香港交易及結算所有限公司及香港聯合交易所有限公司對本公佈的內容概不負責，對其準確性或完整性亦不發表任何聲明，並明確表示，概不對因本公佈全部或任何部份內容而產生或因倚賴該等內容而引致的任何損失承擔任何責任。

本公佈僅供參考，並非要約出售或邀請要約購買任何證券，而本公佈或其任何內容亦不構成任何合約或承諾的基礎。本公佈並非在美國出售證券的建議。本公佈及其任何副本不得帶入美國或在美國分發。有關證券並無亦不會根據1933年美國證券法(經修訂)登記，未辦理登記或未獲豁免登記則證券未必可在美國發售或出售。證券不會在美國進行公開發售。

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

(於香港註冊成立之有限公司)
(股份代號：392)

建議發行由本公司提供擔保之債券

本公佈乃根據上市規則第13.09(2)(a)條及香港法例第571章《證券及期貨條例》第XIVA部所載內幕消息條文而作出。

發行人(本公司全資附屬公司)建議向豁免美國證券法登記規定的交易中之機構投資者進行有擔保以歐元計值債券之國際發售。債券不會在香港進行公開發售。就建議債券發行而言，本公司將向若干機構投資者提供本集團截至2014年12月31日止年度之經審核綜合財務報表(包括所有附註及相關核數師報告、最新之風險因素以及本集團業務之公論，之前並未公佈)。有關資料在向機構投資者公佈時，大約同時亦可於本公司網站www.behl.com.hk供查閱。建議債券發行之定價(包括本金總額、發行價及利率)將透過聯席全球協調人及賬簿管理人及聯席賬簿管理人進行之入標定價程序釐定。落實債券之條款後，聯席全球協調人及賬簿管理人、聯席賬簿管理人、發行人及本公司將訂立認購協議。

倘債券獲發行，發行人擬將債券所得款項淨額轉貸給本公司。本公司擬將收取的所得款項淨額用作現有債務的再融資、營運資金及一般公司用途。

發行人已向愛爾蘭證券交易所申請債券納入全球交易市場(愛爾蘭證券交易所的交易監管市場)的正式名單及進行交易。發行人並無亦不會尋求債券在香港上市。

由於截至本公佈日期並未訂立有關建議債券發行之具約束力協議，建議債券發行可能會或可能不會落實。建議債券發行之完成視乎市況及投資者踴躍情況而定。投資者及本公司股東於買賣本公司證券時務請審慎行事。

本公司將於適當時候就建議債券發行刊發進一步公佈。

建議債券發行

緒言

發行人(本公司全資附屬公司)建議向豁免美國證券法登記規定之交易中之機構投資者進行有擔保債券之國際發售。債券不會在香港進行公開發售。債券預期由發行人發行及由本公司擔保。

就建議債券發行而言，本公司將向若干機構投資者提供本集團截至2014年12月31日止年度之經審核綜合財務報表(包括所有附註及相關核數師報告、最新之風險因素以及本集團業務之公論，之前並未公佈)。有關資料在向機構投資者公佈時，大約同時亦可於本公司網站www.behl.com.hk供查閱。建議債券發行之定價(包括本金總額、發行價及利率)將透過聯席全球協調人及賬簿管理人及聯席賬簿管理人進行之入標定價程序釐定。落實債券之條款後，聯席全球協調人及賬簿管理人、聯席賬簿管理人、發行人及本公司將訂立認購協議。

建議債券發行之定價(包括本金總額、發行價及利率)將透過聯席全球協調人及賬簿管理人及聯席賬簿管理人進行之入標定價程序釐定。落實債券之條款後，聯席全球協調人及賬簿管理人、聯席賬簿管理人、發行人及本公司將訂立認購協議。

債券及本公司的相關擔保尚未及不會根據美國證券法進行登記。因此，債券將遵照美國證券法S規例僅在美國境外之離岸交易中提呈發售或出售。

建議債券發行之理由

本集團為中國主要大型企業之一，主要從事燃氣傳輸及分銷、污水處理業務、啤酒廠經營及固體廢棄物處理業務。發行人為一間於英屬處女群島註冊成立之公司，由本公司全資擁有。

倘債券獲發行，發行人擬將債券所得款項淨額轉貸給本公司。本公司擬將收取的所得款項淨額用作現有債務的再融資、營運資金及一般公司用途。

上市

發行人已向愛爾蘭證券交易所申請債券納入全球交易市場(愛爾蘭證券交易所的交易監管市場)的正式名單及進行交易。發行人並無亦不會尋求債券在香港上市。

由於截至本公佈日期並未訂立有關建議債券發行之具約束力協議，建議債券發行可能會或可能不會落實。建議債券發行之完成視乎市況及投資者踴躍情況而定。投資者及本公司股東於買賣本公司證券時務請審慎行事。

本公司將於適當時候就建議債券發行刊發進一步公佈。

釋義

在本公佈中，除文義另有所指外，以下詞語具有以下涵義：

「董事會」	指	董事會
「債券持有人」	指	債券之持有人
「債券」	指	如本公佈所述，發行人擬發行之有擔保以歐元計值債券
「本公司」	指	北京控股有限公司，一間於香港註冊成立之有限公司，其股份於聯交所主板上市
「董事」	指	本公司董事
「本集團」	指	發行人、本公司及其附屬公司或聯屬公司
「香港」	指	中國香港特別行政區
「發行人」	指	Talent Yield (Euro) Limited，一家於英屬處女群島註冊成立之有限公司，為本公司之全資附屬公司
「聯席賬簿管理人」	指	澳新銀行集團有限公司以及星展銀行有限公司
「聯席全球協調人及賬簿管理人」	指	德意志銀行倫敦分行及UBS AG香港分行
「上市規則」	指	聯交所證券上市規則
「中國」	指	中華人民共和國
「建議債券發行」	指	如本公佈所述，發行人擬發行債券
「聯交所」	指	香港聯合交易所有限公司

