北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

BEIJING ENTERPRISES HOLDINGS LIMITED

Stock Code : 392

ANNUAL REPORT 2015

CONTENT

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Wang Dong *(Chairman)*
Mr. Hou Zibo *(Vice Chairman)*
Mr. Zhou Si *(Vice Chairman & Chief Executive Officer)*
Mr. Li Fucheng *(Vice Chairman)*
Mr. Li Yongcheng *(Vice Chairman)*
Mr. E Meng *(Executive Vice President)*
Mr. Jiang Xinhao *(Vice President)*
Mr. Tam Chun Fai
(Chief Financial Officer & Company Secretary)

Independent Non-Executive Directors

Mr. Wu Jiesi
Mr. Lam Hoi Ham
Mr. Fu Tingmei
Mr. Sze Chi Ching
Mr. Shi Hanmin
Dr. Yu Sun Say

AUDIT COMMITTEE

Mr. Wu Jiesi
Mr. Lam Hoi Ham *(Committee Chairman)*
Mr. Fu Tingmei

REMUNERATION COMMITTEE

Mr. Zhou Si
Mr. Wu Jiesi *(Committee Chairman)*
Mr. Lam Hoi Ham

NOMINATION COMMITTEE

Mr. Wang Dong *(Committee Chairman)*
Mr. Lam Hoi Ham
Mr. Fu Tingmei

CORPORATE GOVERNANCE & RISK MANAGEMENT COMMITTEE

Mr. Zhou Si *(Committee Chairman)*
Mr. Jiang Xinhao
Mr. Lam Hoi Ham
Mr. Fu Tingmei
Dr. Yu Sun Say

COMPANY SECRETARY

Mr. Tam Chun Fai *CPA CFA*

STOCK CODE

392

WEBSITE

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Fax: (852) 2857 5084

AUDITORS

Ernst & Young

CORPORATE INFORMATION

LEGAL ADVISERS

Hong Kong Law

DLA Piper
Mayer Brown JSM

PRC Law

Haiwen & Partners

US Law

Mayer Brown JSM

PRINCIPAL BANKERS

In Hong Kong

Bank of China, Hong Kong Branch
Bank of Communications, Hong Kong Branch
China Construction Bank, Hong Kong Branch
DBS Bank Ltd., Hong Kong Branch
Mizuho Corporate Bank Ltd., Hong Kong Branch

In Mainland China

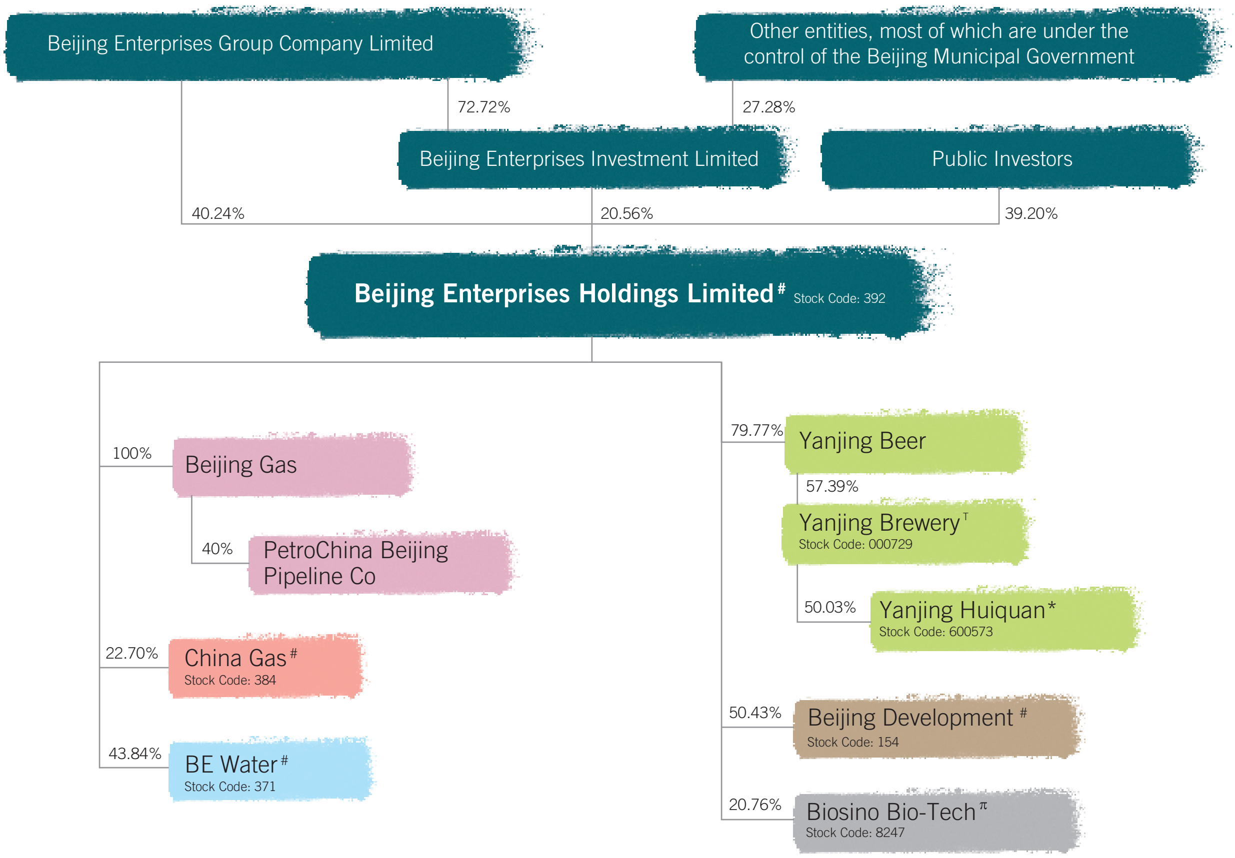
Agricultural Bank of China
Bank of China
China Construction Bank
Guangdong Development Bank
The Industrial and Commercial Bank of China

ADR Depository Bank

The Bank of New York

CORPORATE STRUCTURE

As at 31 December 2015



* *Listed on The Shanghai Stock Exchange*

T *Listed on The Shenzhen Stock Exchange*

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

π *Listed on The Growth Enterprise Market of The Hong Kong Stock Exchange*

FINANCIAL HIGHLIGHTS

Financial Highlights for the year ended 31 December	2015 *HK$'000*	2014 *HK$'000*	Change
Turnover	**60,149,945**	47,935,795	**+25.5%**
Gross profit	**9,051,048**	8,576,031	**+5.5%**
Profit for the year	**5,955,913**	5,405,647	**+10.2%**
Profit attributable to shareholders of the Company	**5,667,378**	4,831,678	**+17.3%**
Basic EPS (in HK dollars)	**4.41**	3.78	**+16.7%**
Total dividend per share (in HK dollars)	**0.95**	0.90	**+5.6%**
EBIT	**7,939,737**	7,142,972	**+11.2%**
EBITDA	**10,701,227**	9,565,663	**+11.9%**
Total assets	**124,766,040**	124,173,816	**+0.5%**
Bank balance and cash	**13,766,807**	11,266,441	**+22.2%**
Shareholders' equity	**58,187,267**	57,176,356	**+1.8%**

Key financial indicators for the year ended 31 December	2015	2014
Average finance costs	**3.6%**	3.7%
Current ratio (times)	**1.28**	0.94
Gross profit margin	**15.0%**	17.9%
Net gearing ratio	**30.6%**	38.1%
Net profit margin	**9.9%**	11.3%
Payout ratio (%)	**21.5%**	23.8%
Return on average equity	**9.8%**	8.7%

Definitions:

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

CHAIRMAN'S STATEMENT

In 2015, the global economic development was getting more complicated with initial signs of recovery in developed economies such as USA and Europe, while the emerging economies represented by China were accumulating momentum for innovation and development despite global economic downward pressure. Beijing Enterprises Holdings Limited (the "Company" or the "Group") fully intensified its enterprise reform and innovation and continued to maintain a sustained, steady and healthy development.

According to the financial statements prepared under the Hong Kong Financial Reporting Standards, the Company achieved operating revenue of HK$60.15 billion in 2015, representing a year-on-year increase of 25.5%. Profit attributable to shareholders of the Company amounted to HK$5.67 billion, representing a year-on-year increase of 17.3%. The board of directors proposed a final dividend of HK65 cents per share.

2015 was the final year of our second Five-year Plan. Since 2011, we adhered to the principle of focusing on our principal businesses in accordance with the established strategic plan, pooled resources together to develop the three major core businesses in gas, water and solid waste treatment and also the beer segment as our value investment business, and withdrawn from other non-principal businesses gradually. Over the past year, sales volume of our natural gas business continued to maintain a high-speed growth, water and solid waste treatment businesses achieved a leap-forward development, with our strategic layout basically completed. At the same time, through investment, financing and a series of successful capital market operations, the Company's foundation became more stable which gave a clearer sector layout and more solid capital market position.

Looking forward into 2016, the Company will continue to unswervingly facilitate the clean energy business and environmental protection business. We will seize the opportunities brought by energy industry reform and at the same time, intensify our efforts to develop new businesses such as cooling-heating-power supply projects to further increase our leading superiority in gas business. By leveraging on the opportunity of integrating Beijing, Tianjin and Hebei together, the Group will focus on developing the Beijing, Tianjin and Hebei markets and further elevate the synergetic cooperation with China Gas Holdings Limited (Stock Code: 384) to reinforce and expand the national gas market.

In environmental protection business, we will continue to optimize the strategic planning of water business, maintain the capital advantage of Beijing Enterprises Water Group Limited (Stock Code: 371), forcefully promote our technical competitiveness and make a success in the two drivers of capital and technology advantage. The solid waste treatment operations are the growing business that we will develop in full swing. The Company will fully support the solid waste treatment segment to secure high-quality projects, enlarge its scale rapidly, escalate industry influence, establish environmental protection brand image and strive for becoming the industry standard.

CHAIRMAN'S STATEMENT

In the beginning of 2016, the Company completed the acquisition of the 100% interest equity of EEW Energy from Waste GmbH ("EEW"), an energy-from-waste company in Munich, Germany. The acquisition of EEW is the largest merger and acquisition project by a Chinese enterprises in Germany, which for sure will enhance our operation scale and industry standing in the solid waste treatment and environmental protection sector in China. This acquisition is also an important measure to actively carry out green development concept, boost up the development of environmental protection industry and explore the overseas markets pro-actively by the Company; and at the same time also conform with the "One Belt One Road" development strategy advocated by our government, which plays an active demonstration role for PRC enterprises to implement the "Going Global" strategy.

In the future, we will keep on grasping economic development opportunities both domestically and abroad and go with the times of green low-carbon development. Furthermore, we will move forward the implementation of strategic agreements within the framework of enhancing original international co-operations. We will strive to promote the overall standard of domestic environmental protection industry through learning and introducing the advanced environmental protection ideas, skills and management experience in Europe, and contribute to the green sustainable development in China. We will forge ahead, be hardworking and be dedicated to become a leading services provider of clean energies and utilities in China, making tremendous contributions to the nation's economic and social development.

Wang Dong
Chairman

Hong Kong
31 March 2016

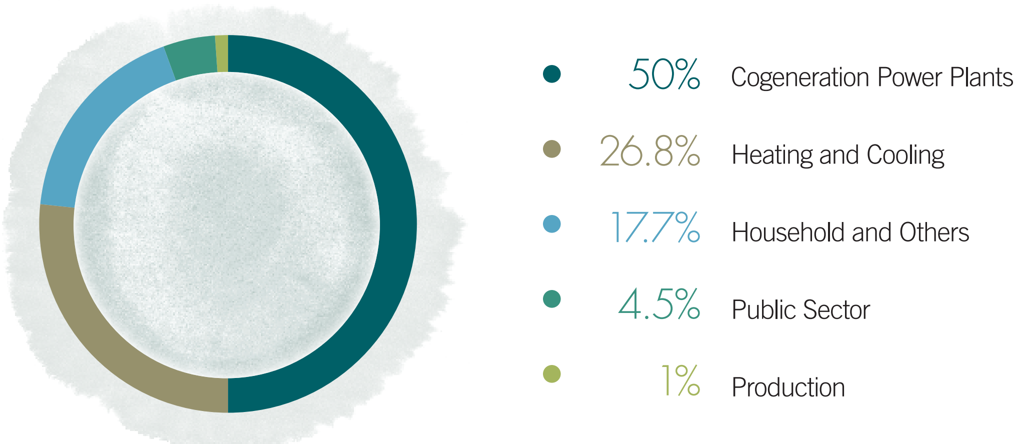
MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

Natural Gas Distribution Business

Beijing Gas Group Company Limited ("Beijing Gas") recorded a revenue of HK$43.95 billion in 2015, representing a year-on-year growth of 35.5%. The gas sales volume reached 13.06 billion cubic meters, representing a year-on-year growth of 31.1%. This was mainly due to the stable operation in the Jingxi, Gaojing and Gaoantun Thermal Gas Power Center that commenced production at the end of 2014. With the Guohua cogeneration power plant that was also put into operation in mid-2015, it further created the demand for natural gas and led to a steady increase in gas demand for power generation.

The gas sales volume of Beijing Gas in 2015 was approximately 13.06 billion cubic meters, an analysis by subscriber sector is as follows:



In 2015, there were approximately 182,600 new subscribers, of which 163,000 were household subscribers and 4,886 were public-sector subscribers. As at the end of 2015, the total number of natural gas subscribers of Beijing has reached approximately 5,540,000 and the pipelines in operation in Beijing increased to 18,751 kilometers in length. During the year, heating boilers with a total capacity of 4,216 t/h steam were developed. Capital expenditure for basic pipelines and gateway stations infrastructure in Beijing amounted to HK$3.15 billion.

I. BUSINESS REVIEW *(Continued)*

Natural Gas Distribution Business *(Continued)*

In 2015, Beijing Gas continued to actively facilitate the development of clean energy scheme, and promoted the transformation of coal-fire boiler. It completed 174 projects in coal-fire boiler transformation with a total capacity of 3,859t/h steam. Beijing Gas endeavored to boost the marketing development of vehicle gas and completed the construction of 12 natural gas filling stations. Furthermore, it developed 3,099 natural gas vehicles for the year and completed a sales volume of 168 million cubic meters, which had lowered the emission effectively. The expansion in tri-generation distributed energy market gave apparent effects, while the markets outside the surrounding Beijing-Tianjin-Hebei succeeded in signing new projects successively. The quality investment and operating projects have become models with promotion effects.

During the year, Beijing Gas actively participated in energy market trading, and for the first time, completed the natural gas online trade with Shanghai Petroleum and Natural Gas Exchange Centre. It initiated its overseas LNG sourcing and widened the secured channels of winter resources supply, and started the new model of resources security marketization.

Natural Gas Transmission Business

PetroChina Beijing Natural Gas Pipeline Company Limited ("PetroChina Beijing Pipeline Co.") recorded a gas transmission volume of 32.93 billion cubic meters in 2015, representing a year-on-year growth of 9.9%. Through holding the 40% equity interest of PetroChina Beijing Pipeline Co., the Company's share of net profit after taxation was HK$2.73 billion, which contributed an increase in profit of approximately 15.5% year-on-year.

China Gas

For the half year of April to September 2015, China Gas Holdings Limited ("China Gas") achieved a sales volume of 4.49 billion cubic metres in pipeline gas, representing a year-on-year increase of 7.2%. Profit attributable to the Group amounted to approximately HK$656 million in 2015.

I. BUSINESS REVIEW *(Continued)*

Beer Business

In 2015, the sustained downward trend of domestic economy, sluggish consumption, adverse weather and many other factors had restrained beer consumption. The continued downward trend of China's beer industry had directly affected enterprise economic growth. In face of unfavorable market consumption environment, enterprises responded actively. Beijing Yanjing Brewery Co., Ltd. ("Yanjing Beer") constantly improved its product quality and committed itself to brewing the best beer in China. It continuously adjusted its product mix and strived to promote Yanjing Fresh Beer, canned beer and other mid-end beers as well as virgin pulp white beer, draft beer and other high-end beers in the domestic market, and achieved an annual sales volume for Yanjing Fresh Beer of 1.32 million kilolitres, representing a year-on-year increase of 5.18%, and the annual sales volume of canned beer achieved 535,000 kilolitres, up by 16.25% year-on- year. The product mix is further optimized and product competitiveness is continuously enhanced. During the year, sales volume of Yanjing Beer reached 4.83 million kilolitres, achieving a revenue of HK$14.07 billion. The capital expenditure of Yanjing Beer amounted to HK$730 million in 2015.

During the year, Yanjing, our dominant brand, continued to extend its influence in the national market and improved its brand image. It intensified its investments in the central and western regional markets and also distinguished its resources allocation. It actively caught up with the new trend and tide arising from internet consumption to further explore the business model of internet marketing. In 2015, the sales volume of the products with price over RMB2,500/kiloliter reached 45% in proportion, of which, the proportion of sales volume of tinplate can was 11%, and sales volume proportion of Yanjing Fresh Beer was 27%. The sales volume proportion of "1+3" brand was 94%, of which 73% is for Yanjing's main brands, up by 5 percentage point year-on-year. The brand value of "Yanjing" is RMB80.268 billion, a growth of 21.5% over last year.

Sewage and Water Treatment Operation

The sewage treatment and water businesses of Beijing Enterprises Water Group Limited ("BE Water", stock code: 371) developed rapidly in 2015. Its turnover increased 51% to HK$13.5 billion as a result of the increase in income from water treatment service and BOT projects construction service. Profit attributable to shareholders of BE Water increased 37% to HK$2.46 billion, of which HK$1.08 billion was attributable to the Company, representing a year-on-year increase of 36.3%. As at the end of 2015, BE Water already participated in 388 water plants which are or will be in operation, including 285 sewage treatment plants, 94 water distribution plants, 8 reclaimed water plants and 1 seawater desalination plant, with a total designed capacity of the water treatment service of 24,620,000 tons/day. BE Water participated in various projects that spread across 25 provinces, cities and autonomous regions nationwide as well as in Singapore, Malaysia and Portugal and has developed itself into one of the leading water companies in China.

I. BUSINESS REVIEW *(Continued)*

Sewage and Water Treatment Operation *(Continued)*

In 2015, the overall economy of China faced a considerable downward pressure, however, with the launching of the environmental policies, including the Ten Provisions in Water（水十條）and the vigorous promotion of the PPP (Public-Private-Partnership) model, they provided adequate growth momentum for the water and environmental industry. BE Water grasped the opportunities, increased its resources investments in the PPP projects, perfect its investment system setting up, leverage on the operation viability of its business units, synergistically cooperated to develop the urban water business growth in volume and capacity. By leveraging on its comprehensive synergistic effect in the water environmental development business, in 2015, the investment progress of BE Water was accelerated obviously through integrated watershed management, sewage body remediation, and improvement in river and lake systems, flood control and drainage, improved water ecological environment, and at the same time, we achieved smoothly the market layout in seven key regions. In addition, BE Water completed the acquisition of Huaian Water Conservancy Institute（淮安水利院）, achieved the organic integration with Nanjing Municipal Work Institute（南京市政院）, completed initially the building of its technical system and business layout nationwide. Phase I of Liangshuihe Comprehensive Water Environment Renovation Project had also entered into the conventional operation and maintenance stage, with its Phase II commenced preliminary program reporting and Phase III (the Tongzhou section) received official approval.

Solid Waste Treatment Business

In 2015, Beijing Enterprises Holdings achieved an increase in solid waste new contracted capacity of 1,600 tons/day. Of which, Beijing Enterprises Holdings Environment Technology Co., Ltd ("BEHET") achieved an operating revenue of HK$393 million, and realized an operating profit of HK$95.11 million. The newly acquired solid waste treatment projects of Beijing Development (Hong Kong) Limited (Stock Code: 154) ("Beijing Development") achieved an operating revenue of HK$1.25 billion, and realized an operating profit of HK$88.16 million for the year.

After Beijing Development had achieved its business strategic transformation, it continued to strengthen the operation and security management of the two existing solid waste projects in Tai An and Changde to ensure stable operation. At the same time, it actively moved forward the replacement of non-principal assets, and has now basically completed the transfer and disposition of the entire information technology business.

I. BUSINESS REVIEW *(Continued)*

Solid Waste Treatment Business *(Continued)*

With part of the solid waste and hazardous waste disposal projects of BEHET turned into commercial operation, the proportion of operating revenue achieved a substantial increase year-on-year with its profitability improved significantly and had generated a stable cash flow. Currently, the Company is being ranked amongst the top ten domestic solid waste treatment enterprises in domestic market.

As at the end of the year, BEHET and Beijing Development accomplished a household waste input volume of 1,676,000 tons with a daily treatment volume of 5,079 tons. It accomplished an on-grid power generation volume of 404,000,000 kWh and hazardous waste input volume of 22,800 tons.

Material Capital Operation and Implementation of Strategic Business Layout

Total foreign financing completed by the Company in 2015 were approximately HK$9.76 billion. In April 2015, the Company grasped the optimum issuing opportunity of low Euro interest rate and successfully issued the foreign financing of the 5-Year EUR500 million bonds. With extreme high efficiency, such issuance of bonds became the first Chinese enterprise to issue bonds based on its red-chip structure creditability and established a new standard for Euro bonds issuance. In December 2015, the Company successfully issued the 25-Year US$200 million bonds, which once again provided strong capital support for the development of the Company's major operations.

For strategic layout, in December 2015, the Company entered into an agreement to inject the 100% equity interest of Golden State Water Group Corporation ("GSWG") into BE Water. Such asset injection, which is subject to the approval of independent shareholders of BE Water, is in line with the development strategy of the Company and will give a tremendous synergistic effect on the existing assets of BE Water.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW *(Continued)*

Principal Risks – Exchange Rate Fluctuation

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

During 2015, the exchange rates of RMB against the Hong Kong dollar and U.S. Dollar weakened but the Board does not expect the mild fluctuation of RMB's exchange rate will have material adverse impact on the operations of the Group.

Principal Uncertainties

The Group's principle businesses include natural gas distribution, natural gas transmission, water treatment, solid waste treatment and beer production. Most of the utilities related businesses are governed by policies set out by National Development and Reform Commission and may be subject to change from time to time. The Group has maintained a proven track record on managing relevant industrial policy such that sustainable growth could be maintained within each business sector we operate.

II. PROSPECTS

Natural Gas Distribution Business

Beijing Gas will continue to actively implement the clean air action plan to capture the new natural gas markets by emphasizing on the four gas segments including pipeline gas, LNG, CNG and LPG as well as taking the full advantage of its pipeline price and gas supply pattern. By seizing the integrated opportunities of Beijing, Tianjin and Hebei, it will collaborate to expand the surrounding gas markets of Beijing. It will firmly establish its dominant position in the distributive energy market and promote the implementation of new clean energy project, thereby ensuring its continuous leading technology position in the domestic clean energy sector.

Beijing Gas will also continue to strengthen the development of vehicle gas market, broaden the application of gas-fueled vehicle, enhance the operation rate of the completed LNG stations and leverage on the location advantage of its primary fueling station layout in Beijing to improve the CNG filling stations setup in outer suburban districts and counties in Beijing. It will seek a breakthrough in CNG market for its surrounding regions and outside Beijing. By promoting the upstream resources project and implement secured resources, it will accelerate the implementation of city gas investment projects, with the gas projects in Tianjin and Hebei as priority.

II. PROSPECTS *(Continued)*

China Gas

China Gas will continue to make clear its geographical focus in the future strategy planning with Beijing Gas, accelerate the nationwide layout for its city gas business and increase the development on neighboring towns and counties surrounding the cities to achieve the diversified energy business layout involving pipeline gas, LNG, CNG, LPG and diversified energy. It will continue to maintain its dominant position in city gas, gas for vehicles and vessels, and LPG markets, promote the synergistic development of natural gas business and liquefied petroleum gas business, continue to expand its market share of gas for vehicles and vessels, secure industrial chain, be innovative in natural gas trading model and actively expand the natural gas downstream business.

Natural Gas Transmission Business

PetroChina Beijing Pipeline Co. will invest and establish the long-haul transmission pipeline projects of the No. 4 Shaanxi-Beijing Pipeline. The transmission capacity of Shaanxi-Beijing Pipeline will be further expanded to meet future demand. The Group will benefit from the increase in transmission business scale in the long run and will share the related economic benefits.

Beer Business

Yanjing Beer will actively adapt to the "new normal" of domestic economic development as well as the implementation of the development strategy of integrating Beijing, Tianjin and Hebei. It will focus on the structural adjustments on product, brand and market, expand the base markets, and improve product market competitiveness and profitability. It will actively increase its market share for balanced and weaker markets, enter into potential new markets as and when appropriate to increase product coverage and market share effectively. It will firmly consolidate its advantageous markets position, intensify the nationwide well-known brand position of Yanjing brand, achieve Yanjing brand international enhancement and accelerate the turning of weaker local brands to Yanjing brand.

Water Treatment Operations

BE Water will seize the golden development opportunity in water industry to achieve the external development of traditional water business through co-operation with governmental environmental group and industry merger and acquisition. It will seize the PPP opportunities and attach great importance to client loyalty development and maintenance to establish the long-term and stable project resource channel. The Company will also continue to upkeep BE Water capital advantages and vigorously enhance its technology competitiveness to achieve the dual-mover of its capital and scientific advantages.

MANAGEMENT DISCUSSION AND ANALYSIS

II. PROSPECTS *(Continued)*

Solid Waste Treatment Business

The "13th Five-Year Plan" is a critical stage for the emergence and soaring of the solid waste industry of the Company. Beijing Development and BEHET will intensify their communications and cooperation, accurately assess the market and industry trends, diligently obtain high-quality solid waste projects through capital raising, innovative business competitive model, and optimize market layout. It will strive to expand rapidly and consolidate its own leading position in this golden development era of environmental protection industry.

The solid waste treatment business under the Company will accelerate its reorganization and resource integration processes, make itself clear in its strategic positioning and strategic planning of environmental protection solid waste treatment business platform. It will enhance project construction and operation management standard, rapidly achieve breakthrough in technology, equipment and production capacity bottleneck, and lays a solid development basis for being one of the domestic leading enterprises in environmental protection business by emphasizing on the integrative strengths of quality, safety, efficiency and environmental protection.

