08

At 31 December 2013, it was estimated that a general decrease/increase of 100 basis points in interest rate of average balances of bank and other loans and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK\$8,573,000 (2012: HK\$22,698,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for 2012.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, 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
2013		
If Hong Kong dollar weakens against RMB by 5%	320,526	2,757,905
If Hong Kong dollar strengthens against RMB by 5%	(320,526)	(2,757,905)
2012		
If Hong Kong dollar weakens against RMB by 5%	235,626	2,669,556
If Hong Kong dollar strengthens against RMB by 5%	(235,626)	(2,669,556)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

CREDIT RISK

The Group engages in certain cash income businesses, such as the expressway and toll road operations, and the Group has a very high debtor turnover rate and low credit risk in respect of these operations.

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

At the end of the reporting period, concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables under service concession arrangements and trade and bills receivables are set out in notes 19 and 28 to the financial statements, respectively.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from joint ventures and associates, deposits and other receivables and amounts due from holding companies, fellow subsidiaries and related parties, arises from default of the counterparty, with a maximum exposure to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of a financial guarantee, further details of which are disclosed in note 49 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

LIQUIDITY RISK

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank loans, other loans, the Guaranteed Senior Notes and convertible bonds. In addition, banking facilities have been put in place for contingency purposes.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of short term loans to cover expected cash demands, subject to approval by management of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

At 31 December 2013

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans	-	6,867,893	3,117,883	92,655	94,339	197,244	186,948	10,556,962
Other loans	-	104,872	380,415	72,841	70,625	76,053	109,091	813,897
Guaranteed Senior Notes	-	707,638	707,638	707,638	707,638	707,638	19,264,013	22,802,203
Convertible bonds	-	681,943	97,820	-	-	-	-	779,763
Trade and bills payables	-	2,383,225	-	-	-	-	-	2,383,225
Accruals and other liabilities	-	7,839,753	34,614	-	-	-	-	7,874,367
Due to a holding company	900,000	-	-	-	-	-	-	900,000
Due to related parties	274,965	-	-	-	-	-	-	274,965
	1,174,965	18,585,324	4,338,370	873,134	872,602	980,935	19,560,052	46,385,382

NOTES TO FINANCIAL STATEMENTS

31 December 2013

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

LIQUIDITY RISK (Continued)

At 31 December 2012

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans	-	6,439,283	302,685	3,082,200	110,471	87,569	872,995	10,895,203
Other loans	-	114,652	103,170	102,146	75,395	76,801	171,634	643,798
Guaranteed Senior Notes	-	707,620	707,620	707,620	707,620	707,620	21,111,099	24,649,199
Convertible bonds	-	49,496	2,200,155	61,154	-	-	-	2,310,805
Trade and bills payables	-	2,616,491	-	-	-	-	-	2,616,491
Accruals and other liabilities	-	6,707,782	244,060	-	-	-	-	6,951,842
Due to related parties	264,421	-	-	-	-	-	-	264,421
	<u>264,421</u>	<u>16,635,324</u>	<u>3,557,690</u>	<u>3,953,120</u>	<u>893,486</u>	<u>871,990</u>	<u>22,155,728</u>	<u>48,331,759</u>

FAIR VALUE RISK

The Group's financial instruments that are carried in the financial statements at other than fair values are disclosed in note 54 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 2013 and 2012.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

CAPITAL MANAGEMENT (Continued)

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings and the Guaranteed Senior Notes divided by the sum of total equity, interest-bearing bank borrowings and the Guaranteed Senior Notes. The gearing ratios as at the end of the reporting periods are as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
		(Restated)
Guaranteed Senior Notes	13,866,081	13,853,502
Interest-bearing bank borrowings	10,273,481	9,926,734
Total Guarantee Senior Notes and interest-bearing bank borrowings	24,139,562	23,780,236
Total equity	64,068,079	47,667,675
Total equity and interest-bearing bank borrowings and Guarantee Senior Notes	88,207,641	71,447,911
Gearing ratio	27%	33%

56. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 31 December 2013 amounted to HK\$302,701,000 (2012: HK\$6,964,771,000) and HK\$83,717,668,000 (2012: HK\$69,171,306,000, as restated), respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

57. EVENTS AFTER THE REPORTING PERIOD

On 24 February 2014, Beijing Development entered into a sale and purchase agreement with KCS Green Energy International (Group) Investments Company Limited, an independent third party, for the acquisition of all the issued shares of KCS Changde Investments Company Limited and KCS Taian Investments Company Limited and the related shareholders' loan at an aggregate consideration of RMB520,000,000 (equivalent to HK\$666,430,000). The consideration will be satisfied: (a) as to RMB86,790,000 (equivalent to HK\$111,230,000) in cash, and (b) as to RMB433,210,000 (equivalent to HK\$555,200,000) by the issue of Beijing Development's ordinary shares at the issue price of HK\$1.60 per share.

The Group's equity interest in Beijing Development will be reduced from 54.68% to 50.64% after the acquisition and will not result in a change of control of Beijing Development. As at the date of approval of these financial statements, the acquisition has not been completed.

Further details of the acquisition are set out in Beijing Development's announcement dated 24 February 2014.

58. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, comparative amounts have been reclassified and restated to conform to the current year's presentation and accounting treatment, and a third consolidated statement of financial position as at 1 January 2012 has been presented.

59. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2014.

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