「美國」 指 美利堅合眾國

「美國證券法」 指 1933年美國證券法(經修訂)

承董事會命
北京控股有限公司
副主席
周思

香港，2015年4月21日

於本公佈日期，本公司董事會成員包括執行董事王東先生(主席)、侯子波先生、周思先生、李福成先生、李永成先生、鄂萌先生、姜新浩先生及譚振輝先生；非執行董事郭普金先生；獨立非執行董事武捷思先生、林海涵先生、傅廷美先生、施子清先生、史捍民先生及楊孫西博士。

EXTRACT OF RECENT CORPORATE AND FINANCIAL INFORMATION OF BEIJING ENTERPRISES HOLDINGS LIMITED

RISK FACTORS

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 Company 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 Company has recently taken a more active approach in managing its core businesses, the Company generally remains as a passive holding company. Each of the subsidiaries and associated companies of the Company 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 Company 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

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燃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 Company. Such situations arise typically in connection with one-time projects which, in the opinion of the board of directors of the Company, 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 as third-party-owned or operated disposal sites. If those sites become contaminated, Beijing Water may be held responsible for the cost of investigation and remediation of such sites, any associated natural resource damage, and civil or criminal fines or penalties.

Extensive regulations may limit Beijing Water's flexibility to respond to market conditions and competition, and its water 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 to make dividend payments from its PRC subsidiaries.

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

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.

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 Company receives a significant portion of its revenues in Renminbi. As a holding company incorporated in Hong Kong, the Company 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.

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.

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.

CAPITALISATION

The following table sets out, on a consolidated basis, the capitalisation of the Company as at 31 December 2014, on an actual basis and as adjusted to give effect to the proposed issue of bonds and aggregate principal amount of such 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	84,556	84,556	10,906
Derivative component of convertible bonds	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)	—	[●]	[●]
Total short-term and long-term borrowings	37,222,802	[●]	[●]
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)	57,176,356	57,176,356	7,374,644
Total capitalisation(7)	94,399,158	[●]	[●]

Notes:

(1) Figures in the "As adjusted" column reflect the proposed issue of 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 Company and guaranteed by the Company.

(4) The aggregate principal amount of the proposed bonds has been translated from Euro to Hong Kong dollars at the rate of €1 to HK$[●], which was [the average of the selling and buying rate of opening indicative counter exchange rate as at 31 December 2014 published by The Hong Kong Association of Banks].

(5) The issued share capital of the Company 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 Company.

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

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

THE GROUP

Overview

The Company 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 Company'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 Company seeks to achieve consistent financial performance and to attract international investment to develop further Beijing's municipal infrastructure and its other businesses. The Company'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 Company to manage volatility across the various business segments, thereby positioning the Company to capture growth opportunities in Beijing and throughout the PRC.

Beijing Gas, in which the Company 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 Company expects such growth opportunities to help maintain and expand the Company'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 Company 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 Company 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 Company 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 Company 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 Company 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 Company believes its competitive strengths include:

Strong support from the Beijing Municipal Government

As at the date hereof, the Beijing Municipal Government, through companies under its control and supervision, has 60.2 per cent. effective interest in the Company. The Company 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 Company to operate and manage strategically important and substantial assets:* The Beijing Municipal Government has entitled the Company the effective monopoly rights to distribute natural gas in Beijing for a 25-year period. Moreover, the Company 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 Company'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 Company 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 automomous regions and three municipalities across China. With the support of the Beijing Municipal Government, the Company 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 Company's natural gas distribution and transmission business, sewage and water treatment businesses and the solid waste treatment business, the Company 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 Company to execute its strategic plans by acquiring strategic assets and disposing non-core assets. In November 2012, the Company 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 Company's investors and achieve sustainable development for the Company because the newly implemented toll policy has been negative impacting the Company's operating performance. Moreover, the asset disposal is in line with the Company's strategy to position itself as a utilities conglomerate with urban energy services as its core business. The Company has a 22.53 per cent. equity interest in China Gas. The transaction is in line with the Company'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 hereof, the Company's stake in China Gas has appreciated by approximately 61 per cent. In December 2014, with the support of the Beijing Municipal Government, the Company 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 Company'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 Company and its businesses, the Company 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 Company 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 Company) 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 Company has been a flagship and key asset for Beijing SASAC for a long time. The close relationship between Beijing SASAC and the Company has been strengthened throughout the years. Several Chief Officers of Beijing SASAC have been assumed the senior management positions in the Company before, including previous Chief Officer Mr. Xiong Daxin who assumed the position of Chief Executive Director and Vice Chairman of the Company and current Chief Officer Mr. Lin Fusheng who was the Company's General Manager and Vice Chairman. Several of BE Group and the Company'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 Company manages in order to facilitate Beijing SASAC's supervision and control of the Company's operating risks.