The Company also accelerates the overseas market expansion for its solid waste treatment business. On 2 March 2016, the Group officially completed the acquisition of the 100% equity interest of EEW Energy from Waste GmbH ("EEW"), an energy-from-waste company from Germany. EEW Group is a leading energy-from-waste ("EfW") company in Europe headquartered in Germany, and it operates 18 EfW plants, with its principal business in the supply of electricity, steam and heat from waste and accounted for approximately 17% market share of EfW business in Germany. This acquisition will certainly expand the business scale and elevate the industrial position of the Company in solid waste and environmental protection sector. The Group will also leverage on the rich experience of EEW accumulated for many years and strive to enhance the overall level of domestic solid waste and environmental protection industry by bringing in advanced solid waste and environmental protection concept, technology and managerial experience in Europe.

III. FINANCIAL REVIEW

Revenue

The revenue of the Group in 2015 was approximately HK$60.15 billion, increased by 25.5% when compared with the revenue of HK$47.94 billion in 2014. This was mainly driven by the stable growth of Beijing Gas's revenue. Yanjing Beer's revenue decreased due to a drop in sales volume, which accounted for 23.4% of total net revenue. Other business contributed an aggregate of not more than 4% of the total revenue.

Cost of Sales

Cost of sales increased by 29.8% to HK$51.1 billion. Cost of sales of gas distribution business included purchase cost of natural gas as well as depreciation of piped line network. Cost of sales of brewery business included raw materials, wage expenses and absorption of certain direct overheads.

Gross Profit Margin

Overall gross profit margin was 15%. The decrease in overall gross profit margin was mainly attributable to the increase in sales ratio of natural gas to the users in thermal power plant. The gross profit margin of beer sales pulled down the gross profit margin due to a decrease in sales volume and revenue.

Gain on Deemed Disposal of Partial Interest in an Associate

For the purpose of acquiring certain water treatment business and assets from Standard Water Limited, BE Water placed new shares in 2014 at a price higher than its net asset value per share, and the Group received a gain on deemed disposal of partial interest in an associate of HK$379 million.

Other Income

Other income was mainly comprised of government grants amounted to HK$213 million, gain on transfer of assets from customers amounted to HK$40.33 million, bank interest income amounted to HK$163 million, rental income amounted to HK$81.06 million, gain on disposal of materials and beer bottles by Yanjing Beer amounted to HK$130 million and increase in value of investment property of HK$480 million and so on.

Selling and Distribution Expenses

Selling and distribution expenses of the Group in 2015 decreased by 0.8% to HK$2.58 billion which was mainly due to the tightening cost control and reducing unnecessary selling expenses for brewery business.

Administration Expenses

Administration expenses of the Group in 2015 were HK$3.94 billion, increased by 15.5% when compared to last year, which was mainly due to the continuous expansion of natural gas distribution business and business expansion of solid waste treatment operation. The increase in percentage of administration expenses was lower than its increase in percentage of sales.

III. FINANCIAL REVIEW *(Continued)*

Other Operating Expenses, net

It was mainly due to the impairment made for certain assets of construction in progress and the operating concession right of Guanshun Road and the provision of impairment loss on the coal to gas project of Datang, an associate.

Finance Costs

Finance costs of the Group in 2015 was HK$1.3 billion, increased by 11% comparing to 2014, which was mainly due to the full year interest impact of the US$540 million short-term loan at the end of 2014 and the additional EUR500 million five-year bonds issued in May 2015.

Share of Profits and Losses of Associates

Share of profits and losses of associates mainly included the 40% share of the profit after taxation of PetroChina Beijing Pipeline Co., the 22.7% share of the profit attributable to shareholders of China Gas and the 43.84% share of the profit attributable to shareholders of BE Water. PetroChina Beijing Pipeline Co. is 40% owned by Beijing Gas and 60% owned by Kunlun Energy Company Limited respectively. The primary business of PetroChina Beijing Pipeline Co. is natural gas transmission which supplies natural gas to city gas operators along the three long piped lines with an approximate total length of 3,000 kilometers owned by PetroChina Beijing Pipeline Co..

In 2015, the Group shared the 40% profit after taxation of PetroChina Beijing Pipeline Co. amounting to HK$2.73 billion, and in the same year, the Group shared the 22.7% profits after taxation of China Gas amounting to HK$656 million. The Group's share of net profits of BE Water amounted to HK$1.08 billion in 2015.

In addition, in 2015, the 39.7% share of profit after tax of BMEI Co., Ltd. attributable to the Group was HK$174 million, of which HK$148 million was the share of the gain on investment properties valuation.

Tax

After deducting the share of profits and losses of associates, the effective income tax rate is 35.3%, higher than that of 26.2% in last year. It was because of the non-taxable gain from deemed disposal of interest in an associate during the year was much lower than that of last year and the non-deductible other operating expenses were higher than last year.

Profit Attributable to Shareholders of the Company

The profit attributable to the shareholders of the Company for the year ended 31 December 2015 was HK$5.67 billion (2014: HK$4.83 billion).

MANAGEMENT DISCUSSION AND ANALYSIS

IV. FINANCIAL POSITION OF THE GROUP

Non-current assets

Property, plant and equipment

The net book value of property, plant and equipment was down by HK$1.58 billion, which was mainly due to the net value of approximately HK$950 million of gas distribution assets has already contracted and sold to China Gas, and the assets are reclassified to a disposal group held for sale and the exchange loss.

Interests in associates

The decrease in the balance by HK$1.68 billion was mainly attributable to the 34% interest in Datang's coal to gas project in Keqi has been contracted for sale, and the related assets are reclassified to a disposal group held for sale.

Prepayments, deposits and other receivables

The increase in the balance by HK$2.06 billion was mainly attributable to the prepayment of investment amount of approximately HK$2.4 billion to PetroChina Pipeline Company Ltd..

Current assets

Inventories

The decrease in the balance by approximately HK$750 million was mainly due to the decrease in inventories needs as a result of the decrease in sales volume of Yanjing Beer.

Trade and bills receivables

The decrease in the balance by HK$1.78 billion was mainly due to the substantial amount of in-arrear payments from the principal users in Cogeneration Power Plants of Beijing Gas were settled prior to the end of year.

Prepayments, deposits and other receivables

The decrease in the balance by HK$2.3 billion was mainly attributable to the sufficient supply of natural gas in 2015, and the significant decrease in the prepayment of gas purchasing from PetroChina by Beijing Gas.

Other taxes recoverable

The decrease in the balance by HK$900 million, which was mainly due to the decrease in related input VAT as a result of decrease in the balance of prepayment of gas purchasing.

Assets of disposal groups classified as held for sale

The increase in the balance by HK$3.84 billion was mainly due to newly added interest in Datang's coal to gas project and the intended disposal of natural gas distribution business to China Gas.

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

Current assets *(Continued)*

Cash and Bank Borrowings

As at 31 December 2015, cash and bank deposits held by the Group amounted to HK$13.69 billion. As at balance sheet date, if the receipts in advance of approximately HK$4.51 billion for the replenishment of IC Card value of Beijing Gas are excluded, the Group had net current assets of HK$11.84 billion, representing a strong net working capital. The Group maintains sufficient banking facilities for its working capital requirements and has sufficient cash resources to finance its capital expenditures in the foreseeable future.

The Group's total borrowings amounted to HK$34.76 billion as at 31 December 2015, which mainly comprised guaranteed bonds and senior notes of US$2.0 billion in total, Euro bonds amounting to EUR500 million, five-year syndicated loans amounting to HK$3 billion, medium and long-term loans amounting to HK$2.48 billion and bridging loans amounting to US$250 million with the remaining loans denominated in Renminbi and Hong Kong dollars. Around 57.8% of the bank loans were denominated in Hong Kong dollars with the rest mainly in Renminbi. The Group had net borrowings of HK$21.07 billion as at 31 December 2015.

Non-current liabilities

Bank and other borrowings

There was a decrease of HK$7.94 billion in long and short term balance in total, which was mainly due to the loan repayment of approximately RMB3.8 billion by Beijing Gas during the year.

Current liabilities

Trade and bills payables

The increase in the balance by HK$1.4 billion was mainly due to construction fee payable for Haidian Project.

Receipts in advance

The decrease in the balance by HK$477 million was mainly due to the decrease in receipts in advance of Beijing Gas from residential users and public sector subscribers for the replenishment of IC Card value.

Other payables and accruals

The increase in the balance by HK$600 million was mainly attributable to the increase in capital expenditure of gas distribution business.

Liability component of convertible bonds

The balance decreased to nil was because of the convertible bonds of Yanjing Beer due in 2015 had been fully converted into shares.

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

Current liabilities *(Continued)*

Liquidity and Capital Resources

The downstream natural gas distribution business and brewery business has been constantly contributing to the operating cash flow of the Group and significantly increased its liquidity. As at the end of 2015, the issued capital of the Company amounted to 1,282,850,268 shares and the shareholders' equity increased to HK$58.19 billion. Total equity was HK$68.65 billion. The gearing ratio, which is the 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, was 33.6% (2014: 35%).

Given the primarily cash nature business of natural gas distribution, brewery and water concession, the Group is benefiting from a very strong recurring cash flow and is well positioned to capture investment opportunities in the future. The Group will continue its stable dividend distribution policy and at least 30% of its recurring earnings per share will be used for dividend distribution.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

WANG Dong, aged 50, is the Chairman of the Company and Beijing Enterprises Group Company Limited. Mr. Wang graduated from Mining Mechanical Engineering Faculty of Beijing Institute of Iron and Steel in 1986, holds a master degree in Public Administration from People's University of China and the title of Senior Engineer. Mr. Wang has held various senior positions in many large and medium size state-owned enterprises. From 2001 to 2008, Mr. Wang served as the Deputy General Manager, subsequently the Executive Deputy General Manager and finally the Chairman of BBMG Group Company Limited. From 2008 to 2009, he served as Head of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Wang has extensive experience in corporate management, finance and state-owned assets supervision. Mr. Wang joined the Group in August 2009.

HOU Zibo, aged 50, is the Vice Chairman of the Company. Mr. Hou also serves as Vice Chairman and General Manager of Beijing Enterprises Group Company Limited. Mr. Hou graduated from the School One of Ministry of Aerospace Industry with the specialty in Structural Mechanics and China Europe International Business School with the specialty in Business Administration; possesses a master degree in engineering, an MBA degree and the title of Professor-grade Senior Engineer. He was Deputy Director of Institute 702 of Ministry of Aerospace Industry and participated in many science and research projects of the state. Subsequently, Mr. Hou acted as Director and Deputy General Manager of Beijing Jingcheng Machinery Electric Holding Co., Ltd. From 2005 to 2010, he was Deputy Director of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Hou has extensive experience in state-owned assets management, corporate assets management and capital operations. Mr. Hou joined the Group in March 2012.

ZHOU Si, aged 59, is the Vice Chairman and CEO of the Company. Mr. Zhou is also Vice Chairman of Beijing Enterprises Group Company Limited, as well as Chairman of the Board of Directors and Executive Director of China Gas Holdings Limited (stock code:384). Mr. Zhou received a bachelor's degree in science (Physics) from Capital Normal University in 1982, an MBA degree from school of Economics and Management, Tsinghua University in 1998 and possesses the title of Senior Economist. From 1984 to 2003, he worked with Comprehensive Planning Department of Urban Management Commission of Beijing Municipality as Chief Officer, Deputy Director and Director; and later worked as Deputy Director of Urban Management Commission of Beijing Municipality. From January 2011 to January 2014, he served as Chairman and Executive Director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Zhou has extensive experience in urban management, economics, finance and enterprise management. Mr. Zhou joined the Group in June 2005.

LI Fucheng, aged 61, is the Vice Chairman of the Company. Mr. Li also serves as the Vice Chairman and Vice General Manager of Beijing Enterprises Group Company Limited. During his tenure with Yanjing Beer Factory since 1983, he had held various positions including Deputy Secretary, Deputy Director and Director, etc and is currently the Chairman of Beijing Yanjing Brewery Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code: 000729). Mr. Li has extensive experience in the brewery industry. Mr. Li joined the Group in April 1997.

DIRECTORS AND SENIOR MANAGEMENT

LI Yongcheng, aged 54, is the Vice Chairman of the Company. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master's degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd. He is currently Vice Chairman and Executive Deputy General Manager of Beijing Enterprises Group Company Limited, and is also Chairman and Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations. Mr. Li was Vice President of the Company from August 2007 to March 2011, and subsequently re-joined the Company as Executive Director in March 2014 and was re-designated as Executive Director and Vice Chairman in March 2016.

E Meng, aged 57, is the Executive Director and Executive Vice President of the Company. Mr. E also serves as the Vice General Manager and CFO of Beijing Enterprises Group Company Limited, the Chairman and Executive Director of Beijing Development (Hong Kong) Limited (stock code: 154), and the Vice Chairman and Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. E graduated from China Science and Technology University with a master's degree in engineering and subsequently obtained an EMBA degree from The Hong Kong University of Science and Technology. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the Deputy Director of Beijing New Technology Development Zone and concurrently acting as the Director of the Department of Financial Auditing, the General Manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the Deputy Director of the State-owned Assets Management Office of Beijing Haidian District. From September 2004 to August 2015, Mr. E was Independent Non-executive Director of New Silkroad Culturaltainment Limited (formerly known as JLF Investment Company Limited; stock code: 472). Mr. E has extensive experience in economics, finance and enterprise management. Mr. E joined the Group in November 1997.

JIANG Xinhao, aged 51, is the Executive Director and Vice President of the Company. Mr. Jiang also serves as Vice General Manager of Beijing Enterprises Group Company Limited, an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) and Beijing Properties (Holdings) Limited (stock code: 925), as well as Non-executive Director of China Gas Holdings Limited (stock code: 384). Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, then he served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. In 1992, he was granted a master's degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Vice President of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a Manager of the investment development department of Beijing Holdings Limited and a General Manager of Beijing BHL Investment Center between May 2000 and February 2005. Mr. Jiang has extensive experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

DIRECTORS AND SENIOR MANAGEMENT

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

WU Jiesi, aged 64, holds a doctorate degree in Economics. Mr. Wu also serves as Independent Non-executive Director of China Taiping Insurance Holdings Company Limited (stock code: 966), China Citic Bank International Limited as well as Industrial and Commercial Bank of China (Asia) Limited; Non-executive Director of Shenzhen Investment Limited (stock code: 604) and Silver Base Group Holdings Limited (stock code: 886); and Independent Director of China Life Franklin Asset Management Co., Limited. He conducted post-doctoral research work in theoretical economics at the Nankai University in the PRC and was conferred the professorship qualification by the Nankai University in 2001. During the period from 1984 to 1995, Mr. Wu worked at the Industrial and Commercial Bank of China in a number of positions, including as the President of Shenzhen Branch. From 1995 to 1998, Mr. Wu was Vice Mayor of Shenzhen Municipal Government and from 1998 to 2000 he was the assistant to the Governor of Guangdong province. He was the Chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, the Honorary President of Guangdong Investment Limited and Guangdong Tannery Limited, and the managing director and chief executive officer of Hopson Development Holdings Limited. From September 2005 to July 2011, he was Independent Non-executive Director of China Merchants Bank Co., Ltd. (stock code: 3968). Mr. Wu was Non-executive Director and Vice Chairman of China Aoyuan Property Group Limited (stock code: 3883), Non-executive Director of China Water Affairs Group Limited (stock code: 855), and Independent Director of China Merchants Securities Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code: 600999). He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

LAM Hoi Ham, *Justice of Peace*, aged 77, was graduated from the faculty of economics of The University of Hong Kong, is the founder of the accounting firm H H Lam & Co., and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam was granted Medal of Honour by The Hong Kong Government in 1994 and was appointed a Justice of the Peace in 1997. Mr. Lam previously served as a Standing Committee member of the 10th and 11th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China of Beijing City and currently serves as its Senior Consultant. He is now the vice chairman of Beijing Overseas Friendship Association and a committee member of Beijing Health Department Overseas Friendship Association, etc. Mr. Lam joined the Group in March 2008.

DIRECTORS AND SENIOR MANAGEMENT

FU Tingmei, aged 49, has extensive experiences in law, investment, finance and business management. Mr. Fu graduated from the University of London with a master's degree and a doctorate degree in Law in 1989 and 1993, respectively. Between 1992 and 2003, he conducted many corporate finance transactions in investment banking firms based in Hong Kong, including serving as a director of Peregrine Capital Limited, and a deputy managing director and subsequently a managing director of BNP Paribas Peregrine Capital Limited. Mr. Fu is currently engaged in private investment business. He is currently also an independent non-executive director of CPMC Holdings Limited (stock code: 906) and Guotai Junan International Holdings Limited (stock code: 1788), both listed on the Stock Exchange. Mr. Fu joined the Group in July 2008.

SZE Chi Ching, *Justice of Peace*, aged 76. Mr. Sze obtained an honorary doctorate degree in social sciences from City University of Hong Kong in 2008. He previously served as Hong Kong Affairs Advisor to the State Council, vice chairman of All-China Federation of Industry and Commerce, standing committee member of the Chinese People's Political Consultative Conference of Fujian Province, member of China Trade Advisory Board of Hong Kong Trade Development Council, member of the 8th, 9th, 10th and 11th Committee of Chinese People's Political Consultative Conference; associate director of the Committee for Learning and Cultural and Historical Data of the Committee of the People's Political Consultative Conference; vice chairman of China Civilian Chamber of Commerce. He is currently committee member of China Federation of Literary, consultant of China Calligraphers Association, chairman of Hong Kong Branch of Chinese Calligraphers Association, chairman of the board of Hang Tung Resources Holding Limited, and honorary president of the Hong Kong Fujian Chamber of Commerce. He has been appointed as vice chairman and a visiting professor of Huaqiao University, a part-time professor of the Chinese Department of Xiamen University, consulting professor of Peking University, executive director of the Board of Trustees of Jimei University, etc. Mr. Sze joined the Group in March 2013.

SHI Hanmin, aged 66, senior engineer. Mr. Shi graduated from the Basic Organic Chemical Engineering Faculty of Beijing Institute of Chemical Technology in 1974. From 1978 to 2010, he worked with Beijing Municipal Environmental Protection Bureau. During his tenure, he served as director from 2002 to 2010 and was appointed as environmental expert of the World Expo 2010 by the Shanghai Municipal Government in 2009. Mr. Shi also servers as representative of the 10th Communist Party Congress of Beijing, standing committee member of the 11th Chinese People's Political Consultative Conference of Beijing and deputy director of the Committee of Environment and Resources. Mr. Shi joined the Group in March 2013.

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

DIRECTORS AND SENIOR MANAGEMENT

YU Sun Say, *G.B.M., J.P.,* aged 77. Dr Yu is chairman of the H.K.I. Group of companies, director of a number of manufacturing and investment companies, Independent Non-Executive Director of Tongda Group Holdings Limited (stock code: 698) and Wong's International Holdings Limited (stock code: 99), member of the Standing Committee of the Chinese General Chamber of Commerce, Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong. Dr. Yu was member of the Standing Committee of the Chinese People's Political Consultative Conference as well as member of the Preparatory Committee for the Hong Kong Special Administrative Region and its Hong Kong Affairs Adviser.

SENIOR MANAGEMENT

ZHI Xiaoye, aged 48, is Vice President of the Company. Mr. Zhi also serves as General Manager of Beijing Gas Group Company Limited. Mr. Zhi graduated from Beijing University of Technology with a mater degree in Management Science and Engineering, possesses the title of senior engineer, and had worked at Tokyo Gas in Japan as Researcher, at Beijing Gas Group Company Limited as transmission branch Manager, at Beijing Dingxin New Technology Company Limited（北京市鼎新新技術有限公司）as Chairman and at Beijing Gas Group Company Limited as Executive Deputy General Manager. Mr. Zhi has plenty of experience in pipe gas business and corporate management. Mr. Zhi was appointed as Vice President of the Company in July 2014.

KE Jian, aged 47, is Vice President of the Company. Mr. Ke also serves as an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) and Executive Director, Vice Chairman and CEO of Beijing Development (Hong Kong) Limited (stock code: 154). Mr. Ke is a PRC Senior Accountant, Certified Tax Agent and Senior International Finance Manager. Mr. Ke received a bachelor's degree in economics from Beijing College of Finance and Commerce and an MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration. He joined the Company in 1997 and was appointed as Vice President of the Company in April 2011.

QI Xiaohong, aged 48, is Vice President of the Company. Ms. Qi graduated from Capital Normal University with a bachelor's degree in legal studies and subsequently from Capital University of Economics and Business with a master's degree in economic management. Ms. Qi's experience include many years with Beijing Municipal Government departments. She concurrently acts as Executive Director and member of the remuneration committee of Beijing Enterprises Water Group Limited (stock code: 371). Ms. Qi joined the Company in 1997 and is responsible for corporation administration and human resources management of its headquarters. She was appointed as Vice President of the Company in March 2013.

SUN Weichen, aged 53, is Vice President of the Company. Mr. Sun, who graduated from the Faculty of Accounting of Shanxi University of Finance and the Faculty of Business Administration of Asia International Open University (Macau), possesses a master degree and is a PRC Senior Accountant. Mr. Sun previously worked with Ministry of Light Industry of the PRC, China Light Industry Association, China Sinolight Corporation and China National Light Industrial Materials Co., Ltd. From 1999, Mr. Sun used to work as Chief Accountant and General Manager with Beijing Jing Tai Investment Management Centre,, Assistant to Chairman (secondee) of the Ninth Office of State-owned Enterprises Supervisory Committee of Beijing Municipality, and also as Audit Manager with Beijing Enterprises Group Company Limited, etc. Mr. Sun has extensive experience in corporate finance management, audit and capital operation. Mr. Sun was appointed as Vice President of the Company in May 2015.

REPORT OF THE DIRECTORS

The board of directors of Beijing Enterprises Holdings Limited (the "Company") present the report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Further discussion and analysis of the business review required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the "Management Discussion and Analysis" set out on page 8 to 20 of this annual report. This discussion forms part of this "Report of the Directors".

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 53 to the financial statements.

KEY PERFORMANCE INDICATORS

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

Since its inception, the Company has been upholding the social responsibility mission of "investment for a prosperous life". It formed a co-development business layout in public utility industry segment focuses on gas, water and solid waste treatment and together with the beer industry through the transformation, upgrading and responsibility investment measures and ensured the emission standard and environmental protection performance of the projects has maintained its dominant position in each domestic environmental business sector through advanced technology and distinctive management. Meanwhile, the Company will integrate its development together with improving the life quality of residents, make contributions to improve the environment quality, ensure people's livelihood and facilitate the construction of ecological civilization.

In 2015, Beijing Gas continued to actively work with Beijing Municipal Government for the implementation of Clean Energy Action Plan, facilitated the establishment of thermal gas power center, clean energy transformation of coal-fire boiler, and energy structure adjustments on coal-to-gas conversion projects, vehicle gas and distributed energy. During the year, it fully completed the grid-tied project for power generation of the four largest thermal power centers in Beijing, reduced coal consumption by 9.20 million tons; completed 174 projects in coal-fire boiler transformation with a total capacity of 3,859t/h steam, achieved the goal of no coal-fire boiler utilization within the Five Ring Road in Beijing, reduced emissions of sulfur dioxide, dust particles of industrial smoke and nitrogen oxide by 2,460 tons, 2,038 tons and 1,886 tons respectively. It implemented the suburban areas extension model by the "operation of three gases" of piped natural gas, CNG and LPG, actively promoted clean energy to the suburban counties.

The Company also provided a safer and more environmentally-friendly household waste incineration for our society. In 2015, it completed a waste incineration volume of 1.676 million tons, waste-to-energy on-grid electricity of 404 million kWh, reduced coal-fired by 0.17 million tons, and reduced the emission of carbon dioxide by 1.07 million tons.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

RELATIONSHIP WITH STAKEHOLDERS

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

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

Stakeholders	Topics concerned	Response channel	Effectiveness of communication
Communities	Community development Establishment of a harmonious community Improvement in the environment of the community	Science activities Community propaganda	Employed social supervisor for inspecting and supervising service quality Established good relationship with local community Created a good external environment for the enterprise development
Environment	Supply of clean energy Waste treatment Practice green operation	Annual report and announcements	Responded to "2013-2017 Clean Air Action Plan in Beijing" Participated in environmental projects

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2015 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 55 to 190.

An interim dividend of HK30 cents per ordinary share was paid on 28 October 2015. The directors of the Company recommended the payment of a final dividend of HK65 cents per share for the year end 31 December 2015 payable to shareholders on the register of members of the Company on 27 June 2016. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position. Subject to the approval of shareholders at the forthcoming annual general meeting, the final dividend will be paid on or around 15 July 2016.

ANNUAL GENERAL MEETING

The 2016 annual general meeting will be held on Thursday, 16 June 2016. The notice of the 2016 annual general meeting, which constitutes part of the circular to shareholders, will be sent to all shareholders separately and will be published on the Company's website (www.behl.com.hk) and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") website (www.hkexnews.hk).

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the 2016 annual general meeting, and entitlement to the final dividend, the register of members will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the 2016 annual general meeting:

Latest time to lodge transfer documents for registration . . . . 4:30 pm on Wednesday, 8 June 2016

Closure of register of members . . . . Thursday, 9 June 2016 to Thursday, 16 June 2016 (both dates inclusive)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration . . . . 4:30 pm on Tuesday, 21 June 2016

Closure of register of members . . . . Wednesday, 22 June 2016 to Monday, 27 June 2016 (both dates inclusive)

Record date . . . . Monday, 27 June 2016

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2016 annual general meeting, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

EMPLOYEES

At 31 December 2015, the Group had approximately 48,000 employees. The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Group's employee remuneration policy and package are periodically reviewed by the management. Apart from pension funds, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the published results, and assets, liabilities and equity of the Group for the last five financial years as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2014 is set out on pages 191 to 192. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

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

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the share capital and share options of the Company and the Group's convertible bonds during the year, together with the reasons therefor, are set out in notes 30, 31 and 35 to the financial statements, respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company bought back a total of 2,500,000 ordinary shares of the Company on the Stock Exchange, among which 1,500,000 shares were subsequently cancelled by the Company in November 2015 while the remaining 1,000,000 shares have not yet been cancelled. Details of the buy-backs of such ordinary shares are as follows:

Month	Number of Shares bought back	Price per Share Highest	Price per Share Lowest	Total consideration paid
		HK$	*HK$*	*HK$*
September	1,500,000	47.80	42.95	69,136,925
December	1,000,000	47.60	44.65	46,456,775

The buy-back of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 55 to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

At 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the provisions of part 6 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) amounted to HK$1,071,497,000 (2014: HK$1,127,104,000).