Favourable market positions to benefit from supportive PRC Government policies

One of the Company'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 Company 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 Company 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 Company also participates in midstream natural gas transmission services through the Company's 40.0 per cent. owned associated company, PetroChina Beijing Pipeline. The Company 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 Company 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 Company's prudent fiscal policy. Enhanced by the alliance between the Company'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 Company believes its business segments are well positioned to access these opportunities. Moreover, to further reduce business concentration risk, the Company is actively diversifying its business geographically. In the natural gas distribution business, the Company 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 Company 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 automatous regions, BE Water is also achieving major breakthrough in developing international markets. The Company 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 Company has historically generated strong cash flows and maintained relatively consistent margins, thereby maintaining a solid platform for conservative growth. The Company 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 Company has historically generated strong cashflows and maintained relatively consistent margins, thereby maintaining a solid platform for conservative growth. The Company 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 Company 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 additional, 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 Company's revenue increased from HK$35,569.6 million to HK$42,360.5 million to HK$47,935.8 million and the Company'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 Company 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 Company expects its natural gas network to significantly expand as natural gas supply increases to the Beijing metropolitan and other areas. Likewise, the Company expects national water policies to support the Company's sewage and water treatment facilities, including the Company's design and construction capabilities related to green-field projects.

Excellent management with a proven track record and deep industry expertise

The Company continues to seek attractive energy and infrastructure investments in the PRC and to enhance the value of the Company's existing businesses. The Company'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 Company's management team demonstrate the Company's commitment to focusing on key strategic assets with strong and consistent profit margins. Moreover, the Company believes its strong understanding of the local market and close relationship with the Beijing Municipal Government enables the Company to manage assets more effectively than its competitors. See "Directors and Management".

Business Strategy

The Company's strategy is to enhance the Company's position as a leading utilities and consumer products company in the PRC by making attractive investments intended to increase the value of the Company's existing businesses. The Company'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 Company'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 Company is well positioned to extend the Company's distribution network to suburban counties of Beijing. The Company 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 Company is extending the Company's network to various districts and counties outside Beijing's Sixth Ring Road. In addition to expanding the capacity and geographic coverage of the Company's natural gas distribution and transmission network, the Company plans to focus on improving the quality of the Company's service and improve the Company'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 Company 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 Company has been primarily on the Beijing market. The extensive coverage of the regional businesses of China Gas provides strategic opportunities for the Company to expand its business nationwide. The Company 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 Company. 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 Company'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	35,569.6	42,360.5	47,935.8

	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)
	3,597.6	4,755.5	5,405.6

Notes:

(1) As the Company'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 Company during the year ended 31 December 2012.

(3) The Company'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

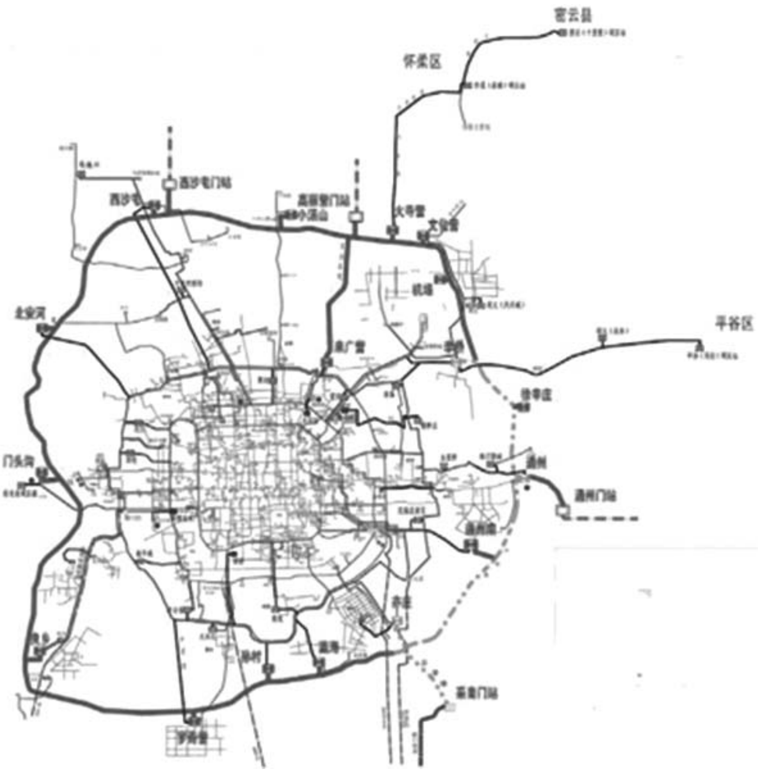
Beijing Gas Group Company Limited ("Beijing Gas")

The Company 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 relevant governmental authorities.

For 2014, revenue from Beijing Gas's natural gas distribution business amounted to HK$32.44 billion, representing a 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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	Actual processing capacity during 2014
		(Tons/Day)	(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	240	11,453,150	2,991.7

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

PRC Government Regulation

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

Insurance

The Company 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 Company 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 Company's financial condition and results of operation.

Property

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

EY 安永
Building a better working world

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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.

EY 安永

Building a better working world

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.

Ernst & Young

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		(39,359,764)	(34,023,315)
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		(482,408)	(197,707)
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)	3,807,092	2,742,612
PROFIT BEFORE TAX		5,970,481	5,300,742
Income tax	10	(564,834)	(545,287)
PROFIT FOR THE YEAR		5,405,647	4,755,455
ATTRIBUTABLE TO:			
Shareholders of the Company	11	4,831,678	4,183,878
Non-controlling interests		573,969	571,577
		5,405,647	4,755,455
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	13		
Basic		HK$3.78	HK$3.61
Diluted		HK$3.77	HK$3.54

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	5,405,647	4,755,455
OTHER COMPREHENSIVE INCOME/(LOSS)		
Items to be reclassified to profit or loss in subsequent periods:		
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	(16,892)	20,941
	(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)
	(1,367,217)	1,845,685
Share of other comprehensive income/(loss) of associates	(101,289)	119,749
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	(1,652,958)	2,430,903
Items not to be reclassified to profit or loss in subsequent periods:		
Defined benefit plans:		
Actuarial (losses)/gains	(108,273)	36,832
Income tax effect	27,069	(9,208)
	(81,204)	27,624
Share of other comprehensive income/(loss) of associates	(15,890)	13,072
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	(97,094)	40,696
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX	(1,750,052)	2,471,599
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3,655,595	7,227,054
ATTRIBUTABLE TO:		
Shareholders of the Company	3,336,953	6,347,464
Non-controlling interests	318,642	879,590
	3,655,595	7,227,054

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		90,817,895	83,414,967
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
		30,568,962	26,206,857
Assets of a disposal group classified as held for sale	31	2,677,061	-
Total current assets		33,246,023	26,206,857
TOTAL ASSETS		124,063,918	109,621,824

continued/...

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		30,401,883	29,734,548
Other reserves	34(a)(i)	25,978,176	23,522,995
Proposed final dividend	12	796,297	763,695
		57,176,356	54,021,238
Non-controlling interests		10,874,635	10,046,841
TOTAL EQUITY		68,050,991	64,068,079
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		20,895,263	19,649,589
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
		34,508,856	25,904,156
Liabilities directly associated with the assets of a disposal group classified as held for sale	31	608,808	-
Total current liabilities		35,117,664	25,904,156
TOTAL LIABILITIES		56,012,927	45,553,745
TOTAL EQUITY AND LIABILITIES		124,063,918	109,621,824

.... 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												Non-controlling interests HK$'000	Total equity HK$'000
		Share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000 (note 34(a)(ii))	Capital reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Defined benefit plans reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 34(a)(iii))	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'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	-	-	-	-	-	-	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	45	-	-	-	-	-	-	-	(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		-	-	-	-	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	32(a)	3,452	1,496,785	-	-	-	-	-	-	-	-	-	1,500,237	-	1,500,237
Issue of shares	32(b)	9,810	7,372,215	-	-	-	-	-	-	-	-	-	7,382,025	-	7,382,025
Acquisition of subsidiaries	44	-	-	-	-	-	-	-	-	-	-	-	-	539,999	539,999
Disposal of subsidiaries	45	-	-	-	(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		-	-	-	-	-	-	-	-	-	-	(572,286)	(572,286)	-	(572,286)
Interim 2013 dividend	12	-	-	-	-	-	-	-	-	-	(291,658)	-	(291,658)	-	(291,658)
Proposed final 2013 dividend	12	-	-	-	-	-	-	-	-	-	(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

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

	Notes	Attributable to shareholders of the Company												Non-controlling interests HK$'000	Total equity HK$'000
		Share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000 (note 34(a)(ii))	Capital reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Defined benefit plans reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 34(a)(iii))	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'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		-	-	-	-	-	-	-	-	-	4,831,678	-	4,831,678	573,969	5,405,647
Other comprehensive income/(loss) for the year															
Available-for-sale investments															
Changes in fair value		-	-	-	-	(105,839)	-	-	-	-	-	-	(105,839)	(453)	(106,292)
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss		-	-	-	-	(61,268)	-	-	-	-	-	-	(61,268)	-	(61,268)
Income tax effect		-	-	-	-	(16,892)	-	-	-	-	-	-	(16,892)	-	(16,892)
Exchange differences:															
Translation of foreign operations		-	-	-	-	-	-	-	(1,112,343)	-	-	-	(1,112,343)	(254,874)	(1,367,217)
Defined benefit plans:															
Actuarial losses		-	-	-	-	-	-	(108,273)	-	-	-	-	(108,273)	-	(108,273)
Income tax effect		-	-	-	-	-	-	27,069	-	-	-	-	27,069	-	27,069
Share of other comprehensive income of associates		-	-	-	-	-	-	(15,890)	(101,289)	-	-	-	(117,179)	-	(117,179)
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	32(a)	667,335	-	-	-	-	-	-	-	-	-	-	667,335	-	667,335
Shares repurchased	32(c)	(105)	-	105	-	-	-	-	-	-	(69,162)	-	(69,162)	-	(69,162)
Transition to non-par value regime	32(d)	29,607,634	(29,607,291)	(343)	-	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiaries	44	-	-	-	-	-	-	-	-	-	-	-	-	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	-	-	-	-	-	116,592	-	116,592
Final 2013 dividend	12	-	-	-	-	-	-	-	-	-	-	(763,695)	(763,695)	-	(763,695)
Interim 2014 dividend	12	-	-	-	-	-	-	-	-	-	(359,618)	-	(359,618)	-	(359,618)
Proposed final 2014 dividend	12	-	-	-	-	-	-	-	-	-	(796,297)	796,297	-	-	-
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	(312,543)	(312,543)
Transfer to reserves		-	-	-	495	-	-	-	-	1,666,431	(1,666,926)	-	-	-	-
At 31 December 2014		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		(3,811,919)	(2,736,765)
Operating profit before working capital changes		5,351,103	4,936,269

continued/...

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	853,918	6,153,257

continued/...

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		(8,132,389)	(6,725,415)
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		8,564,680	(1,079,640)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,286,209	(1,651,798)
Cash and cash equivalents at beginning of year		10,132,463	11,515,682
Effect of foreign exchange rate changes, net		(195,050)	268,579
CASH AND CASH EQUIVALENTS AT END OF YEAR		11,223,622	10,132,463

continued/...