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

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

DIRECTORS OF THE COMPANY

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

Executive Directors

WANG Dong
HOU Zibo
ZHOU Si
LI Fucheng
LI Yongcheng
E Meng
JIANG Xinhao
TAM Chun Fai

Non-executive Director

GUO Pujin (resigned on 28 August 2015)

Independent Non-executive Directors

WU Jiesi
LAM Hoi Ham
FU Tingmei
SZE Chi Ching
SHI Hanmin
YU Sun Say

DIRECTORS OF SUBSIDIARIES

The names of directors who have served on the boards of the principal subsidiaries of the Company during the financial year ended 31 December 2015 or during the period from 1 January 2016 up to the date of this report are available on the Company's website (www.behl.com.hk).

REPORT OF THE DIRECTORS

BOARD CHANGES AND CHANGES IN DIRECTORS' INFORMATION

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

On 28 August 2015:

– Non-executive Director Mr. Guo Pujin resigned.

– Corporate Governance and Risk Management Committee consists of five directors of the Company including Mr. Zhou Si (as chairman of the Committee), Mr. Jiang Xinhao, Mr. Lam Hoi Ham, Mr. Fu Tingmei and Dr. Yu Sun Say was established.

On 16 March 2016:

– Executive Director Mr. Li Yongcheng was re-designated as Executive Director and Vice Chairman.

Subsequent to the date of issuing 2015 interim report, there have been no changes in directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

In accordance with articles 98 and 107 of the Company's articles of association and the recommendation of the board of directors, Messrs. Hou Zibo, Li Yongcheng, Tam Chun Fai, Fu Tingmei and Yu Sun Say will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from each of the independent non-executive directors, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 21 to 25 of the annual report.

DIRECTOR'S SERVICE CONTRACT

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The board has to seek shareholders' authorisation at general meetings to fix directors' remuneration with reference to individual director's duties, responsibilities and performance, the results of the Group as well as recommendation of the remuneration committee.

Further details of the Company's remuneration committee are set out in the corporate governance report on pages 41 to 52 of the annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS & CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

At 31 December 2015, the interests and short positions of the directors and the chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the"Model Code"), were as follows:

(A) LONG POSITIONS IN SHARES OF THE COMPANY

Director	Number of ordinary shares directly beneficially owned	Percentage of the Company's issued share capital
Zhou Si	210,500	0.016%
Li Fucheng	12,000	0.001%
E Meng	30,000	0.002%
Jiang Xinhao	20,000	0.002%
Tam Chun Fai	2,000	0.000%

(B) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

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

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

(C) LONG POSITIONS IN SHARES OF ASSOCIATED CORPORATIONS

Director	Associated corporation	Number of ordinary shares directly beneficially owned	Percentage of the associated corporations' issued share capital
Li Fucheng	Beijing Yanjing Brewery Company Limited@	82,506	0.003%
E Meng	Beijing Development@	601,000	0.040%
Tam Chun Fai	Beijing Development@	50,000	0.003%
Yu Sun Say	Beijing Enterprises Water Group Limited@	100,000	0.001%

@ All interests in these associated corporations owned by the Company are indirectly held.

(D) LONG POSITIONS IN UNDERLYING SHARES OF ASSOCIATED CORPORATIONS

Long positions in share options in Beijing Properties (Holdings) Limited:

	Number of share options directly beneficially owned						
Director	*Note (a)*	*Note (b)*	*Note (c)*	*Note (d)*	*Note (e)*	*Note (f)*	**Total**
Zhou Si	7,000,000	5,000,000	12,000,000				24,000,000
E Meng	5,000,000	3,600,000					8,600,000
Jiang Xinhao	5,000,000	3,300,000	6,000,000	4,000,000	2,000,000	3,000,000	23,300,000

Long positions in share options in Beijing Development@ (a subsidiary of the Company):

		Number of share options directly beneficially owned			
Director	*Note*	**At 1 January 2015**	**Granted during the period**	**Exercised during the period**	**At 31 December 2015**
E Meng	*(g)*	6,770,000	–	–	6,770,000

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

(D) LONG POSITIONS IN UNDERLYING SHARES OF ASSOCIATED CORPORATIONS *(Continued)*

Long positions in share options in China Gas Holdings Limited[@]:

		Number of share options directly beneficially owned			
Director	*Note*	**At 1 January 2015**	**Granted during the period**	**Exercised during the period**	**At 31 December 2015**
Zhou Si	*(h)*	4,000,000	–	–	4,000,000
Jiang Xinhao	*(i)*	–	800,000	–	800,000

Notes:

(a) These share options were granted on 28 October 2011 at an exercise price of HK$0.465 per share. These share options may be exercised at any time commencing on 28 October 2011, and if not otherwise exercised, will lapse on 27 October 2021.

(b) These share options were granted on 1 June 2012 at an exercise price of HK$0.41 per share. These share options may be exercised at any time commencing on 1 June 2012, and if not otherwise exercised, will lapse on 31 May 2022.

(c) These share options were granted on 24 May 2013 at an exercise price of HK$0.574 per share. These share options may be exercised at any time commencing on 24 May 2013, and if not otherwise exercised, will lapse on 23 May 2023.

(d) These share options were granted on 31 March 2014 at an exercise price of HK$0.940 per share. These share options may be exercised at any time commencing on 31 March 2014, and if not otherwise exercised, will lapse on 30 March 2024.

(e) These share options were granted on 28 August 2014 at an exercise price of HK$0.750 per share. These share options may be exercised at any time commencing on 28 August 2014, and if not otherwise exercised, will lapse on 27 August 2024.

(f) These share options were granted on 8 April 2015 at an exercise price of HK$0.720 per share. These share options may be exercised at any time commencing on 8 April 2015, and if not otherwise exercised, will lapse on 7 April 2025.

(g) These share options were granted on 21 June 2011 at an exercise price of HK$1.25 per ordinary share. These share options may be exercised at any time commencing on 21 June 2011, and if not otherwise exercised, will lapse on 20 June 2021.

(h) These share options were granted on 16 April 2014 at an exercise price of HK$12.40 per share. These share options may be exercised at any time commencing on 16 April 2017, and if not otherwise exercised, will lapse on 15 April 2019.

(i) These share options were granted on 25 June 2015 at an exercise price of HK$13.84 per share. These share options may be exercised at any time commencing on 16 April 2017, and if not otherwise exercised, will lapse on 15 April 2019.

@ All interests in these associated corporation are indirectly held by the Company.

Save as disclosed above, as at 31 December 2015, none of the directors or the chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The share option scheme that the Company established on 17 October 2005 was lapsed on 17 October 2015. The Company currently does not have any valid share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

At 31 December 2015, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions:

	Number of ordinary shares held, capacity and nature of interest			
Name	**Directly beneficially owned**	**Others**	**Total**	**Percentage of the Company's issued share capital**
Modern Orient Limited	100,050,000	–	100,050,000	7.80%
Beijing Enterprises Investments Limited ("BEIL")	163,730,288	100,050,000 (a)	263,780,288	20.56%
Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI")	516,187,500	263,780,288 (b)	779,967,788	60.80%
Beijing Enterprises Group Company Limited ("Beijing Enterprises Group")	–	779,967,788 (c)	779,967,788	60.80%

Notes:

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

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

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

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

Short Positions:

Name	Number of ordinary shares held, capacity and nature of interest: Directly beneficially owned	Others	Total	Percentage of the Company's issued share capital
Shine Power International Limited ("Shine Power")	40,000,000	–	40,000,000	3.12%
BE Group BVI	–	40,000,000*	40,000,000	3.12%
Beijing Enterprises Group	–	40,000,000*	40,000,000	3.12%

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

Save as disclosed above, as at 31 December 2015, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in note 48 to the financial statements.

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

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

SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDERS

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

Date of the Agreement(s)	Nature of the Agreement(s)	Aggregate amount *(million)*	Final Maturity
5 May 2011	Purchase agreement for issuance of bonds	US$600	May 2021
5 May 2011	Purchase agreement for issuance of bonds	US$400	May 2041
18 April 2012	Purchase agreement for issuance of bonds	US$800	April 2022
29 May 2014	Syndicated loan facility	HK$3,000	May 2019
29 April 2015	Subscription agreement for issuance of bonds	EUR500	May 2020
27 November 2015	Term loan facility with a bank	HK$4,000	December 2020
1 December 2015	Subscription agreement for issuance of bonds	US$200	December 2040
8 December 2015	Term loan facility with a bank	US$250	December 2016

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

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

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

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association, every director of the Company shall be entitled to be indemnified by the Company against the losses which he may incur in the execution of the duties of his office, provided that this article shall only have effect in so far as it is not avoided by the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

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

MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during 2015.

DONATIONS

The Group's charitable donations during the year amounted to HK$3.6 million.

EQUITY-LINKED AGREEMENTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Wang Dong
Chairman

Hong Kong
31 March 2016

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Saved as disclosed below, the directors of Beijing Enterprises Holdings Limited (the "Company") believe that during the year ended 31 December 2015, the Company has complied with the code provisions (the "Code Provisions") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by the directors. All the directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2015.

BOARD OF DIRECTORS

Composition and Role

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

BOARD OF DIRECTORS *(Continued)*

Composition and Role *(Continued)*

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

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

Name		Attendance^				
		Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Corporate Governance & Risk Management Committee Meeting	Annual General Meeting
Executive Directors						
Wang Dong	*(Chairman)*	3/3		2/2		1/1
Hou Zibo	*(Vice Chairman)*	3/3				
Zhou Si	*(Vice Chairman & CEO)*	3/3			1/1	1/1
Li Fucheng	*(Vice Chairman)*	3/3				
Li Yongcheng	*(Vice Chairman)*	3/3				
E Meng	*(Executive Vice President)*	2/3	1/2			
Jiang Xinhao	*(Vice President)*	3/3			0/1	
Tam Chun Fai	*(CFO & Company Secretary)*	3/3	2/2			1/1
Non-executive Director						
Guo Pujin	(resigned on 28 August 2015)	0/1				0/1
Independent Non-executive Directors						
Wu Jiesi		3/3	1/2			0/1
Lam Hoi Ham		3/3	2/2	2/2	1/1	1/1
Fu Tingmei		3/3	2/2	2/2	1/1	1/1
Sze Chi Ching		3/3				0/1
Shi Hanmin		3/3				0/1
Yu Sun Say		3/3			1/1	1/1

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

BOARD OF DIRECTORS *(Continued)*

Directors' Training

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

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

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

Name	Attend Seminars/ Read Training Materials
Executive Directors	
Wang Dong	✓
Hou Zibo	✓
Zhou Si	✓
Li Fucheng	✓
Li Yongcheng	✓
E Meng	✓
Jiang Xinhao	✓
Tam Chun Fai	✓

BOARD OF DIRECTORS *(Continued)*

Directors' Training *(Continued)*

Name	Attend Seminars/ Read Training Materials
Non-executive Director	
Guo Pujin	✓
Independent Non-executive Directors	
Wu Jiesi	✓
Lam Hoi Ham	✓
Fu Tingmei	✓
Sze Chi Ching	✓
Shi Hanmin	✓
Yu Sun Say	✓

Chairman and Chief Executive Officer

Mr. Wang Dong is the chairman of the board of the Company, and Mr. Zhou Si is the chief executive officer. The Company has complied with Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

Non-executive Directors

Non-executive directors (including the independent non-executive directors) serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group. They have the same duties of care and skill and fiduciary duties as executive directors.

BOARD OF DIRECTORS *(Continued)*

Non-executive Directors *(Continued)*

The Company has entered into letters of appointment with all non-executive directors (including independent non-executive directors) for a term of three years. Their term of appointment is as follows:

Name		Term of Appointment
Guo Pujin	(resigned on 28 August 2015)	3 years from 28 March 2013
Wu Jiesi		3 years from 1 April 2015
Lam Hoi Ham		3 years from 1 April 2015
Fu Tingmei		3 years from 1 April 2015
Sze Chi Ching		3 years from 28 March 2013
Shi Hanmin		3 years from 28 March 2013
Yu Sun Say		3 years from 31 March 2014

Like all other directors, the non-executive directors (including independent non-executive directors) are subject to retirement by rotation and shall offer themselves for re-election in general meetings in accordance with the Company's articles of association.

Corporate Governance Functions

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

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

(b) to review and monitor the training and continuous professional development of directors and senior management;

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

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

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

AUDIT COMMITTEE

The current members of the Audit Committee are:

Mr. Lam Hoi Ham – Committee Chairman
Mr. Wu Jiesi
Mr. Fu Tingmei

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

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

REMUNERATION COMMITTEE

The current members of the Remuneration Committee are:

Mr. Wu Jiesi – Committee Chairman
Mr. Lam Hoi Ham
Mr. Zhou Si

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

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

In evaluating the remuneration packages for directors and senior management, the Remuneration Committee takes into consideration various factors such as salaries paid by comparable companies, time commitment, responsibilities and employment conditions elsewhere in the Group. During the year, no Remuneration Committee meeting was held as the terms of employment of directors remained unchanged.

NOMINATION COMMITTEE

The current members of the Nomination Committee are:

Mr. Wang Dong – Committee Chairman
Mr. Lam Hoi Ham
Mr. Fu Tingmei

The majority of the Nomination Committee members are independent non-executive directors. The Company has adopted the written terms of reference which describe the authority and duties of the Nomination Committee in accordance with Code Provision A.5.2. A copy of the terms of reference is posted on the Company's website. The major duties of the Nomination Committee include: to review the structure, size and diversity of the board; to make recommendations to the board on the selection of individuals nominated for directorships; to assess the independence of independent non-executive directors; and to make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive officer.

The Company recognizes the benefits of having a diverse Board to enhance the Company's performance. The Nomination Committee has adopted a policy concerning diversity of Board members to create an inclusive environment and encourage our staff to aspire to senior leadership roles regardless of one's gender, age, cultural and educational background or professional experience. The composition, experience and balance of skills on the Board are regularly reviewed by the Nomination Committee to ensure that the board retains a core of members with longstanding and deep knowledge of the Group alongside new directors who bring fresh perspectives and diverse experiences to the board. During the year, the Nomination Committee reviewed the composition of the board upon the retirement of Non-executive Director Mr. Guo Pujin and concluded that the composition, experience and balance of skills on the board were still strong upon Mr. Guo's retirement.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE AND RISK MANAGEMENT COMMITTEE

The current members of the Corporate Governance and Risk Management Committee are:

Mr. Zhou Si – Committee Chairman
Mr. Jiang Xinhao
Mr. Lam Hoi Ham
Mr. Fu Tingmei
Mr. Yu Sun Say

The Corporate Governance and Risk Management Committee was established in August 2015 with an aim to strengthen the Company's corporate governance and risk control on business operations and financial management of the Group. The majority of the members of the committee are independent non-executive directors. During the year, the work performed by the committee included: assessed important investments of the Group and gave the Board its advice thereon. The Company's risk management system and the Group's internal control policy had also been discussed by the committee.

AUDITORS' REMUNERATION

During the year ended 31 December 2015, fees paid and payable to the Company's external auditors for audit services were approximately HK$8.8 million; fees paid and payable for non-audit services were approximately HK$9.98 million, which included fees for an agreed-upon procedures engagement in connection with the Group's interim financial report and fees on work on bond issues, due diligence on specific projects and tax compliance services etc.

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The directors acknowledged responsibility for reviewing the accounts of the Company prepared by the executive board for the year ended 31 December 2015 and ensuring the accounts are prepared in accordance with the Hong Kong Financial Reporting Standards. A statement by the auditors about their reporting responsibilities is contained in the Independent Auditors' Report.

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

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The board has delegated power to oversee the internal control system of the Company to ensure that such system is operating effectively. During the year ended 31 December 2015, the board conducted an annual review and engaged in a discussion with the management on the effectiveness of the internal control system to satisfy itself that the internal control system of the Company was designed and operated effectively during the year. The review has covered all material controls, including financial, operational and compliance controls and risk management functions.

COMPANY SECRETARY

The executive director and chief financial officer, Mr. Tam Chun Fai, has been the company secretary of the Company since 1997. Pursuant to Rule 3.29 of the Listing Rules. During the year 2015, Mr. Tam took no less than 15 hours of relevant professional training as required by Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

Pursuant to Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) of the Company holding at least 5% of the total voting rights of all the shareholders having a right to vote at EGMs can submit a written requisition to convene an EGM.

The written requisition:

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

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

3. may consist of several documents in like form;

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

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

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

SHAREHOLDERS' RIGHTS *(Continued)*

To Make Enquiries to the Board

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

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

To Put forward Proposals at an Annual General Meeting ("AGM")

Shareholder(s) can submit a written requisition to move a resolution at an AGM pursuant to Section 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) if they:

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

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

The written requisition:

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

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

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

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

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

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

SHAREHOLDERS' RIGHTS *(Continued)*

Circulating a Statement at an AGM or at a General Meeting

Shareholder(s) can pursuant to Section 580 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) request the Company to circulate to shareholders entitled to receive notice of a general meeting, a statement of not more than 1,000 words with respect to a matter mentioned in a proposed resolution to be dealt with at that meeting or other business to be dealt with at that meeting, if such shareholder(s) –

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

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

The request –

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

2. must identify the statement to be circulated;

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

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

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

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

CONSTITUTIONAL DOCUMENTS

A general meeting of the Company was convened on 11 June 2015 to pass the resolution for adoption of new articles of association.

INDEPENDENT AUDITORS' REPORT

EY 安永

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

We have audited the consolidated financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries set out on pages 55 to 190, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITY *(Continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

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

31 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
REVENUE	5	**60,149,945**	47,935,795
Cost of sales		**(51,098,897)**	(39,359,764)
Gross profit		**9,051,048**	8,576,031
Gain on deemed disposal of partial interest in an associate	20(a)	**2,390**	378,843
Other income and gains, net	5	**1,464,170**	862,480
Selling and distribution expenses		**(2,575,564)**	(2,595,985)
Administrative expenses		**(3,936,272)**	(3,407,908)
Other operating expenses, net		**(773,964)**	(482,408)
PROFIT FROM OPERATING ACTIVITIES	6	**3,231,808**	3,331,053
Finance costs	7	**(1,301,863)**	(1,172,491)
Share of profits and losses of:			
Joint ventures	19(a)	**(183)**	4,827
Associates	20(b)	**4,708,112**	3,807,092
PROFIT BEFORE TAX		**6,637,874**	5,970,481
Income tax	10	**(681,961)**	(564,834)
PROFIT FOR THE YEAR		**5,955,913**	5,405,647
ATTRIBUTABLE TO:			
Shareholders of the Company		**5,667,378**	4,831,678
Non-controlling interests		**288,535**	573,969
		5,955,913	5,405,647
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	12		
Basic		**HK$4.41**	HK$3.78
Diluted		**HK$4.41**	HK$3.77

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015 *HK$'000*	2014 *HK$'000*
PROFIT FOR THE YEAR	**5,955,913**	5,405,647
OTHER COMPREHENSIVE LOSS		
Items to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**(107,495)**	(106,292)
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	**(20,617)**	(61,268)
Income tax effect	**5,155**	(16,892)
	(122,957)	(184,452)
Exchange differences on translation of foreign operations	**(2,927,685)**	(1,367,217)
Fair value gain on revaluation of a building upon transfer to investment property	**29,685**	–
Share of other comprehensive loss of associates	**(683,697)**	(101,289)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(3,704,654)**	(1,652,958)
Items not to be reclassified to profit or loss in subsequent periods:		
Defined benefit plans:		
Actuarial losses	**(132,576)**	(108,273)
Income tax effect	**33,144**	27,069
	(99,432)	(81,204)
Share of other comprehensive loss of associates	**(7,498)**	(15,890)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	**(106,930)**	(97,094)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX	**(3,811,584)**	(1,750,052)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,144,329**	3,655,595
ATTRIBUTABLE TO:		
Shareholders of the Company	**2,334,243**	3,336,953
Non-controlling interests	**(189,914)**	318,642
	2,144,329	3,655,595

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK$'000	2014 HK$'000 (Restated)
ASSETS			
Non-current assets:			
Property, plant and equipment	13	**37,735,621**	39,320,530
Investment properties	14	**1,194,258**	703,749
Prepaid land premiums	15	**1,888,032**	1,959,240
Goodwill	16	**8,927,959**	8,899,765
Operating concessions	17	**2,250,526**	2,259,127
Other intangible assets	18	**282,844**	236,978
Investments in joint ventures	19	**192,651**	230,722
Investments in associates	20	**31,599,399**	33,275,203
Available-for-sale investments	21	**1,012,557**	1,084,098
Amounts due from contract customers	23	**388,771**	316,733
Receivables under service concession arrangements	17	**1,655,090**	1,020,254
Prepayments, deposits and other receivables	25	**3,220,569**	1,165,546
Deferred tax assets	39	**779,713**	678,460
Total non-current assets		**91,127,990**	91,150,405
Current assets:			
Prepaid land premiums	15	**45,222**	44,860
Inventories	22	**4,644,199**	5,393,368
Amounts due from contract customers	23	**39,623**	39,895
Receivables under service concession arrangements	17	**135,675**	140,425
Trade and bills receivables	24	**3,544,455**	5,320,835
Prepayments, deposits and other receivables	25	**3,835,300**	6,131,039
Other taxes recoverable		**1,336,880**	2,232,099
Restricted cash and pledged deposits	27	**73,003**	58,735
Cash and cash equivalents	28	**13,693,804**	11,207,706
		27,348,161	30,568,962
Assets of disposal groups classified as held for sale	29	**6,289,889**	2,454,449
Total current assets		**33,638,050**	33,023,411
TOTAL ASSETS		**124,766,040**	124,173,816

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK$'000	2014 HK$'000 (Restated)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	*30*	**30,401,883**	30,401,883
Reserves	*32(a)*	**27,785,384**	26,774,473
		58,187,267	57,176,356
Non-controlling interests		**10,464,903**	10,919,624
TOTAL EQUITY		**68,652,170**	68,095,980
Non-current liabilities:			
Bank and other borrowings	*33*	**8,263,049**	5,559,874
Guaranteed bonds and senior notes	*34*	**19,444,592**	13,879,298
Defined benefit plans	*36*	**827,960**	672,659
Provision for major overhauls	*37*	**28,363**	30,544
Other non-current liabilities	*38*	**761,946**	433,447
Deferred tax liabilities	*39*	**480,481**	384,350
Total non-current liabilities		**29,806,391**	20,960,172

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK$'000	2014 HK$'000 (Restated)
Current liabilities:			
Trade and bills payables	40	**3,640,954**	2,238,403
Amounts due to contract customers	23	**329,589**	377,784
Receipts in advance		**5,366,453**	5,843,713
Other payables and accruals	41	**8,256,953**	7,656,455
Income tax payables		**494,147**	342,499
Other taxes payables		**198,802**	266,372
Liability component of convertible bonds	35	**–**	84,556
Derivative component of convertible bonds	35	**–**	7,639
Bank and other borrowings	33	**7,047,965**	17,691,435
		25,334,863	34,508,856
Liabilities directly associated with the assets of disposal groups classified as held for sale	29	**972,616**	608,808
Total current liabilities		**26,307,479**	35,117,664
TOTAL LIABILITIES		**56,113,870**	56,077,836
TOTAL EQUITY AND LIABILITIES		**124,766,040**	124,173,816

Zhou Si
Director

Tam Chun Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

		Attributable to shareholders of the Company												
	Notes	Share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000 (note 32(b))	Capital reserve HK$'000	Available–for-sale investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Defined benefit plans reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 32(c))	Retained profits HK$'000	Total HK$'000	Non–controlling interests HK$'000 (Restated)	Total equity HK$'000 (Restated)
At 1 January 2014		127,019	29,607,291	238	532,479	379,645	41,439	113,646	6,453,339	4,636,007	12,130,135	54,021,238	10,046,841	64,068,079
Profit for the year		–	–	–	–	–	–	–	–	–	4,831,678	4,831,678	573,969	5,405,647
Other comprehensive income/(loss) for the year:														
Available-for-sale investments:														
Changes in fair value		–	–	–	–	(105,839)	–	–	–	–	–	(105,839)	(453)	(106,292)
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	*5*	–	–	–	–	(61,268)	–	–	–	–	–	(61,268)	–	(61,268)
Income tax effect	*39*	–	–	–	–	(16,892)	–	–	–	–	–	(16,892)	–	(16,892)
Exchange differences :														
Translation of foreign operations		–	–	–	–	–	–	–	(1,112,343)	–	–	(1,112,343)	(254,874)	(1,367,217)
Defined benefit plans:														
Actuarial losses	*36(b)*	–	–	–	–	–	–	(108,273)	–	–	–	(108,273)	–	(108,273)
Income tax effect	*39*	–	–	–	–	–	–	27,069	–	–	–	27,069	–	27,069
Share of other comprehensive loss of associates		–	–	–	–	–	–	(15,890)	(101,289)	–	–	(117,179)	–	(117,179)
Total comprehensive income/(loss) for the year		–	–	–	–	(183,999)	–	(97,094)	(1,213,632)	–	4,831,678	3,336,953	318,642	3,655,595
Capital contribution from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	44,907	44,907
Conversion of convertible bonds to ordinary shares	*30(a)*	667,335	–	–	–	–	–	–	–	–	–	667,335	–	667,335
Shares repurchased	*30(b)*	(105)	–	105	–	–	–	–	–	–	(69,162)	(69,162)	–	(69,162)
Transition to non-par value regime	*30(c)*	29,607,634	(29,607,291)	(343)	–	–	–	–	–	–	–	–	–	–
Acquisition of subsidiaries (restated)	*43*	–	–	–	–	–	–	–	–	–	–	–	241,087	241,087
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(21,758)	(21,758)
Deemed disposal of partial interest in a subsidiary		–	–	–	229,926	–	–	–	(3,213)	–	–	226,713	602,448	829,161
Share of reserves of associates		–	–	–	114,188	–	2,404	–	–	–	–	116,592	–	116,592
Final 2013 dividend		–	–	–	–	–	–	–	–	–	(763,695)	(763,695)	–	(763,695)
Interim 2014 dividend	*11*	–	–	–	–	–	–	–	–	–	(359,618)	(359,618)	–	(359,618)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	(312,543)	(312,543)
Transfer to reserves		–	–	–	495	–	–	–	–	1,666,431	(1,666,926)	–	–	–
At 31 December 2014 (restated)		30,401,883	–	–	877,088	195,646	43,843	16,552	5,236,494	6,302,438	14,102,412#	57,176,356	10,919,624	68,095,980