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	(58,735)	(63,104)
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	170,687	-
Cash and cash equivalents as stated in the consolidated statement of cash flows		11,223,622	10,132,463

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		57,637,316	48,400,463
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		4,260,715	1,798,885
TOTAL ASSETS		61,898,031	50,199,348

continued/...

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

Zhou Si
Director

Tam Chun Fai
Director

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.

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)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*
Amendment to HKFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to HKFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

[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.

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

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	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2012-2014 Cycle	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.

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.

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.

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.

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".

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

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

(a) any resulting decrease in the carrying amount of the property is recognised in the statement of profit or loss in the period the change in use takes place.

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

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.

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.

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.

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.

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.

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).

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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

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.

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.

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.

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.

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.

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.

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	3,477,535	5,020,134	-	78,362	-	8,576,031
Profit from operating activities	1,964,656	1,358,876	-	7,521	-	3,331,053
Finance costs	(264,383)	(93,188)	-	(814,920)	-	(1,172,491)
Share of profits and losses of:						
Joint ventures	4,860	-	-	(33)	-	4,827
Associates	2,977,116	(849)	789,962	40,863	-	3,807,092
Profit/(loss) before tax	4,682,249	1,264,839	789,962	(766,569)	-	5,970,481
Income tax	(210,689)	(314,208)	-	(39,937)	-	(564,834)
Profit/(loss) for the year	4,471,560	950,631	789,962	(806,506)	-	5,405,647
Segment profit/(loss) attributable to shareholders of the Company	4,454,238	387,515	789,962	(800,037)	-	4,831,678
Segment assets	70,277,913	24,309,263	7,382,087	25,101,214	(3,006,559)	124,063,918
Segment liabilities	18,923,706	8,648,299	-	31,447,481	(3,006,559)	56,012,927
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 **	1,537,200	1,034,409	-	1,089,552	-	3,661,161

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	3,205,795	5,015,009	-	116,409	-	8,337,213
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	3,537,739	933,127	514,454	(229,865)	-	4,755,455
Segment profit/(loss) attributable to shareholders of the Company	3,520,112	357,986	514,454	(208,674)	-	4,183,878
Segment assets	64,379,987	24,934,992	6,477,189	16,745,750	(2,916,094)	109,621,824
Segment liabilities	19,445,446	9,424,766	-	19,599,627	(2,916,094)	45,553,745
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 **	4,473,865	1,904,833	38,923	250,486	-	6,668,107

* 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.

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
Revenue		
Piped gas operation	32,438,393	25,159,146
Brewery operation	15,150,989	16,836,952
Corporate and others	346,413	364,430
	47,935,795	42,360,528

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

	2014 HK$'000	2013 HK$'000
Other income		
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
	792,459	675,585
Gains, net		
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
	70,021	232,514
Other income and gains, net	862,480	908,099

* 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.

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
		5,185,059	4,343,477
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)		(24,337)	(28,618)

* 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.

7. FINANCE COSTS

	Note	Group 2014 HK$'000	Group 2013 HK$'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
Total finance costs		1,200,017	1,178,348
Less: Interest included in construction in progress		(27,526)	(44,604)
		1,172,491	1,133,744

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

8. DIRECTORS' REMUNERATION (continued)

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2014				
Executive directors:				
Mr. Wang Dong	180	3,893	-	4,073
Mr. Zhou Si	180	3,276	-	3,456
Mr. Zhang Honghai	60	169	-	229
Mr. Li Fucheng	400	-	-	400
Mr. Hou Zibo	173	1,936	-	2,109
Mr. Liu Kai	125	-	-	125
Mr. Lei Zhengang	38	-	-	38
Mr. E Meng	150	2,322	-	2,472
Mr. Jiang Xinhao	150	2,322	-	2,472
Mr. Tam Chun Fai	150	1,936	24	2,110
Mr. Li Yongcheng	113	-	-	113
	1,719	15,854	24	17,597
Non-executive director:				
Mr. Guo Pujin	150	-	-	150
	1,869	15,854	24	17,747
Independent non-executive directors:				
Mr. Wu Jiesi	216	-	-	216
Mr. Robert A. Theleen	216	-	-	216
Mr. Lam Hoi Ham	216	-	-	216
Mr. Fu Tingmei	216	-	-	216
Mr. Sze Chi Ching	216	-	-	216
Mr. Shi Hanmin	54	-	-	54
Dr. Yu Sun Say	162	-	-	162
	1,296	-	-	1,296
Total directors' remuneration	3,165	15,854	24	19,043

8. DIRECTORS' REMUNERATION (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 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
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

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.

10. INCOME TAX

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

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

10. INCOME TAX (continued)

Group – 2013

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total 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

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		1,794,220	615,390
Company's profit for the year	34(b)	1,544,278	764,870

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	796,297	763,695
	1,155,915	1,055,353

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	6,118	35,932
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	4,837,796	4,219,810

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

	2014	2013
Number of ordinary shares		
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	5,438,257	30,935,982
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	1,284,890,298	1,191,064,972

14. PROPERTY, PLANT AND EQUIPMENT

Group

	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
Year ended 31 December 2014									
At 1 January 2014:									
Cost		11,716,565	23,619	16,575,183	16,575,984	912,275	845,136	7,457,100	54,105,862
Accumulated depreciation and impairment		(2,202,872)	(13,440)	(3,175,881)	(8,594,715)	(553,974)	(416,986)	(151,227)	(15,109,095)
Net carrying amount		9,513,693	10,179	13,399,302	7,981,269	358,301	428,150	7,305,873	38,996,767
Net carrying amount:									
At 1 January 2014		9,513,693	10,179	13,399,302	7,981,269	358,301	428,150	7,305,873	38,996,767
Acquisition of subsidiaries	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	(354,582)	(7,355)	(748,890)	(1,032,055)	(86,998)	(68,811)	-	(2,298,691)
Impairment during the year recognised in profit or loss	6	-	-	(26,468)	(100,000)	-	-	-	(126,468)
Transfer to assets of a disposal group classified as held for sale	31	(6,980)	-	(7,166)	(15,071)	(188)	(1,850)	(2,239)	(33,494)
Disposals		(29,388)	-	(3,354)	(7,938)	(5,989)	(4,905)	(343)	(51,917)
Reclassification		-	-	(325)	1,720	(1,395)	-	-	-
Exchange realignment		(238,793)	(190)	(334,982)	(199,517)	(8,924)	(10,607)	(182,647)	(975,660)
At 31 December 2014		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530
At 31 December 2014:									
Cost		12,620,072	104,965	17,962,726	18,082,715	1,131,266	865,789	5,711,228	56,478,761
Accumulated depreciation and impairment		(2,546,834)	(20,466)	(3,829,816)	(9,538,500)	(616,846)	(458,049)	(147,720)	(17,158,231)
Net carrying amount		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530

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
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		7,379,860	12,510	11,429,367	7,090,743	277,763	351,296	6,263,929	32,805,468
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		9,513,693	10,179	13,399,302	7,981,269	358,301	428,150	7,305,873	38,996,767
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		9,513,693	10,179	13,399,302	7,981,269	358,301	428,150	7,305,873	38,996,767

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2014			
At 1 January 2014:			
Cost	9,989	4,192	14,181
Accumulated depreciation	(4,662)	(2,640)	(7,302)
Net carrying amount	5,327	1,552	6,879
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	3,329	1,767	5,096
At 31 December 2014:			
Cost	9,989	4,992	14,981
Accumulated depreciation	(6,660)	(3,225)	(9,885)
Net carrying amount	3,329	1,767	5,096
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

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 Hong Kong HK$'000	2014 Elsewhere HK$'000	2014 Total HK$'000	2013 Hong Kong HK$'000	2013 Elsewhere HK$'000	2013 Total HK$'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
	23,313	12,596,759	12,620,072	23,313	11,693,252	11,716,565

(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 2014 HK$'000	Group 2013 HK$'000	Company 2014 HK$'000	Company 2013 HK$'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	703,749	719,968	56,914	56,914

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
	21,550	682,199	703,749	21,550	698,418	719,968

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.

16. PREPAID LAND PREMIUMS

	Notes	Group 2014 HK$'000	Group 2013 HK$'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		1,959,240	1,785,609

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$'000	Group 2013 HK$'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		8,832,689	7,659,735

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 HK$'000	Group 2013 HK$'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
		8,832,689	7,659,735

(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).

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.

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.

18. SERVICE CONCESSION ARRANGEMENTS (continued)

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

Operating concessions

	Notes	Group 2014 HK$'000 (note (a))	Group 2013 HK$'000 (note (a))
At 1 January:			
Cost		2,023,997	1,777,107
Accumulated amortisation		(1,417,705)	(1,357,869)
Net carrying amount		606,292	419,238
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		(4,131)	18,383
At 31 December		2,021,350	606,292
At 31 December:			
Cost		3,434,158	2,023,997
Accumulated amortisation and impairment		(1,412,808)	(1,417,705)
Net carrying amount		2,021,350	606,292

18. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements

	Group 2014 HK$'000	Group 2013 HK$'000
Receivables under service concession arrangements attributable to:		
Sewage and water treatment operation (note (b))	-	701,582
Waste treatment operation (notes (a)(i))	1,133,022	-
	1,133,022	701,582
Portion classified as current assets	(140,425)	(701,582)
Non-current portion	992,597	-

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 31December 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.

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.

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
	14,375	701,582
Unbilled	1,118,647	-
	1,133,022	701,582
Portion classified as current assets	(140,425)	(701,582)
Non-current portion	992,597	-

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:

	Group	
	2014	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
	14,375	701,582

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.

19. OTHER INTANGIBLE ASSETS

Group

	Patents HK$'000	Operating right HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2014				
At 1 January 2014:				
Cost	-	-	127,540	127,540
Accumulated amortisation	-	-	(63,420)	(63,420)
Net carrying amount	-	-	64,120	64,120
Net carrying amount:				
At 1 January 2014	-	-	64,120	64,120
Acquisition of a subsidiary (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	10	30	(1,539)	(1,499)
At 31 December 2014	54,265	82,250	100,463	236,978
At 31 December 2014:				
Cost	55,116	84,605	192,124	331,845
Accumulated amortisation	(851)	(2,355)	(91,661)	(94,867)
Net carrying amount	54,265	82,250	100,463	236,978

19. OTHER INTANGIBLE ASSETS (continued)

Group

	Patents HK$'000	Operating right HK$'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 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

20. INTERESTS IN SUBSIDIARIES

	Notes	Company 2014 HK$'000	Company 2013 HK$'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)
		56,212,369	48,054,713
Due to subsidiaries, included in non-current liabilities	(a)	(14,785,877)	(15,643,971)
Interests in subsidiaries		41,426,492	32,410,742

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.

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 Company	Group	Principal activities
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 materials

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 Company	Group	Principal activities
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.