\# *Retained profits have been adjusted for the proposed final 2014 dividend in accordance with the current year's presentation, which is described in note 2.4 to the financial statements.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Notes	Share capital HK$'000	Treasury shares HK$'000	Capital reserve HK$'000	Available–for-sale investment revaluation reserve HK$'000 (note 30(d))	Property revaluation reserve HK$'000	Defined benefit plans reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000	Retained profits HK$'000	Total HK$'000 (note 32(c))	Non–controlling interests HK$'000	Total equity HK$'000
		Attributable to shareholders of the Company											
At 1 January 2015 (restated)		30,401,883	–	877,088	195,646	43,843	16,552	5,236,494	6,302,438	14,102,412	57,176,356	10,919,624	68,095,980
Profit for the year		–	–	–	–	–	–	–	–	5,667,378	5,667,378	288,535	5,955,913
Other comprehensive income/(loss) for the year:													
Available-for-sale investments:													
Changes in fair value		–	–	–	(110,449)	–	–	–	–	–	(110,449)	2,954	(107,495)
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	5	–	–	–	(16,494)	–	–	–	–	–	(16,494)	(4,123)	(20,617)
Income tax effect	39	–	–	–	4,124	–	–	–	–	–	4,124	1,031	5,155
Exchange differences:													
Translation of foreign operations		–	–	–	–	–	–	(2,449,374)	–	–	(2,449,374)	(478,311)	(2,927,685)
Defined benefit plans:													
Actuarial losses	36(b)	–	–	–	–	–	(132,576)	–	–	–	(132,576)	–	(132,576)
Income tax effect	39	–	–	–	–	–	33,144	–	–	–	33,144	–	33,144
Fair value gain on revaluation of a building upon transfer to investment property	13	–	–	–	–	29,685	–	–	–	–	29,685	–	29,685
Share of other comprehensive income/(loss) of associates		–	–	–	–	8,202	(15,700)	(683,697)	–	–	(691,195)	–	(691,195)
Total comprehensive income/(loss) for the year		–	–	–	(122,819)	37,887	(115,132)	(3,133,071)	–	5,667,378	2,334,243	(189,914)	2,144,329
Capital contribution from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	2,531	2,531
Shares repurchased	30(d)	–	(46,623)	–	–	–	–	–	–	(69,384)	(116,007)	–	(116,007)
Acquisition of subsidiaries	43	–	–	–	–	–	–	–	–	–	–	90,524	90,524
Acquisition of non-controlling interests		–	–	(140,585)	–	–	–	–	–	–	(140,585)	(165,548)	(306,133)
Deemed disposal of partial interests in subsidiaries		–	–	4,118	–	–	–	(83)	–	–	4,035	108,179	112,214
Share of reserves of associates		–	–	110,827	–	–	–	–	–	–	110,827	–	110,827
Final 2014 dividend	11	–	–	–	–	–	–	–	–	(796,297)	(796,297)	–	(796,297)
Interim 2015 dividend	11	–	–	–	–	–	–	–	–	(385,305)	(385,305)	–	(385,305)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	(300,493)	(300,493)
Transfer to reserves		–	–	–	–	–	–	–	1,298,761	(1,298,761)	–	–	–
At 31 December 2015		30,401,883	(46,623)*	851,448*	72,827*	81,730*	(98,580)*	2,103,340*	7,601,199*	17,220,043*	58,187,267	10,464,903	68,652,170

* *These reserve accounts comprise the consolidated other reserves of HK$27,785,384,000 (2014: HK$26,774,473,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**6,637,874**	5,970,481
Adjustments for:			
Gain on deemed disposal of partial interest in an associate		**(2,390)**	(378,843)
Bank interest income	5	**(163,065)**	(163,874)
Transfer of assets from customers	5	**(40,325)**	(112,009)
Fair value gain on investment properties	5	**(479,798)**	–
Gain on disposal of available-for-sale investments carried at fair value	5	**(20,617)**	(61,268)
Depreciation	6	**2,573,813**	2,298,691
Amortisation of operating concessions	6	**84,338**	20,532
Amortisation of other intangible assets	6	**37,580**	31,447
Amortisation of prepaid land premiums	6	**65,759**	72,021
Loss on disposal of items of property, plant and equipment, net	6	**8,523**	14,569
Impairment of items of property, plant and equipment, net	6	**155,832**	126,468
Impairment of operating concession	6	**189,645**	190,000
Write down to fair value less cost to sell for a disposal group held for sale	6	**231,416**	–
Provision/(reversal of provision) for impairment of trade and bills receivables, net	6	**(23,765)**	39,202
Impairment of other receivables, net	6	**16,614**	15,135
Impairment of investment in an associate	6	**76,478**	–
Finance costs	7	**1,301,863**	1,172,491
Share of profits and losses of joint ventures and associates		**(4,707,929)**	(3,811,919)
Operating profit before working capital changes		**5,941,846**	5,423,124
Decrease in inventories		**455,288**	118,209
Increase in amounts due from contract customers		**(92,037)**	(316,115)
Decrease/(increase) in receivables under service concession arrangements		**(710,741)**	542,730
Decrease/(increase) in trade and bills receivables		**1,569,564**	(1,064,131)
Decrease/(increase) in prepayments, deposits and other receivables		**2,503,222**	(2,623,461)
Decrease/(increase) in other taxes recoverable		**782,519**	(1,997,391)
Increase/(decrease) in trade and bills payables		**1,293,200**	(43,156)
Increase/(decrease) in amounts due to contract customers		**(31,843)**	60,974
Increase/(decrease) in receipts in advance		**(137,680)**	295,474
Increase/(decrease) in other payables and accruals		**694,225**	(1,410,622)
Decrease in other taxes payable		**(67,570)**	(534,511)
Increase in defined benefit plans		**62,057**	46,478
Increase in other non-current liabilities		**362,070**	80,634
Cash generated from/(used in) operations		**12,624,120**	(1,421,764)
Dividends received from joint ventures and associates		**2,465,584**	2,932,279
Mainland China income tax paid		**(500,442)**	(625,362)
Net cash flows from operating activities		**14,589,262**	885,153

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from an associate		**182,374**	134,296
Purchases of items of property, plant and equipment		**(3,960,354)**	(2,514,375)
Proceeds from disposal of items of property, plant and equipment		**83,029**	37,348
Additions of operating concessions		**(31,169)**	(245,477)
Addition of prepaid land premiums		**(90,958)**	(165,531)
Purchases of other intangible assets		**(85,362)**	(92,861)
Acquisition of subsidiaries	*43*	**(64,118)**	(3,712,575)
Disposal of subsidiaries		**–**	135,286
Acquisition of/increase in investments in joint ventures and associates		**(236,342)**	(2,497,650)
Establishment of a joint venture		**(31,481)**	–
Additions of available-for-sale investments		**(87,795)**	–
Prepayment for acquisition of available-for-sale investments		**(2,400,086)**	–
Increase in amounts due from and loans to joint ventures and associates		**(1,422)**	(25,335)
Proceeds from disposal of available-for-sale investments		**47,691**	106,774
Decrease in time deposits with maturity of more than three months when acquired		**143,031**	508,233
(Increase)/decrease in restricted cash and pledged deposits		**(31,214)**	4,369
Interest received		**163,065**	163,874
Net cash flows used in investing activities		**(6,401,111)**	(8,163,624)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		**2,531**	32,923
Proceed from deemed disposal of partial interest in a subsidiary		**29,762**	–
Acquisition of non-controlling interests		**(306,133)**	(92,240)
Repurchase of shares	*30*	**(92,376)**	(69,162)
Proceeds from issue of guaranteed bonds, net of issuance costs		**5,781,933**	–
New loans		**11,863,065**	21,354,437
Repayment of loans		**(19,233,724)**	(10,023,921)
Redemption of convertible bonds		**(3,178)**	(11,710)
Interest paid		**(1,304,707)**	(1,189,791)
Dividends paid		**(1,181,602)**	(1,123,313)
Dividends paid to non-controlling equity holders		**(300,493)**	(312,543)
Net cash flows (used in)/from financing activities		**(4,744,922)**	8,564,680
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,443,229**	1,286,209
Cash and cash equivalents at beginning of year		**11,223,622**	10,132,463
Effect of foreign exchange rate changes, net		**(457,719)**	(195,050)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**14,209,132**	11,223,622

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	**2015** **HK$'000**	2014 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances:			
Placed in banks	*28*	**8,097,898**	7,020,259
Placed in a financial institution	*28*	**1,345,140**	3,237,711
Time deposits:			
Placed in banks	*28*	**2,025,618**	853,117
Placed in a financial institution	*28*	**2,298,151**	155,354
Less: Restricted cash and pledged deposits	*28*	**(73,003)**	(58,735)
Cash and cash equivalents as stated in the consolidated statement of financial position		**13,693,804**	11,207,706
Less: Time deposits with maturity of more than three months when acquired		**(11,740)**	(154,771)
Add: Cash and bank balances attributable to disposal groups	*29*	**527,068**	170,687
Cash and cash equivalents as stated in the consolidated statement of cash flows		**14,209,132**	11,223,622

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE AND GROUP INFORMATION

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

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

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

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

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

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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries

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

Company name	Place of incorporation/ registration and business	Issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
北京市燃氣集團有限責任公司 ("Beijing Gas")	PRC/Mainland China	RMB5,883,767,802	–	100	Distribution and sale of piped gas
北京燕京啤酒投資有限公司 ("Yanjing Investment")	PRC/Mainland China	RMB3,409,828,000	–	79.77	Investment holding
Beijing Yanjing Brewery Company Limited ("Yanjing Brewery")*	PRC/Mainland China	RMB2,808,451,958	–	45.78†	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan")#	PRC/Mainland China	RMB250,000,000	–	22.90†	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司	PRC/Mainland China	RMB547,300,000	–	42.31†	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司	PRC/Mainland China	RMB349,366,900	–	34.69†	Production and sale of beer
燕京啤酒(桂林玉林)股份有限公司	PRC/Mainland China	RMB430,000,000	–	35.13†	Production and sale of beer
燕京啤酒(赤峰)有限責任公司	PRC/Mainland China	RMB367,110,200	–	43.16†	Production and sale of beer
燕京啤酒(新疆)有限責任公司	PRC/Mainland China	RMB683,650,000	–	45.78†	Production and sale of beer
燕京啤酒(衡陽)有限公司	PRC/Mainland China	RMB525,660,000	–	45.80†	Production and sale of beer
燕京啤酒(萊州)有限公司	PRC/Mainland China	RMB187,053,800	–	68.87	Production and sale of beer
燕京啤酒(仙桃)有限公司	PRC/Mainland China	RMB292,353,000	–	45.67†	Production and sale of beer

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place of incorporation/ registration and business	Issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
燕京啤酒(曲阜三孔)有限責任公司	PRC/Mainland China	RMB260,817,189	–	84.88	Production and sale of beer
燕京啤酒(四川)有限公司	PRC/Mainland China	RMB480,000,000	–	45.78†	Production and sale of beer
燕京啤酒(晉中)有限公司	PRC/Mainland China	RMB250,000,000	–	45.78†	Production and sale of beer
廣東燕京啤酒有限公司	PRC/Mainland China	RMB809,880,000	–	58.23	Production and sale of beer
新疆燕京農產品開發有限公司	PRC/Mainland China	RMB230,000,000	–	45.78†	Production and sale of raw materials
北京高安屯垃圾焚燒有限公司	PRC/Mainland China	RMB274,000,000	–	84.90	Solid waste treatment operation
張家港金洲再生能源有限公司	PRC/Mainland China	RMB282,000,000	–	100	Solid waste treatment operation
Beijing Development (Hong Kong) Limited ("Beijing Development") Ω	Hong Kong	HK$2,225,722,752	1.16	49.27	Solid waste treatment business

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

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

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

Ω *Shares of Beijing Development are listed on the Main Board of the Hong Kong Stock Exchange.*

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

Further details of the acquisition of subsidiaries during the year are disclosed in note 43(a) to the financial statements.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

2.1 BASIS OF PREPARATION

Basis of consolidation *(Continued)*

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

Other than as further explained below regarding the impact of amendments to HKAS 19, the adoption of the above revised standards has had no significant financial effect on these financial statements.

Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have contributions from employees or third parties to defined benefit plans.

In addition, the requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) came into effect for the first time during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the consolidation Exceptions*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operation*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

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

2 *Effective for annual periods beginning on or after 1 January 2018*

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

4 *No mandatory effective date is determined but is available for early adoption.*

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

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

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

(b) The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively.

(c) The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

(d) HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

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

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

(i) the materiality requirements in HKAS 1;

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

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

(f) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

(b) the party is an entity where any of the following conditions applies:

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

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31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

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

Property, plant and equipment and depreciation

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Disposal groups held for sale

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the disposal groups must be available for immediate sale in their present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and their sale must be highly probable. All assets and liabilities of a subsidiary classified as disposal groups are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

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

Operating leases

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

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

Service concession arrangements

Consideration given by the grantor

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

Consideration given by the grantor (Continued)

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

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

Construction or upgrade services

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

Operating services

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

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

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

Intangible assets (other than goodwill)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Operating concessions

Operating concessions represent the rights to operate a toll road, sewage and water treatment plants and solid waste treatment plants, and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 40 years.

Patents

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

Operating right

Operating right represents the fair value of the non-guarantee receipt right to receive cash from service concession arrangement under a Build-Operate-Own basis ("BOO"). Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the respective subsidiaries of the Group.

Computer software

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

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale investments

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

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for these investments or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment

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

(a) Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

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

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

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

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

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Derecognition

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

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

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

(b) Loans and borrowings

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

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

Derecognition

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial guarantee contracts

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

Convertible bonds

Convertible bonds containing an equity component

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible bonds *(Continued)*

Convertible bonds containing an equity component (Continued)

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

Convertible bonds containing a derivative component

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

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

Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

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

Construction contracts

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts for services

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

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

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

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

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

Government grants

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage-of-completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for "Contracts for services" above;

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

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

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

Share-based payments

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Pension schemes

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

For those employees that have not yet joined a pension scheme, the Group has accrued for the estimated future pension costs based on a percentage of their salaries. The related assets for the purpose of discharging such liabilities are not separately held from those of the Group.

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

Other retirement benefits

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Other retirement benefits (Continued)

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

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

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

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

Borrowing costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622) in the year ended 31 December 2014, proposed final dividends are only disclosed in the notes to the financial statements and no separate allocation of retained profits is made within the equity.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Associate

The Group regards Beijing Enterprises Water Group Limited ("BE Water", an entity listed on the Hong Kong Stock Exchange with its 43.84% equity interest held by the Group as at 31 December 2015) as an associate. In determining whether the Group has control over BE Water, the Group has taken into account its effective influence it may exercise over the decisions of BE Water's board of directors, including the voting rights held by the Group, the structure of the board of directors and senior management of BE Water and the expertise of directors designated by other shareholders. In the opinion of the directors, the Group did not have the sufficient ability to exercise power to control BE Water throughout the year ended 31 December 2015 and BE Water was accounted for as an associate in the Group's consolidated financial statements.

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

Estimate of gas consumption

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

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

The actual consumption could deviate from those estimates.

Useful lives and residual values of property, plant and equipment

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less costs to sell of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2015 was HK$8,927,959,000 (2014: HK$8,899,765,000, restated), details of which are set out in note 16 to the financial statements. The carrying amount of goodwill included in disposal group classified as held for sale as at 31 December 2015 was HK$657,372,000 (2014: HK$810,897,000), details of which are set out in note 29 to the financial statements.

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

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

The carrying amounts of items of property, plant and equipment and other intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows or compensation to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2015 were HK$37,735,621,000 (2014: HK$39,320,530,000) and HK$2,533,370,000 (2014: HK$2,496,105,000, restated), respectively, details of which are set out in notes 13, 17 and 18 to the financial statements.

Impairment of available-for-sale investments

The Group follows the guidance of HKAS 39 in determining when an investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and the extent to which the estimated value of an investment is less than its cost; and the financial health of and the short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows. The carrying amount of available-for-sale investments carried as assets in the consolidated statement of financial position as at 31 December 2015 was HK$1,012,557,000 (2014: HK$1,084,098,000), details of which are set out in note 21 to the financial statements.

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

The Group's management determines the provision for impairment of receivables under service concession arrangements, trade and bills receivables and other receivables. This estimate is based on the evaluation of collectibility and aged analysis of accounts and on management's estimation in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been changed. The carrying amounts of receivables under service concession arrangements, trade and bills receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2015 were HK$1,790,765,000 (2014: HK$1,160,679,000, restated), HK$3,544,455,000 (2014: HK$5,320,835,000) and HK$3,418,902,000 (2014: HK$4,197,980,000), respectively, details of which are set out in notes 17, 24 and 25 to the financial statements.

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

Provision against obsolete and slow-moving inventories

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

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories carried as assets in the consolidated statement of financial position as at 31 December 2015 was HK$4,644,199,000 (2014: HK$5,393,368,000), details of which are set out in note 22 to the financial statements.

Defined benefit plans

The present value of the retirement benefit obligations under the various defined benefit plans of the Group depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligations. Key assumptions for the obligations are based in part on the current market conditions. The carrying amount of the obligations carried as liabilities in the consolidated statement of financial position under defined benefit plans as at 31 December 2015 was HK$837,704,000 (2014: HK$682,523,000), details of which are disclosed in note 36 to the financial statements.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas. The Group carefully evaluates tax implications of transactions in accordance with the prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of income tax payables carried as liabilities in the consolidated statement of financial position as at 31 December 2015 was HK$494,147,000 (2014: HK$342,499,000).

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried in the consolidated statement of financial position as at 31 December 2015 were HK$779,713,000 (2014: HK$678,460,000) and HK$480,481,000 (2014: HK$384,350,000, restated), respectively, details of which are set out in note 39 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

(a) the piped gas operation segment engages in the distribution and sale of piped natural gas, the provision of natural gas transmission, gas technology consultation and development services, the surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repairs and maintenance services;

(b) the brewery operation segment produces, distributes and sells brewery products;

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

(d) the corporate and others segment comprises the construction and operation of solid waste treatment plants and the sale of electricity and steam generated from solid waste treatment, the sale of IT related products, the provision of system integration and maintenance services and software development and consultation services, property investment and corporate income and expense items.

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

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015

	Piped gas operation HK$'000	Brewery operation HK$'000	Sewage and water treatment operations HK$'000	Corporate and others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Segment revenue	43,946,315	14,069,445	–	2,134,185	–	60,149,945
Cost of sales	(39,737,004)	(9,574,879)	–	(1,787,014)	–	(51,098,897)
Gross profit	4,209,311	4,494,566	–	347,171	–	9,051,048
Profit from operating activities	2,085,964	761,446	–	384,398	–	3,231,808
Finance costs	(102,379)	(79,752)	–	(1,119,732)	–	(1,301,863)
Share of profits and losses of:						
Joint ventures	(4,191)	–	–	4,008	–	(183)
Associates	3,374,838	6,259	1,077,087	249,928	–	4,708,112
Profit/(loss) before tax	5,354,232	687,953	1,077,087	(481,398)	–	6,637,874
Income tax	(271,912)	(241,260)	–	(168,789)	–	(681,961)
Profit/(loss) for the year	5,082,320	446,693	1,077,087	(650,187)	–	5,955,913
Segment profit/(loss) attributable to shareholders of the Company	5,065,227	142,520	1,077,087	(617,456)	–	5,667,378
Segment assets	71,097,885	22,246,260	7,565,313	26,448,237	(2,591,655)	124,766,040
Segment liabilities	16,663,896	7,174,547	–	34,867,082	(2,591,655)	56,113,870
Other segment information:						
Interest income	40,567	27,184	–	95,314	–	163,065
Depreciation	1,390,217	1,100,739	–	82,857	–	2,573,813
Amortisation of operating concessions	–	–	–	84,338	–	84,338
Amortisation of other intangible assets	26,019	–	–	11,561	–	37,580
Impairment/(reversal of impairment) against segment assets, net*	197,504	12,772	–	204,528	–	414,804
Write down to fair value less costs to sell for a disposal group held for sale	–	–	–	231,416	–	231,416
Investments in joint ventures	186,757	–	–	5,894	–	192,651
Investments in associates	23,202,366	196,406	7,483,795	716,832	–	31,599,399
Capital expenditure**	3,153,611	731,320	–	549,856	–	4,434,787

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2014

	Piped gas operation HK$'000	Brewery operation HK$'000	Sewage and water treatment operations HK$'000	Corporate and others HK$'000	Inter–segment elimination HK$'000	Consolidated HK$'000
Segment revenue	32,438,393	15,150,989	–	346,413	–	47,935,795
Cost of sales	(28,960,858)	(10,130,855)	–	(268,051)	–	(39,359,764)
Gross profit	3,477,535	5,020,134	–	78,362	–	8,576,031
Profit from operating activities	1,964,656	1,358,876	–	7,521	–	3,331,053
Finance costs	(264,383)	(93,188)	–	(814,920)	–	(1,172,491)
Share of profits and losses of:						
Joint ventures	4,860	–	–	(33)	–	4,827
Associates	2,977,116	(849)	789,962	40,863	–	3,807,092
Profit/(loss) before tax	4,682,249	1,264,839	789,962	(766,569)	–	5,970,481
Income tax	(210,689)	(314,208)	–	(39,937)	–	(564,834)
Profit/(loss) for the year	4,471,560	950,631	789,962	(806,506)	–	5,405,647
Segment profit/(loss) attributable to shareholders of the Company	4,454,238	387,515	789,962	(800,037)	–	4,831,678
Segment assets (restated)	70,277,913	24,309,263	7,382,087	25,211,112	(3,006,559)	124,173,816
Segment liabilities (restated)	18,923,706	8,648,299	–	31,512,390	(3,006,559)	56,077,836
Other segment information:						
Interest income	54,971	28,563	–	80,340	–	163,874
Depreciation	1,180,458	1,086,983	129	31,121	–	2,298,691
Amortisation of operating concessions	–	–	–	20,532	–	20,532
Amortisation of other intangible assets	27,188	–	–	4,259	–	31,447
Impairment/(reversal of impairment) against segment assets, net*	17,338	63,685	–	289,782	–	370,805
Investments in joint ventures	224,755	–	–	5,967	–	230,722
Investments in associates	25,183,835	199,889	7,594,344	297,135	–	33,275,203
Capital expenditure**	1,537,200	1,034,409	–	1,089,552	–	3,661,161

* *These amounts are recognised in the consolidated statement of profit or loss and included impairment/provision (reversal of impairment/provision) against items of property, plant and equipment, investment in an associate, operating concessions, trade and bills receivables and other receivables.*

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

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

Information about major customers

During each of the years ended 31 December 2015 and 2014, none of the Group's individual customers contributed to 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS, NET

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

An analysis of revenue, other income and gains, net is as follows:

	2015	2014
	HK$'000	*HK$'000*
Revenue		
Piped gas operation	**43,946,315**	32,438,393
Brewery operation	**14,069,445**	15,150,989
Corporate and others	**2,134,185**	346,413
	60,149,945	47,935,795

5. REVENUE, OTHER INCOME AND GAINS, NET *(Continued)*

	Notes	2015 HK$'000	2014 HK$'000
Other income			
Bank interest income		**163,065**	163,874
Rental income		**81,057**	18,815
Government grants*		**213,046**	247,578
Transfer of assets from customers	13	**40,325**	112,009
Income from forfeiture of deposit received		**77,500**	–
Others		**361,538**	250,183
		936,531	792,459
Gains, net			
Fair value gain on investment properties	14	**479,798**	–
Gain on disposal of available-for-sale investments carried at fair value, net		**20,617**	61,268
Foreign exchange differences, net		**27,224**	8,753
		527,639	70,021
Other income and gains, net		**1,464,170**	862,480

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

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2015 HK$'000	2014 HK$'000
Cost of inventories sold		**49,145,605**	38,944,146
Cost of services provided		**1,868,954**	395,086
Depreciation	13	**2,573,813**	2,298,691
Amortisation of prepaid land premiums	15	**65,759**	72,021
Amortisation of operating concessions*	17	**84,338**	20,532
Amortisation of other intangible assets**	18	**37,580**	31,447
Research and development expenditure		**84,612**	89,390
Loss on disposal of items of property, plant and equipment, net		**8,523**	14,569
Minimum lease payments under operating leases		**248,232**	235,462
Auditors' remuneration		**8,800**	8,800
Employee benefit expense (including directors' remuneration – note 8):			
Salaries, allowances and benefits in kind		**5,263,974**	4,561,316
Net pension scheme contributions		**635,174**	571,691
Net benefit expense of defined benefit plans**	36(a)	**72,162**	52,052
		5,971,310	5,185,059
Impairment of items of property, plant and equipment***	13	**155,832**	126,468
Write down to fair value less cost to sell for a disposal group held for sale***	29(a)	**231,416**	–
Impairment of investment in an associate***	29(c)	**76,478**	–
Impairment of operating concession***	17	**189,645**	190,000
Provision/(reversal of provision) for impairment of trade and bills receivables, net	24(c)	**(23,765)**	39,202
Impairment of other receivables, net	25(b)	**16,614**	15,135
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**46,230**	40,498

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

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

*** *The net impairment of items of property, plant and equipment, impairment of operating concessions, impairment of investment in an associate and write down to fair value less cost to sell for a disposal group held for sale for the year are included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss.*

7. FINANCE COSTS

	Note	2015 HK$'000	2014 HK$'000
Interest on bank loans, overdrafts and other loans		**537,247**	466,168
Interest on guaranteed bonds and senior notes		**767,022**	722,578
Interest on convertible bonds	*35*	**438**	7,036
Imputed interest on convertible bonds	*35*	**–**	4,235
Total finance costs		**1,304,707**	1,200,017
Less: Interest included in construction in progress		**(2,844)**	(27,526)
		1,301,863	1,172,491

8. DIRECTORS' REMUNERATION

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

	2015 HK$'000	2014 HK$'000
Fees	**2,720**	3,165
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**17,559**	15,854
Pension scheme contributions	**29**	24
	17,588	15,878
	20,308	19,043

8. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2015				
Executive directors:				
Mr. Wang Dong	180	3,887	–	4,067
Mr. Zhou Si	180	3,307	–	3,487
Mr. Li Fucheng	400	–	–	400
Mr. Hou Zibo	180	3,218	–	3,398
Mr. E Meng	150	2,514	–	2,664
Mr. Jiang Xinhao	150	2,616	–	2,766
Mr. Tam Chun Fai	150	2,017	29	2,196
Mr. Li Yongcheng	150	–	–	150
	1,540	17,559	29	19,128
Non-executive director:				
Mr. Guo Pujin (resigned on 28 August 2015)	100	–	–	100
	1,640	17,559	29	19,228
Independent non-executive directors:				
Mr. Wu Jiesi	216	–	–	216
Mr. Lam Hoi Ham	216	–	–	216
Mr. Fu Tingmei	216	–	–	216
Mr. Sze Chi Ching	216	–	–	216
Mr. Shi Hanmin*	–	–	–	–
Dr. Yu Sun Say	216	–	–	216
	1,080	–	–	1,080
Total directors' remuneration	2,720	17,559	29	20,308

8. DIRECTORS' REMUNERATION *(Continued)*

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

Note* Mr. Shi Hanmin waived to receive any remuneration from the Company for the year ended 31 December 2015. Save as disclosed above, there was no agreement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees of the Group during each of the years ended 31 December 2015 and 2014 are directors of the Company, details of whose remuneration for the years are set out in note 8 to the financial statements.