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	562,398	575,141
Dividends paid to non-controlling interests of the Yanjing Investment Group	292,269	299,457
Accumulated balances of non-controlling interests at the reporting dates	9,234,570	9,223,926

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	951,770	870,325
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	(254,448)	(123,795)
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	(145,506)	(1,849,070)
Net increase/(decrease) in cash and cash equivalents	277,344	(179,483)

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

21. INTERESTS IN JOINT VENTURES

	Notes	Group 2014 HK$'000	Group 2013 HK$'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	77,829	53,559
Interests in joint ventures		308,551	270,909

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 Ownership interest attributable to the Group	Percentage of Voting power	Percentage of Profit sharing	Principal activities
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.

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
Share of the joint ventures' assets and liabilities		
Non-current assets	325,214	286,563
Current assets	138,800	144,398
Non-current liabilities	(104,650)	(53,895)
Current liabilities	(128,642)	(159,716)
Net assets	230,722	217,350
Share of the joint ventures' results		
Profit/(loss) for the year and total comprehensive income/(loss) for the year	4,827	(5,847)
Aggregate carrying amount of the Group's investments in the joint ventures	230,722	217,350

22. INTERESTS IN ASSOCIATES

	Notes	Group 2014 HK$'000	Group 2013 HK$'000 (Restated)#	Company 2014 HK$'000	Company 2013 HK$'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	-	-
		33,275,203	29,184,338	106,177	106,320
Dividend receivable from an associate, included in current assets	27	-	695,538	-	-
Interests in associates		33,275,203	29,879,876	106,177	106,320

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 Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activities
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[π]	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

π 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.

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.

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	22,812,111	21,170,106	15,784,448	13,297,631	19,338,717	17,574,640
Net assets, excluding goodwill of the associate	22,812,111	21,170,106	13,259,747	10,784,769	16,545,544	14,483,582
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	9,124,845	8,468,042	7,300,572	6,395,674	10,921,934	9,382,025

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.

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	2,063	2,115

(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	(52)	78
At 31 December	7,601,527	6,747,850

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	(11,358)	(11,358)	-	-
	1,084,098	1,315,859	1,256,760	175,637

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 HK$'000	Group 2013 HK$'000
Raw materials	4,460,535	4,642,402
Work in progress	446,871	441,741
Finished goods	485,962	577,349
	5,393,368	5,661,492

25. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group 2014 HK$'000	Group 2013 HK$'000
Amounts due from contract customers:		
Non-current portion	316,733	947,102
Current portion	39,895	28,599
	356,628	975,701
Amounts due to contract customers	(377,784)	(325,794)
	(21,156)	649,907
Contract costs incurred plus recognised profits less recognised losses to date	773,393	1,393,823
Less: Progress billings received and receivable	(794,549)	(743,916)
	(21,156)	649,907

26. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2014	2013	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000
Trade and bills receivables	5,578,369	4,618,375	1,099	1,128
Impairment (note (c))	(257,534)	(225,001)	-	-
	5,320,835	4,393,374	1,099	1,128

(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	2013	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'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	26,772	28,804	-	-
	2,674,257	2,390,634	1,099	1,128
Unbilled	2,646,578	2,002,740	-	-
	5,320,835	4,393,374	1,099	1,128

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	(5,624)	8,630
At 31 December	257,534	225,001

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	67,259	73,796	1,099	1,128
	2,559,598	2,330,425	1,099	1,128

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

		Group		Company	
	Notes	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
		7,411,406	5,720,317	1,384,313	139,071
Impairment	(c)	(114,821)	(112,985)	-	-
		7,296,585	5,607,332	1,384,313	139,071
Portion classified as current assets		(6,131,039)	(4,290,561)	(1,384,313)	(139,071)
Non-current portion		1,165,546	1,316,771	-	-

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	114,821	112,985	-	-

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).

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

		Group	
	Notes	2014 HK$'000	2013 HK$'000
Restricted cash	(a)	29,926	30,721
Pledged deposits	(b)	28,809	32,383
Restricted cash and pledged deposits		58,735	63,104

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.

30. CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'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	11,207,706	10,795,467	2,875,303	1,658,686

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.

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.

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
Assets		
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		170,687
Assets of a disposal group classified as held for sale		2,677,061
Liabilities		
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		(264)
Liabilities directly associated with the assets of a disposal group classified as held for sale		(608,808)
Net assets directly associated with a disposal group held for sale		2,068,253

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.

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	30,401,883	127,019

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		1,284,350,268	30,401,883	-	-	30,401,883

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.

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.

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.

35. BANK AND OTHER BORROWINGS

	Group 2014 HK$'000	Group 2013 HK$'000	Company 2014 HK$'000	Company 2013 HK$'000
Bank loans:				
Secured	1,648,348	1,377,622	-	-
Unsecured	17,064,646	8,911,251	10,138,224	2,985,750
	18,712,994	10,288,873	10,138,224	2,985,750
Other loans:				
Secured	4,466	-	-	-
Unsecured	4,533,849	847,794	3,400,000	-
	4,538,315	847,794	3,400,000	-
Total bank and other borrowings	23,251,309	11,136,667	13,538,224	2,985,750
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	-	-
	18,712,994	10,288,873	10,138,224	2,985,750
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	-	-
	4,538,315	847,794	3,400,000	-
Total bank and other borrowings	23,251,309	11,136,667	13,538,224	2,985,750
Portion classified as current liabilities	(17,691,435)	(6,617,031)	(10,577,974)	-
Non-current portion	5,559,874	4,519,636	2,960,250	2,985,750

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	2013	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'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	-	-
	23,251,309	11,136,667	13,538,224	2,985,750

(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 北京市財政局 (the Finance Bureau of Beijing) to finance certain of the Group's pipeline construction projects. Except for an interest-free loan of HK$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);

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.