10. INCOME TAX

	Note	**2015** **HK$'000**	2014 HK$'000
Current:			
Mainland China		**672,620**	596,379
Hong Kong		**4,996**	2,884
Deferred	*39*	**4,345**	(34,429)
Total tax expense for the year		**681,961**	564,834

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year (2014: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries established in Mainland China enjoy PRC corporate income tax exemptions and reductions.

10. INCOME TAX *(Continued)*

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

2015

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	825,086		5,812,788		6,637,874	
Tax expense at the statutory tax rate	136,139	16.5	1,453,197	25.0	1,589,336	23.9
Lower tax rate for specific provinces or enacted by local authority	–	–	(491,883)	(8.5)	(491,883)	(7.4)
Profits and losses attributable to joint ventures and associates	(286,401)	(34.7)	(405,691)	(7.0)	(692,092)	(10.4)
Income not subject to tax	(63,114)	(7.6)	(106,779)	(1.8)	(169,893)	(2.6)
Expenses not deductible for tax	218,104	26.4	31,667	0.5	249,771	3.8
Withholding tax on the distributable profits of the Group's PRC subsidiaries	–	–	10,919	0.2	10,919	0.2
Tax losses not recognised as deferred tax assets	268	–	185,535	3.2	185,803	2.8
Tax expense at the Group's effective tax rate	4,996	0.6	676,965	11.6	681,961	10.3

10. INCOME TAX *(Continued)*

2014

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

The share of tax attributable to joint ventures and associates amounting to HK$1,906,000 (2014: Nil) and HK$1,547,333,000 (2014: HK$1,239,592,000), respectively, is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

	2015	2014
	HK$'000	*HK$'000*
Interim – HK$0.30 (2014: HK$0.28) per ordinary share	**385,305**	359,618
Proposed final – HK$0.65 (2014: HK$0.62) per ordinary share	**833,853**	796,297
	1,219,158	1,155,915

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2015.

The calculation of the diluted earnings per share amount for the year ended 31 December 2014 was based on the profit for that year attributable to shareholders of the Company, adjusted to reflect the effect of the deemed conversion of all dilutive convertible bonds of the Group at the beginning of that year, and the weighted average number of ordinary shares in issue during that year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed conversion of those convertible bonds of the Group which are convertible into ordinary shares of the Company at the beginning of that year.

12. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(Continued)

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

	2015	2014
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	**5,667,378**	4,831,678
Interest expense for the year relating to the liability component of the dilutive convertible bonds of the Group	**–**	6,118
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	**5,667,378**	4,837,796

	2015	2014
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**1,283,912,186**	1,279,452,041
Effect of dilution – weighted average number of ordinary shares: Convertible bonds	**–**	5,438,257
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**1,283,912,186**	1,284,890,298

13. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000 (note (a))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2015									
At 1 January 2015:									
Cost		12,620,072	104,965	17,962,726	18,082,715	1,131,266	865,789	5,711,228	56,478,761
Accumulated depreciation and impairment		(2,546,834)	(20,466)	(3,829,816)	(9,538,500)	(616,846)	(458,049)	(147,720)	(17,158,231)
Net carrying amount		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530
Net carrying amount:									
At 1 January 2015		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530
Acquisition of subsidiaries	43	15,106	–	42,837	22,750	5,224	2,619	23,269	111,805
Additions		146,749	462	76,535	219,994	53,461	36,872	3,429,125	3,963,198
Transfer of assets from customers	5	–	–	20,911	19,414	–	–	–	40,325
Transfer from construction in progress		760,383	–	1,102,874	1,968,940	7,914	4,935	(3,845,046)	–
Fair value gain on revaluation of a building upon transfer to investment properties		29,685	–	–	–	–	–	–	29,685
Transferred to investment properties	14	(57,091)	–	–	–	–	–	–	(57,091)
Depreciation provided during the year	6	(400,546)	(2,346)	(715,986)	(1,291,018)	(94,338)	(69,579)	–	(2,573,813)
Impairment during the year recognised in profit or loss	6	–	–	–	–	–	–	(155,832)	(155,832)
Transfer to assets of disposal groups classified as held for sale	29	(174,093)	–	(595,555)	(114,354)	(6,055)	(14,643)	(47,503)	(952,203)
Disposals		(21,560)	–	(442)	(61,707)	(126)	(7,717)	–	(91,552)
Exchange realignment		(492,073)	(193)	(686,156)	(443,574)	(16,171)	(17,624)	(243,640)	(1,899,431)
At 31 December 2015		9,879,798	82,422	13,377,928	8,864,660	464,329	342,603	4,723,881	37,735,621
At 31 December 2015:									
Cost		12,626,208	104,705	17,623,372	19,126,131	1,131,125	812,920	5,003,314	56,427,775
Accumulated depreciation and impairment		(2,746,410)	(22,283)	(4,245,444)	(10,261,471)	(666,796)	(470,317)	(279,433)	(18,692,154)
Net carrying amount		9,879,798	82,422	13,377,928	8,864,660	464,329	342,603	4,723,881	37,735,621

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

	Notes	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Gas pipelines HK$'000 (notes (c))	Gas metres and other plant and machinery HK$'000 (notes (a) and (c))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2014									
At 1 January 2014:									
Cost		11,716,565	23,619	16,575,183	16,575,984	912,275	845,136	7,457,100	54,105,862
Accumulated depreciation and impairment		(2,202,872)	(13,440)	(3,175,881)	(8,594,715)	(553,974)	(416,986)	(151,227)	(15,109,095)
Net carrying amount		9,513,693	10,179	13,399,302	7,981,269	358,301	428,150	7,305,873	38,996,767
Net carrying amount:									
At 1 January 2014		9,513,693	10,179	13,399,302	7,981,269	358,301	428,150	7,305,873	38,996,767
Acquisition of subsidiaries	43	173,105	71,535	7,829	604,904	154,043	5,363	139,304	1,156,083
Additions		105,563	10,330	4,734	285,811	85,719	57,293	1,992,451	2,541,901
Transfer of assets from customers	5	–	–	67,677	44,332	–	–	–	112,009
Transfer from construction in progress		910,620	–	1,774,553	980,760	19,851	3,107	(3,688,891)	–
Depreciation provided during the year	6	(354,582)	(7,355)	(748,890)	(1,032,055)	(86,998)	(68,811)	–	(2,298,691)
Impairment during the year recognised in profit or loss	6	–	–	(26,468)	(100,000)	–	–	–	(126,468)
Transfer to assets of a disposal group classified as held for sale	29	(6,980)	–	(7,166)	(15,071)	(188)	(1,850)	(2,239)	(33,494)
Disposals		(29,388)	–	(3,354)	(7,938)	(5,989)	(4,905)	(343)	(51,917)
Reclassification		–	–	(325)	1,720	(1,395)	–	–	–
Exchange realignment		(238,793)	(190)	(334,982)	(199,517)	(8,924)	(10,607)	(182,647)	(975,660)
At 31 December 2014		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530
At 31 December 2014:									
Cost		12,620,072	104,965	17,962,726	18,082,715	1,131,266	865,789	5,711,228	56,478,761
Accumulated depreciation and impairment		(2,546,834)	(20,466)	(3,829,816)	(9,538,500)	(616,846)	(458,049)	(147,720)	(17,158,231)
Net carrying amount		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530

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

Notes:

(a) At 31 December 2015, plant and machinery of the Group situated in Mainland China with a net carrying amount of HK$77,381,000 (2014: HK$81,250,000) were pledged to secure bank loans granted to the Group (note 33(c)(ii)).

(b) During the year ended 31 December 2015, construction in progress of the Group amounting to HK$155,832,000 were individually determined to be impaired with an aggregate carrying amount before impairment of HK$155,832,000 (note 6). The impairment of HK$155,832,000 represented the carrying amounts of construction of gas pipelines which had been suspended for some time and the recoverable amounts are expected to be minimal.

(c) During the year ended 31 December 2014, property, plant and equipment of the Group amounting to HK$126,468,000 were individually determined to be impaired with an aggregate carrying amount before impairment of HK$331,844,000 (note 6).

14. INVESTMENT PROPERTIES

	Notes	**2015** **HK$'000**	2014 HK$'000
Carrying amount at 1 January		**703,749**	719,968
Transfer from property, plant and equipment	*13*	**57,091**	–
Net gain from a fair value adjustment	*5*	**479,798**	–
Exchange realignment		**(46,380)**	(16,219)
Carrying amount at 31 December		**1,194,258**	703,749

Notes:

(a) The investment properties are leased to third parties under operating leases, further summary details of which are included in note 46(a) to the financial statements.

(b) At 31 December 2015, the investment properties were revalued based on valuations performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, using the investment method and direct comparison method. Fair value gain of HK$479,798,000 (2014: Nil) was recognised on the Group's investment properties during the year ended 31 December 2015.

(c) Each year, the Group's chief financial officer decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's chief financial officer has discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

14. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

Fair value hierarchy disclosure

The following table illustrates the fair value measurement of the Group's investment properties using:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2015	2014
	HK$'000	*HK$'000*
Recurring fair value measurement for:		
Office buildings	**1,194,258**	703,749

The fair values of all the Group's investment properties were revalued by reference to significant unobservable inputs (Level 3).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2014: Nil). The definitions of Level 1, Level 2 and Level 3 are explained under the heading of "Fair value measurement" in note 2.4 to the financial statements.

In the opinion of the directors, for all investment properties that are measured at fair value, the current use of the properties is their highest and best use.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques*	Significant unobservable inputs	Range or weighted average	
			2015	2014
Office buildings	Investment method and direct comparison method	Estimated rental value per square metre and per month (HK$)	**85 to 386**	68 to 319
		Capitalisation rate	**8% to 8.5%**	8% to 10%
		Price per square metre (HK$)	**8,327 to 52,189**	6,900 to 41,524

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

Significant increases/(decreases) in estimated rental value or price per square metre in isolation would result in a significant higher/(lower) fair value of the investment properties. Significant increases/(decreases) in the capitalisation rate in isolation would result in a significant lower/(higher) fair value of the investment properties.

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

15. PREPAID LAND PREMIUMS

	Notes	2015 HK$'000	2014 HK$'000
Carrying amount at 1 January		**2,004,100**	1,839,118
Acquisition of subsidiaries	*43*	**–**	107,417
Additions		**90,958**	184,464
Transfer to assets of disposal groups held for sale	*29*	**–**	(8,884)
Amortisation provided during the year	*6*	**(65,759)**	(72,021)
Exchange realignment		**(96,045)**	(45,994)
Carrying amount at 31 December		**1,933,254**	2,004,100
Portion classified as current assets		**(45,222)**	(44,860)
Non-current portion		**1,888,032**	1,959,240

16. GOODWILL

	Notes	2015 HK$'000	2014 HK$'000 (Restated)
Cost and net carrying amount:			
At 1 January		**8,899,765**	7,659,735
Acquisition of subsidiaries*	*43*	**143,171**	2,069,906
Transfer to assets of disposal groups held for sale*	*29*	**(78,026)**	(810,897)
Exchange realignment		**(36,951)**	(18,979)
At 31 December		**8,927,959**	8,899,765

* The amounts for the year ended 31 December 2014 have been restated since the initial accounting in respect of the acquisition of GSEI has been completed during the year, details of which are set out in note 43(b)(iv) to the financial statements.

16. GOODWILL *(Continued)*

Impairment testing of goodwill

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

	Notes	2015 HK$'000	2014 HK$'000 (Restated)
Piped gas operation	*(i)*	**7,006,013**	7,028,360
Brewery operation	*(ii)*	**481,128**	505,185
Solid waste treatment operation	*(iii)*	**1,368,697**	1,293,916
Others		**72,121**	72,304
		8,927,959	8,899,765

Notes:

(i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections is 10% (2014: 11.5%), which is determined by reference to the average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% (2014: 3%) is used for the perpetual period.

(ii) Goodwill attributable to the brewery operation mainly arose from the Group's investments in Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), the recoverable amount of which was determined on the fair value less costs to sell basis by reference to the market value of the shares of Yanjing Brewery held by the Group (as categorised within Level 1 of the fair value hierarchy) as at 31 December 2015.

(iii) Goodwill attributable to the solid waste treatment operation mainly arose from the Group's investment in GSWM (as defined in note 29 to the financial statements), which was acquired by the Group in December 2014 and details of which are set out in note 43(b)(iv).

The goodwill on acquisition as disclosed in the financial statements for the year ended 31 December 2014 represented the then provisional amount estimated by the directors of the Company as the Group had not completed the fair value measurement of the identifiable net assets acquired and the initial accounting for the acquisition was incomplete. The related assessment was completed during the year ended 31 December 2015 and the final amount of goodwill arising from the acquisition was HK$1,063,165,000, as compared with the provisional goodwill of HK$996,089,000 initially recognised and the increase of HK$67,076,000 was adjusted retrospectively in the current year's financial statements.

The recoverable amount of the solid waste treatment operation has been determined by reference to a business valuation performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial forecast approved by senior management covering the service concession period and based on the assumption that the operation can generate cash flows within the respective concession periods of the relating solid waste treatment projects. The discount rate applied to the cash flow projections is 10.7%, which is determined by reference to the average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 2.5% is used for the concession period.

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill (other than those included in disposal groups classified as held for sale) as at 31 December 2015 (2014: Nil). Details of the impairment testing of goodwill in respect of disposal groups classified as held for sale are set out in note 29 to the financial statements.

Key assumptions used in value in use calculation

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

Piped gas operation

- Budgeted turnover
  The budgeted turnover is based on the projected piped gas sales volume.

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

- Discount rate
  The discount rates used is before tax and reflect specific risks relating to the piped gas operation.

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

  - As the gas supply network has already been set up in most urban areas in Beijing, where the Group's piped gas operation is located, and due to the high degree of idiosyncratic features of the gas supply business, the high construction and fixed costs in establishing alternative gas supply network in these urban districts in Beijing are too huge for other operators to enter into these regions. Therefore, in the opinion of the directors, the Group's piped gas operation can generate income perpetually.

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in value in use calculation (Continued)

Solid waste treatment operation

- Budgeted turnover

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

- Budgeted gross margins

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

- Discount rate

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

- Business environment

  There have been no major changes in the existing political, legal and economic conditions in Mainland China.

17. SERVICE CONCESSION ARRANGEMENTS

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

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Operating concessions

	Notes	**2015** **HK$'000** *(note (a))*	2014 HK$'000 (Restated) *(note (a))*
At 1 January:			
Cost		**3,671,935**	2,023,997
Accumulated amortisation and impairment		**(1,412,808)**	(1,417,705)
Net carrying amount		**2,259,127**	606,292
Net carrying amount:			
At 1 January		**2,259,127**	606,292
Acquisition of subsidiaries*	*43*	**–**	1,174,303
Additions		**386,227**	1,026,399
Amortisation provided during the year	*6*	**(84,338)**	(20,532)
Transfer to assets of disposal groups held for sale*	*29*	**–**	(333,204)
Impairment	*6*	**(189,645)**	(190,000)
Exchange realignment		**(120,845)**	(4,131)
At 31 December		**2,250,526**	2,259,127
At 31 December:			
Cost		**3,891,890**	3,671,935
Accumulated amortisation and impairment		**(1,641,364)**	(1,412,808)
Net carrying amount		**2,250,526**	2,259,127

* *The amounts for the year ended 31 December 2014 have been restated since the initial accounting in respect of the acquisition of GSEI has been completed during the year, details of which are set out in note 43(b)(iv) to the financial statements.*

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2015 **HK$'000**	2014 HK$'000 (Restated)
Receivables under service concession arrangements attributable to solid waste treatment operation* *(notes (a)(i) and (b))*	**1,790,765**	1,160,679
Portion classified as current assets	**(135,675)**	(140,425)
Non-current portion	**1,655,090**	1,020,254

* *The amounts for the year ended 31 December 2014 have been restated since the initial accounting in respect of the acquisition of GSEI has been completed during the year, details of which are set out in note 43(b)(iv) to the financial statements.*

Notes:

(a) The operating concessions of the Group are mainly attributable to solid waste treatment operation and toll road operation and details of the service concession arrangements are as follows:

(i) At 31 December 2015, the Group had 9 (2014: 8) service concession arrangements on solid waste treatment with certain governmental authorities in Mainland China.

At 31 December 2015, certain solid waste treatment operation rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate net carrying amount of HK$1,163,953,000 (2014: HK$1,119,826,000) were pledged to secure certain bank loans granted to the Group (note 33(c)(i)).

(ii) Pursuant to a co-operative joint venture agreement dated 18 July 2001 entered into between Hong Kong Zhong Ji Facility Investment Co., Ltd., a 96.5% indirectly-held subsidiary of the Company, and 深圳市石觀公路有限公司 ("Shiguan Road Limited") for the establishment of Shenzhen Guanshun Road & Bridge Co., Ltd. ("Shenzhen Guanshun", a 53.08% indirectly-held subsidiary of the Company), and as approved by the relevant government authorities, Shiguan Road Limited transferred to Shenzhen Guanshun for a total consideration of RMB652 million an operating right to operate the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC, for a period of 20 years commenced on 12 April 2002.

The Group was ordered by the Shenzhen Municipal Government to cease charging the public for the use of the Shenzhen Shiguan Road and Bridge operated by Shenzhen Guanshun by 31 December 2011.

The Group has been negotiating with the relevant government authorities in Shenzhen to work out a scheme relating to severance, compensation and all other matters to prepare for the cessation of the toll road operation of Shenzhen Guanshun, however, no concrete detail of the scheme has been reached as at the date of approval of these financial statements. In the opinion of the directors, recoverability of the compensation is remote and therefore an impairment provision against the operating concession in respect of the Shenzhen Shiguan Road and Bridge of HK$189,645,000 has been recognised during the year ended 31 December 2015 (note 6).

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (Continued)

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

An aged analysis of receivables under service concession arrangements as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2015	2014
	HK$'000	HK$'000
		(Restated)
Billed:		
Within one year	**29,568**	14,375
Unbilled	**1,761,197**	1,146,304
	1,790,765	1,160,679
Portion classified as current assets	**(135,675)**	(140,425)
Non-current portion	**1,655,090**	1,020,254

An aged analysis of the billed receivables under service concession arrangements that were neither individually nor collectively considered to be impaired is as follows:

	2015	2014
	HK$'000	HK$'000
Less than one year past due	**29,568**	14,375

18. OTHER INTANGIBLE ASSETS

	Notes	Patents HK$'000	Operating right HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2015					
At 1 January 2015:					
Cost		55,116	84,605	192,124	331,845
Accumulated amortisation		(851)	(2,355)	(91,661)	(94,867)
Net carrying amount		54,265	82,250	100,463	236,978
Net carrying amount:					
At 1 January 2015		54,265	82,250	100,463	236,978
Acquisition of a subsidiary	*43*	–	–	44,014	44,014
Additions		–	–	85,362	85,362
Transfer to assets of disposal groups classified as held for sale	*29*	–	–	(34,080)	(34,080)
Amortisation provided during the year	*6*	(2,094)	(3,444)	(32,042)	(37,580)
Exchange alignment		(735)	(2,890)	(8,225)	(11,850)
At 31 December 2015		51,436	75,916	155,492	282,844
At 31 December 2015:					
Cost		52,491	80,576	280,942	414,009
Accumulated amortisation		(1,055)	(4,660)	(125,450)	(131,165)
Net carrying amount		51,436	75,916	155,492	282,844

18. OTHER INTANGIBLE ASSETS *(Continued)*

	Notes	Patents HK$'000	Operating right HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2014					
At 1 January 2014:					
Cost		–	–	127,540	127,540
Accumulated amortisation		–	–	(63,420)	(63,420)
Net carrying amount		–	–	64,120	64,120
Net carrying amount:					
At 1 January 2014		–	–	64,120	64,120
Acquisition of a subsidiary	*43*	21,834	84,575	8,081	114,490
Additions		33,272	–	59,589	92,861
Transfer to assets of a disposal group classified as held for sale	*29*	–	–	(1,547)	(1,547)
Amortisation provided during the year	*6*	(851)	(2,355)	(28,241)	(31,447)
Exchange alignment		10	30	(1,539)	(1,499)
At 31 December 2014		54,265	82,250	100,463	236,978
At 31 December 2014:					
Cost		55,116	84,605	192,124	331,845
Accumulated amortisation		(851)	(2,355)	(91,661)	(94,867)
Net carrying amount		54,265	82,250	100,463	236,978

19. INTERESTS IN JOINT VENTURES

	Notes	2015 HK$'000	2014 HK$'000
Investments in joint ventures, included in non-current assets:			
Share of net assets	*(a)*	**192,651**	230,722
Due from joint ventures, included in current assets	*25*	**78,571**	77,829
Interests in joint ventures		**271,222**	308,551

Notes:

(a) The following tables illustrate the aggregate financial information of the Group's joint ventures that are not individually material:

	2015 HK$'000	2014 HK$'000
Share of the joint ventures' profit/(loss) and total comprehensive income/(loss) for the year	**(183)**	4,827
Share of net assets of the joint ventures recognised by the Group	**192,651**	230,722

20. INTERESTS IN ASSOCIATES

	Notes	**2015** **HK$'000**	2014 HK$'000
Investments in associates, included in non-current assets:			
Share of net assets	*(b)*	**23,690,025**	23,704,276
Investment deposits		**219,552**	1,970,080
Due to associates	*(c)*	**–**	(680)
Goodwill on acquisition	*(b), (d)*	**7,689,822**	7,601,527
		31,599,399	33,275,203

Notes:

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

Company name	Place of incorporation/ registration and business	Particulars of issued shares held	Percentage of: Ownership interest attributable to the Group	Percentage of: Voting power	Percentage of: Profit sharing	Principal activities
中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas")	PRC/ Mainland China	Issued capital	40	40	40	Provision of natural gas transmission services
BE Water$^{\pi}$	Bermuda/ Hong Kong	Ordinary shares	43.84	43.84	43.84	Sewage treatment, reclaimed water treatment, water distribution and construction services
China Gas Holdings Limited ("China Gas")$^{\Omega}$	Bermuda/ Hong Kong	Ordinary shares	22.70	22.70	22.70	Distribution and sale of piped natural gas, sale of liquefied petroleum gas; and gas connection

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

π BE Water is a listed company on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of BE Water held by the Group as at 31 December 2015, based on its then published price quotation, amounted to approximately HK$20,766,285,000 (2014: HK$20,230,906,000).

During the year ended 31 December 2015, the Group's equity interest in BE Water was diluted from 43.92% to 43.84% upon the exercise of 15,524,000 share options by certain option holders of BE Water, resulting in the issue of 15,524,000 shares and a gain on deemed disposal of HK$2,390,000 was recognised by the Group.

In February 2014, the Group's equity interest in BE Water was diluted from 45.33% to 44.18% upon the issue of 219,634,000 ordinary shares by BE Water to certain investors and a gain on deemed disposal of HK$326,909,000 was recognised by the Group as a result of the transaction. In September 2014, the Group's equity interest in BE water was further diluted from 44.18% to 43.92% upon the issue of 33,224,000 ordinary shares by BE Water and a gain on deemed disposal of HK$51,934,000 was recognised by the Group as a result of the transaction.

Ω China Gas is a listed company on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of China Gas held by the Group as at 31 December 2015, based on its then published price quotation, amounted to approximately HK$12,598,073,000 (2014: HK$13,724,913,000).

During the year ended 31 December 2015, the Group's equity interest in China Gas increased from 22.44% to 22.7% upon the repurchase and cancellation of 37,174,000 ordinary shares by China Gas.