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)	N/A	7.58

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

	Note	Guaranteed Convertible Bonds HK$'000 (note (a))	Yanjing Brewery Convertible Bonds HK$'000 (note (b))	Total HK$'000
Principal amount outstanding				
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		-	83,394	83,394

37. CONVERTIBLE BONDS (continued)

Group (continued)

	Notes	Guaranteed Convertible Bonds HK$'000 (note (a))	Yanjing Brewery Convertible Bonds HK$'000 (note (b))	Total HK$'000
Liability component				
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
Derivative component				
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.

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.

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.

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	42,092	9,635	325	52,052
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

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	411,850	126,832	7,023	545,705
Portion classified as current liabilities included in other payables and accruals (note 43)				(10,050)
Non-current portion				535,655

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	540,612	137,470	4,441	682,523
Portion classified as current liabilities included in other payables and accruals (note 43)				(9,864)
Non-current portion				672,659

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	8.00%	8.00%

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	1.00	169,274	1.00	(124,325)

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).

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	2013
	HK$'000	HK$'000
At 1 January	30,544	29,414
Exchange realignment	-	1,130
At 31 December	30,544	30,544

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	
		2014	2013
	Note	HK$'000	HK$'000
Other liabilities – non-current portion	43	40,082	34,614
Deferred income		393,365	327,245
		433,447	361,859

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.

41. DEFERRED TAX

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

	Group	
	2014	2013
	HK$'000	HK$'000
Deferred tax assets	678,460	601,056
Deferred tax liabilities	(319,441)	(233,462)
	359,019	367,594

41. DEFERRED TAX (continued)

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

Group

		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 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		-	-	-	-	-	-	-	-	183,727	-	-	183,727
Exchange realignment		2,996	(71)	1,188	(7,433)	-	10,694	5,828	283	(3,497)	183	-	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

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	10	1,649	(176)	-	(28,383)	-	53,981	7,358	-	-	-	-	34,429
Deferred tax credited/(charged) to other comprehensive income during the year		-	-	-	-	(16,892)	-	27,069	-	-	-	-	10,177
Derecognised upon the transfer of receivables under a service concession arrangement		-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiaries	44	(40,526)	-	-	-	-	-	-	-	-	-	-	(40,526)
Exchange realignment		(1,212)	49	(802)	2,044	50	(9,030)	(3,455)	(51)		(248)	-	(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

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
	2,238,403	2,383,225

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

		Group		Company	
	Notes	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
		7,696,537	9,049,332	1,951,563	966,398
Portion classified as current liabilities		(7,656,455)	(9,014,718)	(1,951,563)	(966,398)
Non-current portion	40	40,082	34,614	-	-

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.

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 GSEI HK$'000 (note (a)(iv))	2014 Others HK$'000 (notes (a)(i), (ii) and (iii))	2014 Total HK$'000	2013 Total HK$'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
		3,799,648	1,137,744	4,937,392	1,060,456

\# 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.

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
	3,799,648	1,137,744	4,937,392	1,060,456
Revenue for the year since acquisition	-	21,540	21,540	219,245
Loss for the year since acquisition	-	(7,147)	(7,147)	(31,628)

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	(3,799,648)	(318,824)	(4,118,472)	(732,685)
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	(3,450,113)	(262,462)	(3,712,575)	171,331

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).

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.

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.

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

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	(4,189)	-
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	135,286	(8,372)

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 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.

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
	-	151,333	15,659,096	14,690,683

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	-	110
	2,710	2,722

At 31 December 2014, the Company did not have any non-cancellable operating lease arrangements as lessor (2013: Nil).

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	619,103	636,317	-	-
	819,662	983,686	12,772	55,454

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	-	64,359
	-	64,359
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
	1,323,239	1,457,117
Total capital commitments	1,323,239	1,521,476

At 31 December 2014, the Company did not have any significant capital commitments (2013: Nil).

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[γ]	(i)	125,731	151,146
	Purchase of bottle caps[γ]	(i)	92,986	104,000
	Canning service fees paid[γ]	(ii)	36,506	37,567
	Comprehensive support service fees paid[γ]	(iii)	19,431	19,677
	Land rent expenses[γ]	(iv)	2,311	2,341
	Trademark licensing fees paid[γ]	(v)	74,505	81,424
	Less: Refund for advertising subsidies[γ]	(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)	14,753	328

γ These related party transactions also constitute continuing connected transactions that are exempted from the reporting, announcement and independent shareholders' approval requirements as defined in Chapter 14A of the Listing Rules.

\# These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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.

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.

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.

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.

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	24	22
Total compensation paid to key management personnel	22,908	23,007

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.

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

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	(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

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.

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%	(397,824)	(3,168,588)
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)

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.

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.

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
	2,209,714	22,891,934	1,588,758	1,649,040	1,457,621	4,237,058	20,667,950	58,702,075

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
	1,174,965	18,585,324	4,338,370	873,134	872,602	980,935	19,560,052	46,385,382

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.

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	2013
	HK$'000	HK$'000
Guaranteed Senior Notes	13,879,298	13,866,081
Interest-bearing bank borrowings	23,093,295	10,273,481
Total Guarantee Senior Notes and interest-bearing bank borrowings	36,972,593	24,139,562
Total equity	68,050,991	64,068,079
Total equity and interest-bearing bank borrowings and Guarantee Senior Notes	105,023,584	88,207,641
Gearing ratio	35%	27%

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.

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 of 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.