(b) Material associates disclosures

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

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

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

(iii) China Gas, which is principally engaged in the distribution and sale of piped natural gas, sale of liquefied petroleum gas, and gas connection in the PRC.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

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

	PetroChina Beijing Gas		BE Water		China Gas*	
	2015	2014	**2015**	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current assets	**651,815**	2,343,250	**18,153,002**	15,078,059	**13,300,586**	14,216,956
Non-current assets	**32,943,386**	36,084,446	**46,338,746**	36,562,779	**39,044,038**	34,664,541
Current liabilities	**(3,376,381)**	(9,134,416)	**(17,772,851)**	(11,418,826)	**(17,602,395)**	(11,227,146)
Non-current liabilities	**(2,124,314)**	(6,470,080)	**(26,428,482)**	(21,133,274)	**(13,758,503)**	(18,163,813)
Net assets	**28,094,506**	22,823,200	**20,290,415**	19,088,738	**20,983,726**	19,490,538
Less: Non-controlling interests	**(8,008)**	(11,089)	**(4,106,582)**	(3,304,290)	**(3,070,536)**	(2,796,364)
Net assets attributable to shareholders of the associates	**28,086,498**	22,812,111	**16,183,833**	15,784,448	**17,913,190**	16,694,174
Reconciliation to the Group's investments in the associates						
Proportion of the Group's ownership	**40%**	40%	**43.84%**	43.92%	**22.70%**	22.44%
Group's share of net assets of the associates, excluding goodwill recognised by the Group	**11,234,599**	9,124,845	**7,094,992**	6,932,268	**4,065,794**	3,746,561
Goodwill on acquisition recognised by the Group	**–**	–	**424,091**	424,091	**7,264,039**	7,175,373
Other reconciling items	**–**	–	**(35,288)**	(55,787)	**–**	–
Carrying amount of the investments	**11,234,599**	9,124,845	**7,483,795**	7,300,572	**11,329,833**	10,921,934

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

	PetroChina Beijing Gas		BE Water		China Gas*	
	2015	2014	**2015**	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other disclosures						
Revenues	**13,738,316**	12,378,933	**13,502,957**	8,925,942	**30,239,778**	31,134,794
Profit for the year	**6,830,564**	5,915,703	**2,769,793**	2,073,322	**3,456,489**	3,451,543
Profit for the year attributable to shareholders of the associates	**6,828,268**	5,912,068	**2,455,370**	1,794,413	**2,903,939**	2,848,836
Other comprehensive loss for the year	**–**	–	**(1,657,851)**	(205,966)	**(411,042)**	(48,542)
Other comprehensive loss for the year attributable to shareholders of the associates	**–**	–	**(1,404,594)**	(205,918)	**(330,587)**	(52,589)
Share of the associates' profit for the year	**2,731,309**	2,364,827	**1,077,087**	789,962	**656,286**	579,500
Share of the associates' other comprehensive loss for the year	**–**	–	**(615,733)**	(100,201)	**(75,153)**	(16,978)
Dividend received by the Group	**2,074,765**	1,997,010	**351,842**	206,184	**182,374**	134,296

* The financial statements of China Gas used in applying the equity method for the year ended 31 December 2015 are as of 30 September 2015 or for twelve months ended 30 September 2015 which is different from that of the Company because the statutory financial year-end date of this associate is 31 March. The financial statements for the twelve months ended 30 September 2015 are the most updated financial statements of China Gas available for equity accounting by the Group.

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

	2015	2014
	HK$'000	*HK$'000*
Share of the associates' profit and total comprehensive income for the year	**243,430**	72,803
Share of net assets of the associates, excluding goodwill recognised by the Group	**1,329,928**	3,956,389
Goodwill on acquisition recognised by the Group	**1,692**	2,063

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(c) The amounts due to associates as at 31 December 2014 were unsecured, interest-free and had no fixed terms of repayment.

(d) The movements of the amount of the goodwill included in investments in associates during the year are as follows:

	2015	2014
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**7,601,527**	6,747,850
Acquisition of associates or additional interests in associates	**88,666**	853,729
Exchange realignment	**(371)**	(52)
At 31 December	**7,689,822**	7,601,527

21. AVAILABLE-FOR-SALE INVESTMENTS

	2015	2014
	HK$'000	*HK$'000*
Listed equity investments, at fair value	**584,721**	734,252
Unlisted equity investments, at cost	**439,194**	361,204
Impairment	**(11,358)**	(11,358)
	1,012,557	1,084,098

The unlisted equity investments of the Group are not stated at fair value but at cost because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant for these investments and the probabilities of the various estimates cannot be reasonably assessed.

22. INVENTORIES

	2015 HK$'000	2014 HK$'000
Raw materials	**3,832,704**	4,460,535
Work in progress	**383,687**	446,871
Finished goods	**427,808**	485,962
	4,644,199	5,393,368

23. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	2015 HK$'000	2014 HK$'000
Amounts due from contract customers:		
Non-current portion	**388,771**	316,733
Current portion	**39,623**	39,895
	428,394	356,628
Amounts due to contract customers	**(329,589)**	(377,784)
	98,805	(21,156)
Contract costs incurred plus recognised profits less recognised losses to date	**868,550**	773,393
Less: Progress billings received and receivable	**(769,745)**	(794,549)
	98,805	(21,156)

24. TRADE AND BILLS RECEIVABLES

	2015 HK$'000	2014 HK$'000
Trade and bills receivables	**3,721,749**	5,578,369
Impairment *(note (c))*	**(177,294)**	(257,534)
	3,544,455	5,320,835

Notes:

(a) Included in the Group's trade and bills receivables as at 31 December 2015 was an aggregate amount of HK$95,612,000 (2014: HK$53,710,000) due from certain fellow subsidiaries of the Group arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the Group to its major customers.

(b) The various group companies have different credit policies, depending on the requirements of their markets and the businesses in which they operate. Aged analysis of trade and bills receivables are prepared and closely monitored in order to minimise any credit risk associated with the receivables.

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

	2015 HK$'000	2014 HK$'000
Billed:		
Within one year	**1,733,227**	2,589,316
One to two years	**46,493**	37,472
Two to three years	**13,489**	20,697
Over three years	**35,677**	26,772
	1,828,886	2,674,257
Unbilled	**1,715,569**	2,646,578
	3,544,455	5,320,835

24. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

(c) The movements in the Group's provision for impairment of trade and bills receivables during the year are as follows:

	Note	**2015** ***HK$'000***	2014 *HK$'000*
At 1 January		**257,534**	225,001
Provision/(reversal of provision) for impairment, net	*6*	**(23,765)**	39,202
Amount written off as uncollectible		**(46,728)**	(1,045)
Exchange realignment		**(9,747)**	(5,624)
At 31 December		**177,294**	257,534

The above provision for impairment of trade and bills receivables represented provision for individually impaired trade and bills receivables with an aggregate carrying amount of HK$194,190,000 (2014: HK$372,193,000). The individually impaired trade receivables relate to customers that were in financial difficulties or were in default or delinquency in principal payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the billed trade and bills receivables as at the end of the reporting period that are not considered to be impaired is as follows:

	2015 ***HK$'000***	2014 *HK$'000*
Neither past due nor impaired	**1,653,237**	2,421,326
Less than one year past due	**68,952**	71,013
More than one year past due	**89,801**	67,259
	1,811,990	2,559,598

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

Receivables that were past due but not impaired relate to a number of independent customers that either have a good track record with the Group or are in negotiation with the Group over the amounts or terms of repayment. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and/or the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	**2015** **HK$'000**	2014 HK$'000
Prepayments	*(a)*	**3,636,967**	3,098,605
Deposits and other debtors	*(a)*	**1,771,971**	2,469,086
Due from holding companies	*26*	**1,449,844**	1,512,194
Due from fellow subsidiaries	*26*	**113,735**	150,899
Due from joint ventures	*19, 26*	**78,571**	77,829
Due from related parties	*26*	**131,277**	102,793
		7,182,365	7,411,406
Impairment	*(b)*	**(126,496)**	(114,821)
		7,055,869	7,296,585
Portion classified as current assets		**(3,835,300)**	(6,131,039)
Non-current portion		**3,220,569**	1,165,546

Notes:

(a) The Group's prepayments, deposits and other receivables as at 31 December 2015 include, inter alia, the following:

(i) certain deposits of HK$98,911,000 (2014: HK$278,959,000) in total paid for the construction or purchase of buildings, pipelines, equipment and machinery. The deposits were classified as non-current assets;

(ii) as at 31 December 2014, an amount of RMB1,100 million (equivalent to approximately HK$1,375 million) advanced to two local government authorities for an investment in a wastage treatment plant project in Haidian district in Beijing, the PRC. The amount are unsecured, bears interest at 8.5% per annum and RMB500 million (equivalent to approximately HK$625 million) and RMB600 million (equivalent to approximately HK$750 million) of which are repayable in June 2015 and April 2016, respectively. During the year ended 31 December 2015, the advance of RMB500 million was repaid by the local government authority and the advance of RMB600 remained outstanding as at 31 December 2015; and

(iii) as at 31 December 2015, an amount of RMB2,016 million (equivalent to approximately HK$2,400 million) was prepaid to a capital investment fund for investing in a company engaged in piped gas transportation. The amount was recognised as prepayment for acquisition of available-for-sale investments and was classified as non-current assets.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(b) The movements in provision for impairment during the year are as follows:

	Note	2015 HK$'000	2014 HK$'000
At 1 January		**114,821**	112,985
Impairment losses recognised	6	**16,614**	15,135
Amount written off as uncollectible		**–**	(3,680)
Transfer to assets of disposal groups classified as held for sale		**–**	(7,354)
Exchange realignment		**(4,939)**	(2,265)
At 31 December		**126,496**	114,821

The above provision for impairment of other debtors of the Group represented provision for individually impaired other debtors with an aggregate carrying amount of HK$147,544,000 (2014: HK$183,872,000).

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

The amounts due from/(to) holding companies, fellow subsidiaries, joint ventures and related parties are unsecured, interest-free and have no fixed terms of repayment, except for two loans with an aggregate amount of RMB40,000,000 (equivalent to HK$47,619,000) (2014: RMB40,000,000 (equivalent to HK$50,000,000)) due from a joint venture, which are unsecured, bears interest at 4.85% and 5.35% per annum and are fully repayable on 9 March 2016 (which has been extended for another one year) and 28 June 2016, respectively. Interest income of RMB2,040,000 (equivalent to HK$2,519,000) (2014: RMB2,400,000 (equivalent to HK$3,000,000)) was recognised in profit or loss in respect of the loan.

The balances with holding companies, fellow subsidiaries, joint ventures and related companies of the Group included in trade and bills receivables, deposits and other receivables, trade and bills payables, and other payables are disclosed in notes 24(a), 25, 40 and 41 to the financial statements, respectively.

27. RESTRICTED CASH AND PLEDGED DEPOSITS

	Notes	**2015** **HK$'000**	2014 HK$'000
Restricted cash	*(a)*	**28,526**	29,926
Pledged deposits	*(b)*	**44,477**	28,809
Restricted cash and pledged deposits		**73,003**	58,735

Notes:

(a) Restricted cash of the Group mainly represented the proceeds of a government surcharge of HK$28,526,000 (2014: HK$29,926,000) collected by Beijing Gas, a wholly-owned subsidiary indirectly held the Company, from piped gas customers on behalf of 北京市發展和改革委員會 (the Beijing Municipal Commission of Development and Reform) (the "BMCDR") prior to 2003. The proceeds held on behalf of the BMCDR, which are deposited in a specific bank account of the Group, together with any interest earned therefrom, are repayable to the BMCDR (note 41(a)).

(b) A summary of pledged deposits of the Group is as follows:

(i) bank balances of HK$44,477,000 as at 31 December 2015 were pledged to secure certain bank loans (note 33(c)(iii)) granted to the Group.

(ii) bank balances of HK$28,809,000 as at 31 December 2014 were pledged to secure certain trade finance facilities (note 40) granted to the Group.

28. CASH AND CASH EQUIVALENTS

	2015	2014
	HK$'000	*HK$'000*
Cash and bank balances:		
Placed in banks	**8,097,898**	7,020,259
Placed in a financial institution *(note 48(a)(ix))*	**1,345,140**	3,237,711
Time deposits:		
Placed in banks	**2,025,618**	853,117
Placed in a financial institution *(note 48(a)(ix))*	**2,298,151**	155,354
	13,766,807	11,266,441
Less: Restricted cash and pledged deposits *(note 27)*	**(73,003)**	(58,735)
Cash and cash equivalents	**13,693,804**	11,207,706

Notes:

(a) At 31 December 2015, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$9.4 billion (2014: HK$6.6 billion). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

29. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

The major classes of assets and liabilities classified as held for sale are as follows:

		2015				2014
	Notes	GSWG *HK'000* *(note (a))*	Beijing Gas *HK$'000* *(note (b))*	Others *HK$'000* *(note (c))*	Total *HK$'000*	Total *HK$'000* (Restated) *(note (a))*
Assets						
Property, plant and equipment	*13*	**28,209**	**946,515**	**5,688**	**980,412**	33,494
Prepaid land premium	*15*	**8,081**	**–**	**–**	**8,081**	8,884
Goodwill*	*16*	**579,346**	**78,026**	**–**	**657,372**	810,897
Operating concession*	*17*	**317,687**	**–**	**–**	**317,687**	333,204
Other intangible assets	*18*	**–**	**32,960**	**1,120**	**34,080**	1,547
Deferred tax assets	*39*	**–**	**3,916**	**–**	**3,916**	–
Investments in associates		**734,174**	**480,609**	**2,025,316**	**3,240,099**	748,039
Investments in joint ventures		**81,074**	**–**	**12,431**	**93,505**	92,644
Available-for-sale investment		**2,857**	**–**	**–**	**2,857**	3,000
Amounts due from contract customers		**–**	**–**	**833**	**833**	398
Inventories		**1,861**	**74,928**	**7,947**	**84,736**	24,356
Trade and bills receivables		**33,802**	**41,747**	**64,907**	**140,456**	103,004
Prepayments, deposits and other receivables		**42,964**	**51,068**	**52,180**	**146,212**	124,295
Income tax recoverable		**–**	**35,629**	**–**	**35,629**	–
Restricted cash and pledged deposits		**–**	**16,726**	**220**	**16,946**	–
Cash and bank balances		**93,256**	**239,674**	**194,138**	**527,068**	170,687
Assets of disposal groups classified as held for sale		**1,923,311**	**2,001,798**	**2,364,780**	**6,289,889**	2,454,449
Liabilities						
Bank and other borrowings		**(263,922)**	**(130,952)**	**–**	**(394,874)**	(280,680)
Amounts due to contract customers		**–**	**–**	**(319)**	**(319)**	(839)
Trade and bills payables		**(14,586)**	**(97,015)**	**(99,208)**	**(210,809)**	(115,444)
Other payables and accruals		**(47,956)**	**(18,758)**	**(129,860)**	**(196,574)**	(211,581)
Receipts in advance		**(66)**	**(168,392)**	**–**	**(168,458)**	–
Income tax payables		**(1,582)**	**–**	**–**	**(1,582)**	(264)
Liabilities directly associated with the assets of disposal groups classified as held for sale		**(328,112)**	**(415,117)**	**(229,387)**	**(972,616)**	(608,808)
Net assets of disposal groups held for sale		**1,595,199**	**1,586,681**	**2,135,393**	**5,317,273**	1,845,641

* The amounts of goodwill and operating concession as at 31 December 2014 had been restated since the initial accounting in respect of the acquisition of GSEI had been completed during the year, further details of which are set out in note (a) and note 43(b)(iv).

29. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE *(Continued)*

Notes:

(a) As further detailed in note 43(b)(iv) to the financial statements, the Group acquired in aggregate 92.68% equity interests in Golden State Environmental Investment Corporation ("GSEI"), and the transaction was completed on 19 December 2014.

GSEI held certain sewage and water treatment projects in the PRC through a wholly-owned subsidiary, Golden State Water Group Corporation ("GSWG") and certain solid waste treatment projects through another wholly-owned subsidiary, namely Golden State Waste Management Corporation ("GSWM").

At 31 December 2014, the Group had committed a plan to dispose of the sewage and water treatment projects held by GSWG and had since been identifying potential buyers. Having considered that the equity interest in GSWG was available for immediate sale in its present condition and the sale was expected to be completed within one year, GSWG and its subsidiaries (together, the "GSWG Group") were classified as disposal groups held for sale as at 31 December 2014. The goodwill arose from the acquisition of GSEI attributable to the GSWG Group was also included in assets of disposal groups held for sale as at 31 December 2014.

On 9 June 2015, the Group entered into an acquisition agreement with the non-controlling shareholder of GSEI to acquire the remaining interest of 7.32% in GSEI at a cash consideration of US$38,700,000 (equivalent to approximately HK$301 million). The transaction was completed in June 2015 and GSEI became a wholly-owned subsidiary of the Group.

On 9 December 2015, the Group entered into a share purchase agreement with BE Water, an associate of the Group, pursuant to which the Group agreed to transfer the entire equity in GSWG to BE Water at a consideration of RMB1,508 million (equivalent to approximately HK$1,824 million), which shall be satisfied by BE Water allotting and issuing 300,001,592 ordinary shares to the Group. Further details were set out in the announcement of BE Water published on the website of the Hong Kong Stock Exchange on 9 December 2015.

The transaction is subject to the approval of independent shareholders of BE Water and therefore the terms of the disposal including the consideration shall be subject to finalisation and approval and the transaction is not yet completed as at the date of approval of these financial statements. In the opinion of the directors, since the Group remains committed to dispose of the sewage and water treatment projects of GSWG, the GSWG Group remained to be classified as disposal groups held for sale as at 31 December 2015.

The goodwill as disclosed in the financial statements for the year ended 31 December 2014 represented the then provisional amount estimated by the directors of the Company as the Group had not completed the fair value measurement of the identifiable net assets acquired and the initial accounting for the acquisition was incomplete. The related assessment was completed during the year ended 31 December 2015 and the final amount of goodwill arising from the acquisition was HK$808,123,000, as compared with the provisional goodwill of HK$1,114,303,000 initially recognised and the decrease of HK$306,180,000 was adjusted retrospectively in the current year's financial statements.

29. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE *(Continued)*

Notes: (Continued)

(a) *(Continued)*

The recoverable amount of the sewage and water treatment operation has been determined by reference to a business valuation performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a fair value less costs to sell calculation using cash flow projections which are based on financial forecast approved by senior management covering the service concession period and based on the assumption that the operation can generate cash flows within the respective concession periods of the relating sewage and water treatment projects. The discount rate applied to the cash flow projections is 10.2%, which is determined by reference to the average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% is used for the concession period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, impairment provision of HK$231,416,000 is considered necessary for the Group's goodwill as at 31 December 2015 (2014: Nil).

Key assumptions used in fair value less costs to sell calculation

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

Sewage and water treatment operation

- Budgeted turnover

  The budgeted turnover is based on the projected sewage and water treatment volume, and the latest sewage and water treatment prices up to the date of the forecast.

- Budgeted gross margins

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

- Discount rates

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

- Business environment

  There have been no major changes in the existing political, legal and economic conditions in Mainland China.

29. ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE *(Continued)*

Notes: (Continued)

(b) On 26 November 2014, the Group entered into a conditional share purchase agreement with China Gas, pursuant to which the Group conditionally agreed to sell and China Gas conditionally agreed to purchase the entire equity interest in Beijing Gas Development Limited ("Beijing Gas Development", a wholly-owned subsidiary of the Group) at the initial consideration of RMB1,633 million (equivalent to approximately HK$2,064 million), which shall be satisfied by China Gas allotting and issuing 149,122,250 ordinary shares to the Group. The transaction was approved by an ordinary resolution at the special general meeting of shareholders of China Gas on 17 March 2015 and Beijing Gas Development was classified as a disposal group held for sale as at 31 December 2015. The transaction had not been completed as at the date of approval of these financial statements.

(c) On 28 August 2015, the Group entered into a disposal agreement with Beijing Enterprises Group, pursuant to which the Group agreed to sell and Beijing Enterprises Group agreed to purchase the entire equity interest in Keqi Coal-based Gas Company ("Keqi Gas", an 34% owned associate of the Group) at the cash consideration of RMB1,700 million (equivalent to approximately HK$2,024 million). The transaction was approved by the independent shareholders of the Company on 15 January 2016. Keqi Gas was classified as disposal group held for sale as at 31 December 2015. The transaction had not been completed as at the date of approval of these financial statements.

Since the consideration for the disposal of Keqi Gas is less than the carrying amount of investment in Keqi Gas of RMB1,762 million (equivalent to approximately HK$2,098 million), in the opinion of the directors, impairment provision of RMB62 million (equivalent to approximately HK$76 million) is considered necessary for the Group's investment in Keqi Gas as at 31 December 2015 (2014: Nil).

30. SHARE CAPITAL

Shares

	2015	2014
	HK$'000	*HK$'000*
Issued and fully paid:		
1,282,850,268 (2014: 1,284,350,268) ordinary shares	**30,401,883**	30,401,883

30. SHARE CAPITAL *(Continued)*

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

	Notes	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Total HK$'000
At 1 January 2014		1,270,193,509	127,019	29,607,291	238	29,734,548
Conversion of convertible bonds into ordinary shares	(a)	15,208,259	667,335	–	–	667,335
Shares repurchased	(b)	(1,051,500)	(105)	–	105	–
Transition to no-par value regime on 3 March 2014	(c)	–	29,607,634	(29,607,291)	(343)	–
At 31 December 2014 and 1 January 2015		1,284,350,268	30,401,883	–	–	30,401,883
Shares repurchased and cancelled	(d)	(1,500,000)	–	–	–	–
At 31 December 2015		1,282,850,268	30,401,883	–	–	30,401,883

Notes:

(a) During the year ended 31 December 2014, the Guaranteed Convertible Bonds (as defined in note 35(a) to the financial statements) with an aggregate principal amount of HK$661,560,000 were converted into 15,208,259 ordinary shares of the Company by certain bondholders. Details of the transaction are set out in note 35(a) to the financial statements.

(b) In January 2014, the Company repurchased a total of 1,051,500 ordinary shares of the Company on the Hong Kong Stock Exchange at a weighted average cost of HK$65.77 per share (the highest and lowest purchase prices per ordinary share were HK$66.30 and HK$63.68, respectively) and the total consideration paid amounted to approximately HK$69,162,000. These shares were subsequently cancelled by the Company during the year and the issued capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK$69,057,000 has been charged to the retained profits of the Company. Pursuant to section 49H of the predecessor Hong Kong Companies Ordinance (Cap. 32), an amount of HK$105,000 equivalent to the then par value of the shares cancelled was transferred from retained profits of the Company to the then capital redemption reserve.

(c) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount standing to the credit of the share premium account and capital redemption reserve have become part of the Company's share capital.

(d) During the year ended 31 December 2015, the Company repurchased a total of 2,500,000 ordinary shares of the Company on the Hong Kong Stock Exchange at a weighted average cost of HK$46.24 per share and the total consideration paid amounted to approximately HK$115,594,000 (and transaction costs of HK$413,000), which was paid wholly out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. 1,500,000 of the repurchased shares were cancelled by the Company during the year and the total amount paid for the repurchase of these shares of HK$69,384,000 has been charged to retained profits of the Company. The remaining 1,000,000 ordinary shares were held by the Company as at 31 December 2015 and the consideration of HK$46,623,000 has been credited to the "treasury shares" account.

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which became effective on 17 October 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The purpose of the Scheme is to attract and retain the best quality personnel of the Group for the development of the Group's operations; to provide additional incentives to employees, officers and directors of the Group; and to promote the long term financial success of the Company by aligning the interests of option holders to those of shareholders. The directors of the Company may, at their discretion, invite employees (including executive directors) and non-executive directors of the Company and any of its subsidiaries, to take up share options to subscribe for ordinary shares of the Company at HK$1 per grant of share options.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of ordinary shares of the Company in issue at any time. The total number of ordinary shares of the Company issued and to be issued upon exercise of share options (whether exercised or outstanding) in any 12-month period granted to any one person must not exceed 1% of the total number of ordinary shares of the Company in issue.

A share option granted under the Scheme is personal to the grantee and shall not be assignable or transferable.

The period during which a share option granted under the Scheme may be exercised will be determined by the directors at their discretion, save that no share option may be exercised later than 10 years after the grant date. No option may be granted more than 10 years after the date of approval of the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's ordinary shares on the Hong Kong Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the Company's ordinary shares on the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of an ordinary share of the Company.

All share options granted under the Scheme in prior years were either exercised or forfeited in prior years. There was no grant of share options during the years ended 31 December 2015 and 2014 and there was no share option outstanding under the Scheme as at these dates.

The Scheme lapsed on 17 October 2015 and the Company currently does not have any effective share option scheme.

32. RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) The capital redemption reserve represented the par value of ordinary shares of the Company which had been repurchased and cancelled in prior years. The reserve has become part of the Company's share capital since 3 March 2014 (note 30(c)).

(c) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2015 were distributable in the form of cash dividends.

33. BANK AND OTHER BORROWINGS

	2015 ***HK$'000***	2014 *HK$'000*
Bank loans:		
Secured	**1,026,690**	1,648,348
Unsecured	**9,481,819**	17,064,646
	10,508,509	18,712,994
Other loans:		
Secured	**571,429**	4,466
Unsecured	**4,231,076**	4,533,849
	4,802,505	4,538,315
Total bank and other borrowings	**15,311,014**	23,251,309

33. BANK AND OTHER BORROWINGS *(Continued)*

	2015 HK$'000	2014 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**3,295,019**	13,420,862
In the second year	**296,309**	428,306
In the third to fifth years, inclusive	**6,327,741**	3,965,568
Beyond five years	**589,440**	898,258
	10,508,509	18,712,994
Other loans repayable:		
Within one year	**3,752,946**	4,270,573
In the second year	**117,384**	14,274
In the third to fifth years, inclusive	**430,145**	195,874
Beyond five years	**502,030**	57,594
	4,802,505	4,538,315
Total bank and other borrowings	**15,311,014**	23,251,309
Portion classified as current liabilities	**(7,047,965)**	(17,691,435)
Non-current portion	**8,263,049**	5,559,874

33. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

	2015 *HK$'000*	2014 *HK$'000*
HK$	**8,851,917**	10,636,928
RMB	**4,169,555**	7,663,810
US$	**2,284,286**	4,943,995
Euro	**5,256**	6,576
	15,311,014	23,251,309

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

(i) amortised cost of an interest-free loan of HK$138,006,000 (2014: HK$148,622,000) granted by a non-controlling equity holder of a subsidiary;

(ii) an aggregate amount of RMB3,740 million (equivalent to HK$4,452 million) (2014: RMB4,000 million (equivalent to HK$5,000 million)) due to an associate, which bears interest at rates ranging from HIBOR plus 1.05% to 5.32% per annum. Interest expenses of RMB23,050,000 (equivalent to HK$28,457,000) (2014: RMB11,802,000 (equivalent to HK$14,753,000)) were recognised in profit or loss during the year in respect of the loans (note 48(a)(ix)); and

(iii) certain bank and other loans, with an aggregate carrying amount of HK$212,893,000 (2014: HK$296,736,000), that principally came from proceeds of certain loans granted by three overseas governments and the Asian Development Bank to the PRC government and a number of loans from 北京市財政局 (the Finance Bureau of Beijing) to finance certain of the Group's pipeline construction projects. Except for an interest-free loan of HK$8,965,000 (2014: HK$9,392,000), these loans bear interest at rates ranging from 2% to 6.3% per annum.

33. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(c) The Group's secured bank loans were secured by:

(i) mortgages over certain solid waste treatment operation concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) for an aggregate net carrying amount of HK$1,163,953,000 (2014: HK$1,119,826,000) as at 31 December 2015, which are under the management of the Group pursuant to the relevant service concession agreements entered into with the grantors *(note 17(a)(i))*;

(ii) a mortgage over plant and machinery of the Group with a net carrying amount of HK$77,381,000 (2014: HK$81,250,000) as at 31 December 2015 *(note 13(a))*; and

(iii) the Group's bank balances of HK$44,477,000 (2014: Nil) as at 31 December 2015 *(note 27(b)(i))*.

(d) At 31 December 2015, the bank loans of the Group included a five-year HK$3 billion syndicated loan facility, a one-year USD250 million term loan facility, a five-year HK$4 billion term loan facility obtained by the Company in 2014, 2015 and 2015, respectively, which bear annual interest at HIBOR+1.7%, LIBOR+1.05% and HIBOR+1.5%, respectively, and are fully payable on 28 May 2019, 7 December 2016 and 27 November 2020, respectively.

At 31 December 2014, the bank loans of the Group included a five-year HK$3 billion syndicated loan obtained by the Company in 2010, which bore interest at HIBOR+0.85% per annum and the amount was repaid by the Group during the current year.

The loan agreements in respect of the loans outstanding as at 31 December 2015 include certain conditions imposing specific performance obligations on the Company's holding companies, among which the following events would constitute events of default on the loan facilities:

(i) if Beijing Enterprises Group does not or ceases to own, directly or indirectly, at least 40% of the beneficiary interest of the Company; and

(ii) if Beijing Enterprises Group ceases to be controlled and supervised by the Beijing Municipal Government.

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

34. GUARANTEED BONDS AND SENIOR NOTES

		2015				2014			
	Notes	**Principal at original currency *'million***	**Contractual interest rate *(%)* per annum**	**Maturity**	***HK$'000***	Principal at original currency *'million*	Contractual interest rate *(%)* per annum	Maturity	*HK$'000*
2011 First Senior Notes	*(a)*	**US$600**	**5%**	**2021**	**4,584,148**	US$600	5%	2021	4,622,498
2011 Second Senior Notes	*(a)*	**US$400**	**6.375%**	**2041**	**3,056,099**	US$400	6.375%	2041	3,081,666
2012 Senior Notes	*(a)*	**US$800**	**4.5%**	**2022**	**6,134,766**	US$800	4.5%	2022	6,175,134
2015 EUR Bonds	*(b)*	**EUR500**	**1.435%**	**2020**	**4,164,482**	–	–	–	–
2015 US Bonds	*(c)*	**US$200**	**4.99%**	**2040**	**1,505,097**	–	–	–	–
					19,444,592				13,879,298

Notes:

(a) On 25 April 2012 and 12 May 2011, Talent Yield Investments Limited and Mega Advance Investments Limited, wholly-owned subsidiaries of the Company, issued senior notes with aggregate principal amounts of US$800 million (the "2012 Senior Notes") and US$1 billion (the "2011 First Senior Notes" for US$600 million and the "2011 Second Senior Notes" for US$400 million), respectively, (collectively, the "Guaranteed Senior Notes") to certain institutional investors. Pursuant to the Guaranteed Senior Notes purchase agreements dated 19 April 2012 and 5 May 2011, respectively, of which, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, (i) the 2012 Senior Notes, bearing interest at the rate of 4.5% per annum, will mature on 25 April 2022; (ii) the 2011 First Senior Notes, bearing interest at the rate of 5% per annum, will mature on 12 May 2021; and (iii) the 2011 Second Senior Notes, bearing interest at the rate of 6.375% per annum, will mature on 12 May 2041.

(b) On 7 May 2015, Talent Yield Investment (Euro) Limited (a wholly-owned subsidiary of the Company) issued guaranteed bonds with aggregate principal amounts of EUR500,000,000 (the "2015 EUR Bonds") to certain institutional investors. Pursuant to the 2015 EUR Bonds purchase agreements dated 29 April 2015, the 2015 EUR Bonds, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, bear interest at the rate of 1.435% per annum and will mature on 7 May 2020.

(c) On 17 December 2015, Top Luxury Investment Limited (a wholly-owned subsidiary of the Company) issued guaranteed bonds with aggregate principal amounts of US$200,000,000 (the "2015 US Bonds") to certain institutional investors. Pursuant to the 2015 US Bonds purchase agreements dated 1 December 2015, the 2015 US Bonds, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, bear interest at the rate of 4.99% per annum and will mature on 17 December 2040.

The above bonds and senior notes are all guaranteed by the Company.

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

35. CONVERTIBLE BONDS

Summary information of the Group's convertible bonds is set out as follows:

	Guaranteed Convertible Bonds *(note (a))*	**Yanjing Brewery Convertible Bonds** *(note (b))*
Issuance date	2 June 2009	15 October 2010
Maturity date	1 June 2014	14 October 2015
Original principal amount:		
HK$'000	2,175,000	N/A
RMB'000	N/A	429,804
Coupon rate (per annum)	2.25%	0.5% – 1.4%
Conversion price per ordinary share of:		
– The Company (HK$)	43.5	N/A
– Yanjing Brewery (RMB)	N/A	7.58

35. CONVERTIBLE BONDS *(Continued)*

For accounting purposes, each batch of these convertible bonds is bifurcated into a liability component and an equity component or a derivative component, as appropriate, as further described in the accounting policy for "Convertible bonds" set out in note 2.4 to the financial statements. The following tables summarise the movements in the principal amounts, the liability component and derivative component of the Group's convertible bonds during the year:

Principal amount outstanding	*Note*	**Guaranteed Convertible Bonds** *HK$'000* *(note (a))*	**Yanjing Brewery Convertible Bonds** *HK$'000* *(note (b))*	**Total** *HK$'000*
At 1 January 2014		673,270	96,636	769,906
Conversion to ordinary shares of the Company	*30(a)*	(661,560)	–	(661,560)
Conversion to ordinary shares of Yanjing Brewery		–	(10,828)	(10,828)
Redemption of convertible bonds		(11,710)	–	(11,710)
Exchange realignment		–	(2,414)	(2,414)
At 31 December 2014 and 1 January 2015		–	83,394	83,394
Conversion to ordinary shares of Yanjing Brewery		–	(80,216)	(80,216)
Redemption of convertible bonds		–	(3,178)	(3,178)
At 31 December 2015		–	–	–

35. CONVERTIBLE BONDS *(Continued)*

Liability component	*Notes*	**Guaranteed Convertible Bonds** *HK$'000* *(note (a))*	**Yanjing Brewery Convertible Bonds** *HK$'000* *(note (b))*	**Total** *HK$'000*
At 1 January 2014		673,054	93,501	766,555
Interest expense	*7*	6,118	918	7,036
Imputed interest expense	*7*	–	4,235	4,235
Interest paid		(127)	(918)	(1,045)
Conversion to ordinary shares of the Company	*30(a)*	(667,335)	–	(667,335)
Conversion to ordinary shares of Yanjing Brewery		–	(10,843)	(10,843)
Redemption of convertible bonds		(11,710)	–	(11,710)
Exchange realignment		–	(2,337)	(2,337)
At 31 December 2014 and 1 January 2015		–	84,556	84,556
Interest expense	*7*	–	438	438
Interest paid		–	(444)	(444)
Conversion to ordinary shares of Yanjing Brewery		–	(80,216)	(80,216)
Redemption of convertible bonds		–	(3,178)	(3,178)
Exchange realignment		–	(1,156)	(1,156)
At 31 December 2015		–	–	–

35. CONVERTIBLE BONDS *(Continued)*

Derivative component	**Guaranteed Convertible Bonds** *HK$'000* *(note (a))*	**Yanjing Brewery Convertible Bonds** *HK$'000* *(note (b))*	**Total** *HK$'000*
At 1 January 2014	–	8,851	8,851
Conversion to ordinary shares of Yanjing Brewery	–	(991)	(991)
Exchange realignment	–	(221)	(221)
At 31 December 2014 and 1 January 2015	–	7,639	7,639
Conversion to ordinary shares of Yanjing Brewery	–	(7,347)	(7,347)
Exchange realignment	–	(292)	(292)
At 31 December 2015	–	–	–

Notes:

(a) On 2 June 2009, Power Regal Group Limited ("Power Regal", a wholly-owned subsidiary of the Company) issued convertible bonds with an aggregate principal amount of HK$2.175 billion (the "Guaranteed Convertible Bonds") to certain institutional investors. Pursuant to the convertible bond subscription agreement dated 25 April 2009, the convertible bonds were guaranteed by the Company, bore interest at the rate of 2.25% per annum and were convertible into ordinary shares of the Company at an initial conversion price of HK$43.5 per share of the Company, subject to adjustments in certain events. During the year ended 31 December 2014, certain of the Guaranteed Convertible Bonds with an aggregate principal amount of HK$661,560,000 were converted into 15,208,259 ordinary shares of the Company by certain bondholders and the remaining principal amount of HK$11,710,000 was redeemed.

The fair value of the liability component of the Guaranteed Convertible Bonds was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The equity component of the Guaranteed Convertible Bonds was not significant to the Group and, accordingly, the whole amount of the Guaranteed Convertible Bonds, net of transaction costs, was accounted for as a financial liability of the Group.

35. CONVERTIBLE BONDS *(Continued)*

Notes: (Continued)

(b) On 15 October 2010, Yanjing Brewery, a subsidiary indirectly held by the Company, issued convertible bonds with an aggregate principal amount of RMB1.13 billion (the "Yanjing Brewery Convertible Bonds") to the then existing shareholders of Yanjing Brewery. The Yanjing Brewery Convertible Bonds are convertible, at the option of the bondholders, into fully-paid ordinary shares of Yanjing Brewery at an initial conversion price of RMB21.86 per share of Yanjing Brewery and the conversion period is from 15 October 2010 to 14 October 2015, both dates inclusive. The Yanjing Brewery Convertible Bonds bear interest at 0.5%, 0.7%, 0.9%, 1.1% and 1.4% per annum in each of the annual convertible periods. Further details of the Yanjing Brewery Convertible Bonds were set out in the Company's announcement published on the Chinese website of the Hong Kong Stock Exchange on 12 October 2010.

On 26 March 2012 and 7 June 2012, the conversion price of the Yanjing Brewery Convertible Bonds was adjusted from RMB21.86 to RMB15.37 and from RMB15.37 to RMB7.58, respectively, further details of which were set out in the announcements of Yanjing Brewery published on the website of the Shenzhen Stock Exchange on 24 March 2012 and 31 May 2012, respectively.

Based on the terms of the Yanjing Brewery Convertible Bonds, the conversion option of the Yanjing Brewery Convertible Bonds is classified as a derivative financial instrument (a financial liability at fair value through profit or loss) in the financial statements. The derivative component of the Yanjing Brewery Convertible Bonds is stated in the consolidated statement of financial position at fair value with any changes in fair value recognised in profit or loss.

The fair values of the derivative component of the Yanjing Brewery Convertible Bonds as at the date of issue were determined by reference to valuations performed by an independent professionally qualified valuer using the Binomial Option Pricing Model in prior years. In the opinion of the directors, since the fair value movement of the Yanjing Brewery Convertible Bonds and the related financial impact on the Group's financial statements are expected to be insignificant during the year ended 31 December 2014, no external valuation was performed on the fair value of the Yanjing Brewery Convertible Bonds as at 31 December 2014.

During the year ended 31 December 2015, all of the remaining Yanjing Brewery Convertible Bonds with an aggregate principal amount of HK$80,216,000 (2014: HK$10,828,000) were converted into 8,887,914 (2014: 1,199,469) ordinary shares of Yanjing Brewery by certain bondholders and the relevant principal amount of HK$3,178,000 was redeemed.

36. DEFINED BENEFIT PLANS

Certain employees of Beijing Gas, an indirectly-held wholly-owned subsidiary of the Company, can enjoy retirement benefits after retirement such as supplemental medical reimbursement, allowance and beneficiary benefits pursuant to certain of its defined benefit plans. The plans are exposed to interest rate risk and the risk of changes in the life expectancy for the employees.

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

	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement benefit plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2015				
Current service cost	**30,549**	**3,596**	**–**	**34,145**
Past service cost	**8,605**	**944**	**–**	**9,549**
Interest cost	**22,635**	**5,690**	**143**	**28,468**
Net benefit expense	**61,789**	**10,230**	**143**	**72,162**
Year ended 31 December 2014				
Current service cost	20,673	3,178	–	23,851
Past service cost	400	61	36	497
Interest cost	21,019	6,396	289	27,704
Net benefit expense	42,092	9,635	325	52,052

36. DEFINED BENEFIT PLANS *(Continued)*

(b) Present value of the defined benefit obligations

2015

	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement benefit plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	540,612	137,470	4,441	682,523
Net benefit expenses recognised in profit or loss	61,789	10,230	143	72,162
Benefits paid	(4,482)	(3,753)	(1,870)	(10,105)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	96,465	36,419	(308)	132,576
Exchange realignment	(31,234)	(8,078)	(140)	(39,452)
At 31 December 2015	663,150	172,288	2,266	837,704
Portion classified as current liabilities included in other payables and accruals *(note 41)*				(9,744)
Non-current portion				827,960

36. DEFINED BENEFIT PLANS *(Continued)*

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

2014

	Supplemental post-retirement medical reimbursement plan *HK$'000*	Supplemental post-retirement allowance and beneficiary benefit plans *HK$'000*	Internal retirement benefit plan *HK$'000*	Total *HK$'000*
At 1 January 2014	411,850	126,832	7,023	545,705
Net benefit expenses recognised in profit or loss	42,091	9,635	326	52,052
Benefits paid	(3,961)	(3,816)	(2,088)	(9,865)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	100,928	7,990	(645)	108,273
Exchange realignment	(10,296)	(3,171)	(175)	(13,642)
At 31 December 2014	540,612	137,470	4,441	682,523
Portion classified as current liabilities included in other payables and accruals *(note 41)*				(9,864)
Non-current portion				672,659

36. DEFINED BENEFIT PLANS *(Continued)*

(c) Principal assumptions

The most recent actuarial valuation of the present value of the defined benefit obligations was carried out at 31 December 2015 by Towers Watson, using the projected unit credit method. The material actuarial assumptions used in determining the defined benefit obligations for the Group's plans are as follows:

	2015	2014
Discount rate	**3.75%**	4.25%
Healthcare cost inflation rate	**8.00%**	8.00%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2015 and 2014 is shown below:

	Increase in rate *%*	**Increase/ (decrease) in net defined benefit obligations** *HK$'000*	**Decrease in rate** *%*	**Increase/ (decrease) in net defined benefit obligations** *HK$'000*
2015				
Discount rate	**0.25**	**(53,004)**	**0.25**	**57,935**
Healthcare cost inflation rate	**1.00**	**218,596**	**1.00**	**(156,300)**
2014				
Discount rate	0.25	(41,811)	0.25	45,588
Healthcare cost inflation rate	1.00	169,274	1.00	(124,325)

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

At 31 December 2015, the expected contribution to be made within the next 12 months out of the defined benefit obligations was HK$9,744,000 (2014: HK$9,864,000).

37. PROVISION FOR MAJOR OVERHAULS

Pursuant to the service concession arrangements on the Group's toll road operation and solid waste treatment operations, the Group has contractual obligations to maintain the infrastructures it operates to a specified level of serviceability and/or to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession periods. These contractual obligations to maintain or restore the infrastructures, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs are collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis and revised where appropriate.

The movement in provision for major overhauls of the infrastructures during the year is as follows:

	2015	2014
	HK$'000	*HK$'000*
At 1 January	**30,544**	30,544
Exchange alignment	**(2,181)**	–
At 31 December	**28,363**	30,544

No provision for major overhauls for the Group's solid waste treatment operations was recognised by the Group as the financial impact is insignificant to the consolidated financial statements.

38. OTHER NON-CURRENT LIABILITIES

		2015	2014
	Note	***HK$'000***	*HK$'000*
Other liabilities – non-current portion	*41*	**30,322**	40,082
Deferred income		**731,624**	393,365
		761,946	433,447

Note: Deferred income of the Group mainly represented subsidies received from third parties and government authorities in respect of certain projects for the construction of the Group's gas pipelines in Beijing for the delivery of natural gas. The subsidies are interest-free and not required to be repaid, and are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

39. DEFERRED TAX

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

	2015 *HK$'000*	2014 *HK$'000* (Restated)
Deferred tax assets	**779,713**	678,460
Deferred tax liabilities	**(480,481)**	(384,350)
	299,232	294,110

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

		Attributable to											
	Notes	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Depreciation allowances in excess of related depreciation *HK$'000*	Other temporary differences related to property, plant and equipment *HK$'000*	Transfer of assets from customers *HK$'000*	Fair value adjustments on available-for-sale investments *HK$'000*	Impairment provision and accrued expenses *HK$'000*	Provision for bonus and defined benefit plans *HK$'000*	Provision for major overhauls *HK$'000*	Revaluation of operating concession *HK$'000*	Losses available for offsetting future taxable profits *HK$'000* *(note (a))*	Withholding tax *HK$'000* *(note (b))*	Net deferred tax assets/ (liabilities) *HK$'000*
At 1 January 2014		66,779	(1,974)	32,069	(81,751)	(1,392)	310,584	138,188	9,133	–	17,983	(122,025)	367,594
Deferred tax credited/(charged) to profit or loss during the year	*10*	1,649	(176)	–	(28,383)	–	53,981	7,358	–	–	–	–	34,429
Deferred tax credited/(charged) to other comprehensive income during the year		–	–	–	–	(16,892)	–	27,069	–	–	–	–	10,177
Acquisition of subsidiaries*	*43*	(40,526)	–	–	–	–	–	–	–	(64,909)	–	–	(105,435)
Exchange realignment		(1,212)	49	(802)	2,044	50	(9,030)	(3,455)	(51)	–	(248)	–	(12,655)
At 31 December 2014, as restated		26,690	(2,101)	31,267	(108,090)	(18,234)	355,535	169,160	9,082	(64,909)	17,735	(122,025)	294,110

* The amount for the year ended 31 December 2014 has been restated since the initial accounting in respect of the acquisition of GSEI has been completed during the year, details of which are set out in note 43(b)(iv) to the financial statements.

39. DEFERRED TAX *(Continued)*

		Attributable to											
	Notes	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Depreciation allowances in excess of related depreciation *HK$'000*	Other temporary differences related to property, plant and equipment *HK$'000*	Transfer of assets from customers *HK$'000*	Fair value adjustments on available-for-sale investments *HK$'000*	Impairment provision and accrued expenses *HK$'000*	Provision for bonus and defined benefit plans *HK$'000*	Provision for major overhauls *HK$'000*	Revaluation of investment properties and operating concession *HK$'000*	Losses available for offsetting future taxable profits *HK$'000* *(note (a))*	Withholding tax *HK$'000* *(note (b))*	Net deferred tax assets/ (liabilities) *HK$'000*
At 1 January 2015		26,690	(2,101)	31,267	(108,090)	(18,234)	355,535	169,160	9,082	(64,909)	17,735	(122,025)	294,110
Deferred tax credited/(charged) to profit or loss during the year	*10*	(7,541)	(174)	–	11,853	(592)	75,735	32,066	–	(115,692)	–	–	(4,345)
Deferred tax credited to other comprehensive income during the year		–	–	–	–	5,155	–	33,144	–	–	–	–	38,299
Transfer to assets of disposal groups classified as held for sale	*29*	–	–	–	–	–	(3,916)	–	–	–	–	–	(3,916)
Acquisition of subsidiaries	*43*	606	–	–	–	–	–	–	–	–	–	–	606
Exchange realignment		(7,521)	106	(1,489)	4,719	54	(16,963)	(10,384)	(1,446)	8,295	(893)	–	(25,522)
At 31 December 2015		12,234	(2,169)	29,778	(91,518)	(13,617)	410,391	223,986	7,636	(172,306)	16,842	(122,025)	299,232

Notes:

(a) At 31 December 2015, deferred tax assets have not been recognised in respect of unused tax losses of HK$3,712,817,000 (2014: losses of HK$3,527,014,000) as they have been arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, tax losses of HK$3,691,445,000 (2014: HK$3,505,642,000) will expire in one to five years.

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%, depending on the jurisdiction of the respective investment enterprises. The Group is therefore liable to withholding taxes on dividends declared by those subsidiaries, joint ventures and associates established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries, joint ventures and associates in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$11,263,281,000 (2014: HK$10,700,006,000) as at 31 December 2015.

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

40. TRADE AND BILLS PAYABLES

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

	2015	2014
	HK$'000	*HK$'000*
Billed:		
Within one year	**2,022,042**	1,820,704
One to two years	**304,034**	236,043
Two to three years	**140,151**	169,653
Over three years	**171,715**	12,003
	2,637,942	2,238,403
Unbilled:	**1,003,012**	–
	3,640,954	2,238,403

Included in the Group's trade and bills payables as at 31 December 2015 are amounts of HK$48,630,000 (2014: HK$51,061,000) due to related companies, arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related companies to their major customers.

The Group's bills payable as at 31 December 2014 are secured by a pledge over certain of the Group's bank balances with an aggregate amount of HK$28,809,000 *(note 27(b)(ii))*.

41. OTHER PAYABLES AND ACCRUALS

	Notes	2015 HK$'000	2014 HK$'000
Accruals		**480,468**	116,810
Defined benefit plans – current portion	*36(b)*	**9,744**	9,864
Other liabilities		**6,266,486**	5,360,149
Due to a holding company	*26*	**1,261,656**	1,880,364
Due to related parties	*26*	**268,921**	329,350
		8,287,275	7,696,537
Portion classified as current liabilities		**(8,256,953)**	(7,656,455)
Non-current portion	*38*	**30,322**	40,082

The Group's other liabilities as at 31 December 2015 included, inter alia, the following:

(a) an amount of HK$28,526,000 (2014: HK$29,926,000) payable to the BMCDR in respect of a government surcharge collected on its behalf by the Group, further details of which are set out in note 27(a) to the financial statements; and

(b) construction project costs of HK$106,717,000 (2014: HK$121,848,000) payable to certain fellow subsidiaries of the Group. The balances with the fellow subsidiaries are unsecured, interest-free, and are repayable within credit periods similar to those offered by the fellow subsidiaries to their major customers.

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

Details of Yanjing Investment (an 80% owned subsidiary which holds 57.57% equity interests in Yanjing Brewery) and its subsidiaries (collectively the "Yanjing Investment Group") that have material non-controlling interests are set out below:

	2015	2014
	HK$'000	*HK$'000*
Profit for the year allocated to non-controlling interests	**278,334**	562,398
Dividends paid to non-controlling interests of the Yanjing Investment Group	**281,730**	292,269
Accumulated balances of non-controlling interests at the reporting dates	**8,888,701**	9,234,570

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

	2015	2014
	HK$'000	*HK$'000*
Revenue	**14,069,445**	15,150,989
Total expenses	**(13,682,631)**	(14,200,358)
Profit for the year	**386,814**	950,631
Total comprehensive income for the year	**77,242**	951,770
Current assets	**7,467,760**	8,268,771
Non-current assets	**14,834,581**	16,040,492
Current liabilities	**(9,298,818)**	(8,393,851)
Non-current liabilities	**(370,818)**	(254,448)
Net cash flows from operating activities	**1,725,629**	2,729,945
Net cash flows used in investing activities	**(789,360)**	(2,307,095)
Net cash flows used in financing activities	**(1,148,847)**	(145,506)
Net increase/(decrease) in cash and cash equivalents	**(212,578)**	277,344

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

43. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2015 as at their respective dates of acquisition were as follows:

		2015		2014	
		Total	GSEI	Others	Total
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)		(Restated)
		(note (a))	*(note (b)(iv))*	*(notes (b)(i), (ii) and (iii))*	
Net assets acquired:					
Property, plant and equipment	*13*	**111,805**	624,723	531,360	1,156,083
Prepaid land premiums	*15*	**–**	60,303	47,114	107,417
Operating concession	*17*	**–**	776,908	397,395	1,174,303
Receivables under service concession arrangements		**–**	891,750	–	891,750
Other intangible assets	*18*	**44,014**	815	113,675	114,490
Investments in associates		**–**	745,087	–	745,087
Available-for-sale investments		**–**	3,000	–	3,000
Deferred tax assets	*39*	**606**	–	–	–
Inventories		**5,092**	10,052	5,926	15,978
Trade and bills receivables		**3,835**	64,323	56,682	121,005
Prepayments, deposits and other receivables		**64,879**	218,848	43,892	262,740
Income tax recoverable		**1,677**	–	21,018	21,018
Cash and cash equivalents		**35,882**	349,535	56,362	405,897
Bank and other borrowings		**–**	(1,315,092)	–	(1,315,092)
Other non-current liabilities		**–**	(40,112)	(39,873)	(79,985)
Deferred tax liabilities	*39*	**–**	(64,909)	(40,526)	(105,435)
Trade and bills payables		**(12,143)**	(62,328)	(11,030)	(73,358)
Other payables and accruals		**(125,828)**	(93,455)	(242,870)	(336,325)
Total identifiable net assets at fair value		**129,819**	2,169,448	939,125	3,108,573
Non-controlling interests		**(90,524)**	(241,087)	–	(241,087)
		39,295	1,928,361	939,125	2,867,486
Goodwill on acquisition	*16*	**143,171**	1,871,287	198,619	2,069,906
Consideration transferred		**182,466**	3,799,648	1,137,744	4,937,392

43. BUSINESS COMBINATIONS *(Continued)*

	2015		2014	
	Total	GSEI	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note (a))	*(note (b)(iv))*	*(notes (b)(i), (ii) and (iii))*	
Satisfied by:				
Cash	**100,000**	3,799,648	318,824	4,118,472
Issue of new ordinary shares by Beijing Development	**–**	–	818,920	818,920
Reclassification from interest in a joint venture to interest in a subsidiary	**82,466**	–	–	–
	182,466	3,799,648	1,137,744	4,937,392
Revenue for the year since acquisition	**49,075**	–	21,540	21,540
Profit/(loss) for the year since acquisition	**17,561**	–	(7,147)	(7,147)

The Group has elected to measure the non-controlling interests in the subsidiaries acquired at the non-controlling interests' proportionate share of the identifiable net assets of the subsidiaries acquired.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2015		2014	
	Total	GSEI	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note (a))	*(note (b)(iv))*	*(notes (b)(i), (ii) and (iii))*	
Cash and cash equivalents acquired	**35,882**	349,535	56,362	405,897
Cash consideration	**(100,000)**	(3,799,648)	(318,824)	(4,118,472)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(64,118)**	(3,450,113)	(262,462)	(3,712,575)

43. BUSINESS COMBINATIONS *(Continued)*

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$5,985,560,000 (2014: HK$5,393,483,000) and the Group's revenue (comprising turnover and other income and gains, net) would have been HK$60,380,123,000 (2014: HK$48,378,256,000).

Notes:

(a) Business combinations during the year ended 31 December 2015 mainly included the following transactions:

(i) In January 2015, the Group acquired a 70% equity interest in 北控安耐得環保科技發展常州有限公司 ("Changzhou") from an independent third party at a cash consideration of RMB84,000,000 (equivalent to HK$100,000,000). Changzhou is principally engaged in the hazardous and industrial solid waste treatment operation in Jiangsu Province, the PRC; and

(ii) In December 2015, Beijing Gas Group Company Limited, a wholly-owned subsidiary of the Group, reached a consent with another shareholder of 北京北燃港華燃氣有限公司 ("Ganghua"), a then 50% joint venture of the Group, for the entrustment of its power in the board of directors of Ganghua to the Group. Upon the execution of the new articles of association, the Group is entitled to control the financing and operating policies of Ganghua. Accordingly, Ganghua became a 50% owned subsidiary of the Group. Ganghua is principally engaged in the provision of pipeline gas in Beijing City, the PRC.

(b) Business combinations during the year ended 31 December 2014 mainly included the following transactions:

(i) In January 2014, the Group acquired the entire equity interest in 鶴崗聚源煤層氣有限責任公司 ("Hegang") from an independent third party at a cash consideration of RMB38,755,000 (equivalent to HK$48,444,000). Hegang is principally engaged in the provision of LNG in Heilongjiang, the PRC;

(ii) In April 2014, Beijing Development, a then 50.36% indirectly-held subsidiary of the Company, acquired the entire equity interests in and the shareholders' loans of KCS Taian Investments Company Limited ("KCS Taian") and KCS Changde Investments Company Limited ("KCS Changde") from an independent third party at an aggregate consideration of RMB520,000,000. The consideration was satisfied by RMB86,790,000 (equivalent to HK$107,880,000) in cash and RMB433,210,000 by the issue of 347,000,000 ordinary shares of Beijing Development at an issue price of HK$1.60 per share (fair value of which on the issue date was HK$2.36 per share). KCS Taian and KCS Changde are principally engaged in the provision of solid waste treatment business in Shandong and Hunan, the PRC, respectively;

(iii) In April 2014, the Group acquired the entire equity interests in and the shareholders' loans of KCS Siping Investments Company Limited ("KCS Siping") from an independent third party at a cash consideration of RMB130,000,000 (equivalent to HK$162,500,000). KCS Siping is principally engaged in the provision of solid waste treatment business in Jilin, the PRC; and

(iv) In December 2014, the Group acquired in aggregate 92.68% equity interests in GSEI from two independent third parties at an aggregate cash consideration of USD490,277,000 (equivalent to HK$3,804,551,000). GSEI is principally engaged in the solid waste treatment operations and sewage and water supply operations in Beijing and several other provinces in the PRC.

The goodwill on acquisition of the equity interests of GSEI as disclosed in the financial statements for the year ended 31 December 2014 represented the then provision amount estimated by the directors of the Company as the Group had not completed the fair value measurement of the identifiable net assets of GSEI and the initial accounting for the acquisition was incomplete.

43. BUSINESS COMBINATIONS *(Continued)*

Notes: (Continued)

(b) *(Continued)*

(iv) *(Continued)*

The initial accounting was completed during the year ended 31 December 2015 and the acquisition date fair value of operating concessions and receivables under service concession arrangements were HK$776,908,000 and HK$891,750,000 respectively, representing increases of HK$321,346,000 and HK$27,657,000 over the provisional amounts respectively. The 2014 comparative information was restated to reflect the adjustment to the provisional amounts. As a result of the aforesaid changes in fair value, deferred tax liabilities had been increased by HK$64,909,000 and non-controlling interests had been increased by HK$44,989,000. The corresponding goodwill amount had been decreased by HK$239,105,000, resulting in HK$1,871,287,000 of total goodwill arising on the acquisition. Assets of disposal groups classified as held for sale were also restated to reflect the adjustment to the provisional amounts of goodwill and operating concession accordingly *(note 29(a))*.

44. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Apart from the transactions as detailed in notes 20, 35 and 43 to the financial statements, the Group had no other major non-cash transactions of investing and financing activities during the years ended 31 December 2015 and 2014.

45. CONTINGENT LIABILITIES

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

46. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for original terms ranging from 1 to 2 years. The terms of the leases generally require the tenants to pay security deposits.

As at the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2015 ***HK$'000***	2014 *HK$'000*
Within one year	**2,949**	2,710
In the second to fifth years, inclusive	**266**	–
	3,215	2,710

46. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases certain of its land, office properties and staff quarters under operating lease arrangements, with leases negotiated with original terms ranging from 1 to 39 years.

As at the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015	2014
	HK$'000	*HK$'000*
Within one year	**71,602**	75,686
In the second to fifth years, inclusive	**128,305**	124,873
After five years	**556,277**	619,103
	756,184	819,662

47. CAPITAL COMMITMENTS

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

	2015	2014
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Buildings	**269,373**	166,013
Gas pipelines and plant and machinery	**1,105,112**	796,333
New service concession arrangements on a BOO basis	**–**	54,235
New service concession arrangements on a BOT basis	**236,217**	306,658
	1,610,702	1,323,239

48. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had entered into the following material transactions with related parties during the year:

Name of related party	Nature of transaction	Notes	2015 HK$'000	2014 HK$'000
Non-controlling equity holders of subsidiaries and their associates:				
Yanjing Beer Group and its associates	Purchase of bottle labels[γ]	*(i)*	**100,933**	125,731
	Purchase of bottle caps[γ]	*(i)*	**77,851**	92,986
	Canning service fees paid[γ]	*(ii)*	**41,079**	36,506
	Comprehensive support service fees paid[γ]	*(iii)*	**19,191**	19,431
	Land rent expenses[γ]	*(iv)*	**2,283**	2,311
	Trademark licensing fees paid[γ]	*(v)*	**68,312**	74,505
	Less: refund for advertising subsidies[γ]	*(v)*	**(5,348)**	(4,271)
Fellow subsidiaries:				
Beiran Enterprises and its subsidiaries	Sale of gas[#]	*(vi)*	**37,351**	34,380
	Engineering service income[#]	*(vii)*	**14,675**	22,173
	Comprehensive service income[#]	*(vii)*	**12,175**	25,063
	Sale of goods[#]	*(x)*	**91,753**	152,988
	Engineering service expenses[#]	*(vii)*	**101,907**	89,438
	Comprehensive service expenses[#]	*(vii)*	**45,126**	42,204
	Building rental expenses[#]	*(viii)*	**100,442**	78,301
	Purchase of goods[#]	*(viii)*	**157,926**	142,708
Associates:				
Beijing Enterprises Group Finance Co. Ltd.	Interest expense	*(ix)*	**28,457**	14,753
	Interest income[#]	*(ix)*	**14,473**	–

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

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

48. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes:

(i) The purchase prices for bottle labels and bottle caps were determined by reference to the agreed prices for the preceding year and an annual adjustment determined by reference to the price index in Beijing in the preceding year.

(ii) The canning service fees were charged at a rate equal to the costs of the canning services incurred by Yanjing Beer Group plus a mutually-agreed profit margin.

(iii) The comprehensive support service fees paid include the following:

- fees for security and canteen services which were determined based on the annual cost of labour, depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and

- rental expenses, related to the premises occupied and used by Yanjing Brewery as its office, canteen and staff dormitories, which were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.

(iv) The land rent expenses were charged at a mutually-agreed amount of RMB1,849,000 (equivalent to HK$2,283,000) (2014: RMB1,849,000 (equivalent to HK$2,311,000)) per annum.

(v) The trademark licensing fees paid were for the use of the "Yanjing" trademark and were determined based on 0.94% of the annual sales of beer and mineral water products made by Yanjing Brewery and at a rate of RMB0.008 per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Brewery Group would refund 20% of the trademark licensing fees from sales of beer received from Yanjing Brewery for the use by Yanjing Brewery to develop and promote the "Yanjing" trademark.

(vi) The selling price of gas and the gas transmission fee were prescribed by the PRC government.

(vii) The service fees were determined by reference to the then prevailing market rates and set at prices not higher than the guidance prices set by the PRC government.

(viii) The purchase prices of goods and the building rentals were determined by reference to the then prevailing market rates.

48. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes: (Continued)

(ix) Beijing Enterprises Group Finance Co. Ltd. ("BE Group Finance") is a 48.21% owned associate of the Group and also a subsidiary of Beijing Enterprises Group. BE Group Finance was established to act as platform for members of Beijing Enterprises Group for the provision of intra-group facilities through financial products including deposit-taking, money-lending and custodian services.

Pursuant to a deposit services master agreement (the "Deposit Services Master Agreement") entered into between the Company and BE Group Finance on 29 December 2014, the Group may, in its ordinary and usual course of business, place and maintain deposits with BE Group Finance on normal commercial terms from time to time. The term of the Deposit Services Master Agreement shall commence on the date of the Deposit Services Master Agreement and continue up to and including 31 December 2016. Subject to compliance with the Listing Rules, upon the expiration of such initial term, the Deposit Services Master Agreement may be renewed by the Company and BE Group Finance by agreement in writing. The daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the term of the Deposit Services Master Agreement will not exceed HK$3,700 million. The deposit services provided by BE Group Finance constitute continuing connected transactions that are subject to the announcement, reporting and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Interest rates on deposits placed in and loans offered by BE Group Finance denominated in Renminbi were determined by reference to the then prevailing market rates offered by People's Bank of China, while the related interest rates for deposits and loans denominated in other currencies were determined by reference to the then prevailing market rates offered by major bankers of the Group.

The amounts of deposits placed by the Group with BE Group Finance as at the end of the reporting period are disclosed in note 28 to the financial statements. The amounts of loans borrowed by the Group from BE Group Finance as at the end of reporting period are disclosed in note 33(b)(ii) to the financial statements.

(x) The selling prices of goods were determined on a cost-plus basis.

(b) Outstanding balances with related parties

(i) Details of the Group's balances with related parties included in deposits and other receivables, and trade and bills payables and other payables and accruals are disclosed in notes 25, 40 and 41 to the financial statements, respectively.

(ii) Details of the Group's balances with joint ventures, associates, holding companies and fellow subsidiaries are disclosed in notes 19, 20, 24(a), 25, 26, 33(b)(ii) and 41 to the financial statements, respectively.

48. RELATED PARTY DISCLOSURES *(Continued)*

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

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

(d) Compensation of key management personnel of the Group

	2015	2014
	HK$'000	*HK$'000*
Short term employee benefits	**27,938**	22,884
Pension scheme contributions	**29**	24
Total compensation paid to key management personnel	**27,967**	22,908

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

49. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain equity investments being classified as available-for-sale investments, as disclosed in note 21 to the financial statements, all financial assets and liabilities of the Group as at 31 December 2015 and 2014 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made.

As disclosed in note 21 to the financial statements, listed equity investments of the Group are stated at fair value based on their quoted market prices (as categorised within Level 1 of the fair value hierarchy); whilst the unlisted equity investments of the Group are stated at cost less any accumulated impairment losses because fair values of which cannot be reasonably assessed and therefore, no disclosure of the fair values of these financial instruments is made.

The fair value of the Group's guaranteed bonds and senior notes was HK$20,695,007,000 (2014: HK$15,380,743,000) and determined as Level 1. The fair value of the Group's guaranteed bonds and senior notes are based on price quotations from financial institutions at the reporting date.

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

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other loans, the guaranteed bonds and senior notes and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as amounts due from/to contract customers, trade and bills receivables, deposits and other receivables, trade and bills payables, other payables and accruals, receivables under service concession arrangements and amounts due from/to holding companies, fellow subsidiaries, an associate, joint ventures, and related parties.

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

Interest rate risk

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

Banks loans, the guaranteed bonds and senior notes, cash and short term deposits are stated at amortised cost and not revalued. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

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

Interest rate risk *(Continued)*

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments as at the end of the reporting period that are exposed to interest rate risk:

	On demand or within 1 year	In the second year	3 to 5 years	Beyond 5 years	Total	Effective interest rate
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*%*
At 31 December 2015						
Floating rate:						
Restricted cash and pledged deposits	**73,003**	**–**	**–**	**–**	**73,003**	**0.35**
Cash and cash equivalents	**9,370,035**	**–**	**–**	**–**	**9,370,035**	**0.35**
Interest-bearing bank and other borrowings	**(6,559,105)**	**(460,692)**	**(6,261,888)**	**(366,324)**	**(13,648,009)**	**2.22**
Fixed rate:						
Cash and cash equivalents	**4,323,769**	**–**	**–**	**–**	**4,323,769**	**1.23**
Interest-bearing bank and other borrowings	**(389,485)**	**(128,211)**	**(409,274)**	**(589,064)**	**(1,516,034)**	**6.64**
Guaranteed bonds and senior notes	**–**	**–**	**(4,164,482)**	**(15,280,110)**	**(19,444,592)**	**4.35**
At 31 December 2014						
Floating rate:						
Restricted cash and pledged deposits	58,735	–	–	–	58,735	0.35
Cash and cash equivalents	10,124,140	–	–	–	10,124,140	0.35
Interest-bearing bank and other borrowings	(13,964,004)	(235,363)	(3,809,070)	(172,996)	(18,181,433)	2.51
Fixed rate:						
Cash and cash equivalents	1,083,566	–	–	–	1,083,566	2.43
Interest-bearing bank and other borrowings	(3,602,922)	(171,883)	(438,744)	(698,313)	(4,911,862)	4.99
Convertible bonds	(84,556)	–	–	–	(84,556)	0.91
Guaranteed senior notes	–	–	–	(13,879,298)	(13,879,298)	5.36

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

Interest rate risk *(Continued)*

At 31 December 2015, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other loans and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK$31,301,000 (2014: HK$24,498,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for 2014.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, the Group's statement of financial position can be affected significantly by movements in the RMB/HK$ exchange rate.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB/HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in profit before tax *HK$'000*	**Increase/ (decrease) in equity** *HK$'000*
2015		
If Hong Kong dollar weakens against RMB by 5%	**455,234**	**3,435,795**
If Hong Kong dollar strengthens against RMB by 5%	**(455,234)**	**(3,435,795)**
2014		
If Hong Kong dollar weakens against RMB by 5%	397,824	3,168,588
If Hong Kong dollar strengthens against RMB by 5%	(397,824)	(3,168,588)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

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

Credit risk

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

At the end of the reporting period, concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables under service concession arrangements and trade and bills receivables are set out in notes 17 and 24 to the financial statements, respectively.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from joint ventures and associates, deposits and other receivables and amounts due from holding companies, fellow subsidiaries and related parties, arises from default of the counterparty, with a maximum exposure to the carrying amounts of these instruments.

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

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank loans, other loans, the guaranteed bonds and senior notes. In addition, banking facilities have been put in place for contingency purposes.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of short term loans to cover expected cash demands, subject to approval by management of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

At 31 December 2015

	On demand or within 1 year	In the second year	3 to 5 years	Beyond 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	3,392,747	346,370	7,220,259	891,853	11,851,229
Other loans	3,811,338	127,482	512,001	642,802	5,093,623
Guaranteed bonds and senior notes	844,460	844,460	6,741,680	22,336,090	30,766,690
Trade and bills payables	3,640,954	–	–	–	3,640,954
Accruals and other liabilities	6,726,376	30,322	–	–	6,756,698
Due to a holding company	1,261,656	–	–	–	1,261,656
Due to related parties	268,921	–	–	–	268,921
	19,946,452	1,348,634	14,473,940	23,870,745	59,639,771

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

Liquidity risk *(Continued)*

At 31 December 2014

	On demand or within 1 year *HK$'000*	In the second year *HK$'000*	3 to 5 years *HK$'000*	Beyond 5 years *HK$'000*	Total *HK$'000*
Bank loans	14,079,184	748,567	5,012,248	941,041	20,781,040
Other loans	4,336,324	93,383	211,293	57,594	4,698,594
Guaranteed senior notes	706,726	706,726	2,120,178	19,669,315	23,202,945
Convertible bonds	84,556	–	–	–	84,556
Trade and bills payables	2,238,403	–	–	–	2,238,403
Accruals and other liabilities	5,446,741	40,082	–	–	5,486,823
Due to a holding company	1,880,364	–	–	–	1,880,364
Due to related parties	329,350	–	–	–	329,350
	29,101,648	1,588,758	7,343,719	20,667,950	58,702,075

Fair value risk

The Group's financial instruments that are carried in the financial statements at other than fair values are disclosed in note 50 to the financial statements. In the opinion of the directors, the Group's exposure to fair value risk in respect of its financial instruments is minimal.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

Depending on the market conditions and funding arrangements, if at any time, repurchase of the Company's shares will lead to an enhancement of the net asset value per share and/or earnings per share of the Group, the directors will authorise such transactions.

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

Capital management *(Continued)*

The Group monitors capital using a gearing ratio, which is interest-bearing bank and other borrowings and the guaranteed bonds and senior notes divided by the sum of total equity, interest-bearing bank and other borrowings and the guaranteed bonds and senior notes. The gearing ratios as at the end of the reporting periods are as follows:

	2015 ***HK$'000***	2014 *HK$'000*
Guaranteed bonds and senior notes	**19,444,592**	13,879,298
Interest-bearing bank and other borrowings	**15,164,043**	23,093,295
Total guaranteed bonds and senior notes and interest-bearing bank and other borrowings	**34,608,635**	36,972,593
Total equity	**68,652,170**	68,095,980
Total equity, guaranteed bonds and senior notes and interest-bearing bank and other borrowings	**103,260,805**	105,068,573
Gearing ratio	**34%**	35%

52. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 31 December 2015 amounted to HK$7,330,571,000 (2014: net current liabilities of HK$2,094,253,000) and HK$98,458,561,000 (2014: HK$89,056,152,000), respectively.

53. EVENTS AFTER THE REPORTING PERIOD

(a) Subscription of shares in Blue Sky Power Holdings Limited ("Blue Sky")

On 5 January 2016, Beijing Gas, a wholly-owned subsidiary of the Company, entered into a share subscription agreement (the "Subscription Agreement"), a convertible bond agreement (the "CB Agreement") and a disposal agreement (the "Disposal Agreement") with Blue Sky, a company listed on the Main Board of the Stock Exchange (Stock code: 6828) and principally engaged in sale and distribution of natural gas and other related products in the PRC.

Pursuant to the Subscription Agreement, the Group conditionally agreed to subscribe and Blue Sky conditionally agreed to allot and issue 2,155,555,555 ordinary shares at a subscription price of HK$0.45 per share, totaling HK$970,000,000.

Pursuant to the CB Agreement, the Group conditionally agreed to subscribe and Blue Sky conditionally agreed to issue a convertible bond of aggregate principal amount of HK$350,000,000 at an initial conversion price of HK$0.45 per share (equivalent to 777,777,777 ordinary shares).

Pursuant to the Disposal Agreement, the Group conditionally agreed to sell and Blue Sky conditionally agreed to purchase 51% equity interest in Beijing Gas Group (Teng County) Co., Ltd (principally engaged in distribution of natural gas to the industrial parks, residential and commercial users in the area of Teng County) at an aggregate consideration of HK$152,000,000, which shall be satisfied by Blue Sky allotting and issuing 337,777,778 ordinary shares to the Group.

Further details were set out in the announcements of Blue Sky published on the website of the Hong Kong Stock Exchange on 6 January 2016.

The above transaction was approved by the shareholders of Blue Sky at its special general meeting held on 16 March 2016. The transaction is not yet completed as at the date of approval of these financial statements.

53. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(b) Acquisition of EEW Holding Gmbh and M+E Holding Gmbh & Co. KG (the "EEW Group")

On 3 February 2016, the Group entered into an acquisition agreement with two independent third parties (the "Sellers") and pursuant to which the Group agreed to purchase and the Sellers agreed to sell the entire equity interest of the EEW Group at a cash consideration of EUR1,438,000,000.

EEW Group is a leading energy-from-waste ("EfW") company in Europe headquartered in Germany, with its principal business in the supply of electricity, steam and heat from waste. EEW Group operates a portfolio of 18 EfW plants located in Germany and neighbouring countries and accounted for approximately 17% market share of EfW business in Germany.

The transaction was completed on 2 March 2016 and the Group is in the process of making assessment on the fair value of net identifiable assets of the EEW Group to be recognised at the acquisition date.

Further details were set out in the Company's announcement published on the website of the Hong Kong Stock Exchange on 4 February 2016.

54. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the Hong Kong Company Ordinance (Cap. 622) during the current year, the presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and disclosures.

Certain comparative amounts have also been restated in the financial statements as a result of the completion of the initial accounting for the acquisition of GSEI, details of which of set out in note 43(b)(iv) of the financial statements.

55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015 HK$'000	2014 HK$'000
ASSETS		
Non-current assets:		
Property, plant and equipment	**3,491**	5,096
Investment properties	**56,914**	56,914
Investments in subsidiaries	**57,569,731**	56,212,369
Investments in associates	**106,128**	106,177
Available-for-sale investments	**1,261,570**	1,256,760
Total non-current assets	**58,997,834**	57,637,316
Current assets:		
Trade and bills receivables	**1,047**	1,099
Prepayments, deposits and other receivables	**1,358,684**	1,384,313
Cash and cash equivalents	**1,183,806**	2,875,303
Total current assets	**2,543,537**	4,260,715
TOTAL ASSETS	**61,541,371**	61,898,031

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

	2015	2014
	HK$'000	*HK$'000*
EQUITY AND LIABILITIES		
Equity:		
Share capital	**30,401,883**	30,401,883
Reserves (note)	**1,032,882**	1,135,112
TOTAL EQUITY	**31,434,765**	31,536,995
Non-current liabilities:		
Bank and other borrowings	**5,371,917**	2,960,250
Due to subsidiaries	**17,795,339**	14,785,877
Total non-current liabilities	**23,167,256**	17,746,127
Current liabilities:		
Other payables and accruals	**1,436,478**	1,951,563
Income tax payable	**85,372**	85,372
Bank and other borrowings	**5,417,500**	10,577,974
Total current liabilities	**6,939,350**	12,614,909
TOTAL LIABILITIES	**30,106,606**	30,361,036
TOTAL EQUITY AND LIABILITIES	**61,541,371**	61,898,031

Zhou Si
Director

Tam Chun Fai
Director

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

Note:

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

	Share premium account HK$'000	Capital redemption reserve HK$'000	Treasury shares HK$'000	Capital reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2014	29,607,291	238	–	13,220	(22,773)	17,561	775,301	30,390,838
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	1,544,278	1,544,278
Final 2013 dividend declared	–	–	–	–	–	–	(763,695)	(763,695)
Interim 2014 dividend	–	–	–	–	–	–	(359,618)	(359,618)
Shares repurchased	(105)	105	–	–	–	–	(69,162)	(69,162)
Transition to no-par value regime	(29,607,186)	(343)	–	–	–	–	–	(29,607,529)
At 31 December 2014 and 1 January 2015	–	–	–	13,220	(22,773)	17,561	1,127,104	1,135,112
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	1,195,379	1,195,379
Final 2014 dividend	–	–	–	–	–	–	(796,297)	(796,297)
Interim 2015 dividend	–	–	–	–	–	–	(385,305)	(385,305)
Shares repurchased	–	–	(46,623)	–	–	–	(69,384)	(116,007)
At 31 December 2015	–	–	(46,623)	13,220	(22,773)	17,561	1,071,497	1,032,882

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2016.

FIVE YEAR FINANCIAL SUMMARY

31 December 2015

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2014, is set out below:

RESULTS

	Year ended 31 December				
	2011	2012	2013	2014	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	30,471,759	35,569,649	42,360,528	47,935,795	**60,149,945**
Operating profit	2,564,276	2,105,580	2,563,977	2,158,562	**1,929,945**
Share of profits and losses of:					
Joint ventures	1,300,189	(343)	(5,847)	4,827	**(183)**
Associates	373,392	2,049,495	2,742,612	3,807,092	**4,708,112**
Profit before tax	4,237,857	4,154,732	5,300,742	5,970,481	**6,637,874**
Income tax	(580,745)	(557,155)	(545,287)	(564,834)	**(681,961)**
Profit for the year	3,657,112	3,597,577	4,755,455	5,405,647	**5,955,913**
ATTRIBUTABLE TO:					
Shareholders of the Company	2,767,745	3,234,992	4,183,878	4,831,678	**5,667,378**
Non-controlling interests	889,367	362,585	571,577	573,969	**288,535**
	3,657,112	3,597,577	4,755,455	5,405,647	**5,955,913**

FIVE YEAR FINANCIAL SUMMARY

31 December 2015

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2011 *HK$'000*	2012 *HK$'000*	2013 *HK$'000*	2014 *HK$'000* (Restated)	**2015** ***HK$'000***
Total assets	77,313,278	89,498,621	109,621,824	124,173,816	**124,766,040**
Total liabilities	(31,990,089)	(41,830,946)	(45,553,745)	(56,077,836)	**(56,113,870)**
NET ASSETS	45,323,189	47,667,675	64,068,079	68,095,980	**68,652,170**
Equity attributable to shareholders of the Company	37,736,127	39,637,454	54,021,238	57,176,356	**58,187,267**
Non-controlling interests	7,587,062	8,030,221	10,046,841	10,919,624	**10,464,903**
TOTAL EQUITY	45,323,189	47,667,675	64,068,079	68,095,980	**68,652,170**

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED