2016 ANNUAL REPORT

20

YEARS OF LISTING

北京控股有限公司上市二十周年

BEIJING ENTERPRISES HOLDINGS LIMITED

STOCK CODE : 392

20

YEARS OF LISTING

北京控股有限公司上市二十周年

BEIJING ENTERPRISES HOLDINGS LIMITED

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
Dr. Yu Sun Say
Mr. Ma She

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

INVESTMENT 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

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Wanchai, Hong Kong
Tel: (852) 2915 2898
Fax: (852) 2857 5084

AUDITORS

Ernst & Young

CORPORATE INFORMATION

LEGAL ADVISERS

Hong Kong Law
Mayer Brown JSM

PRC Law
Haiwen & Partners

US Law
Mayer Brown JSM

PRINCIPAL BANKERS

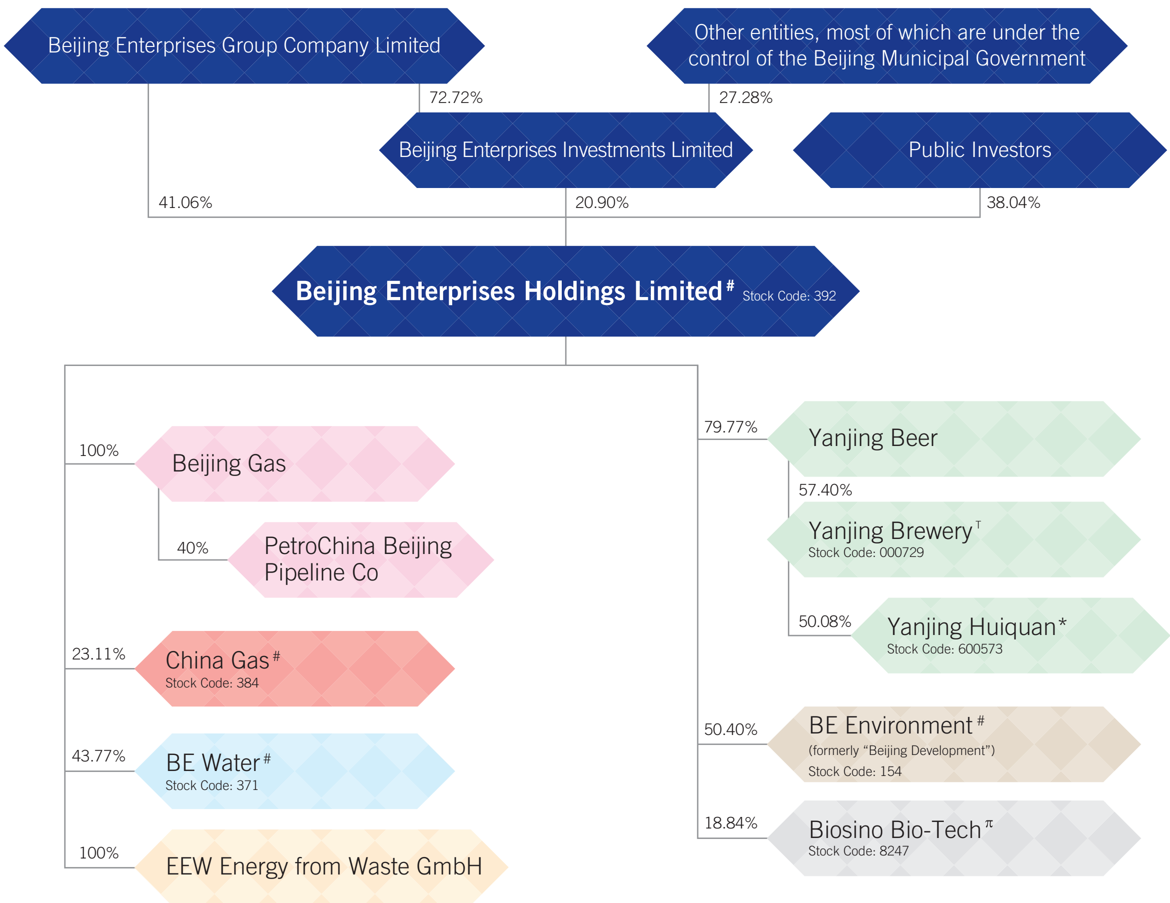
In Hong Kong
Bank of China, Hong Kong Branch
Bank of Communications, Hong Kong Branch
DBS Bank Ltd., Hong Kong Branch

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 2016



* 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	2016 *HK$'000*	2015 *HK$'000*	Change
Turnover	**55,958,834**	60,149,945	**(7.0)%**
Gross profit	**9,435,824**	9,051,048	**4.3%**
Profit for the year	**6,639,245**	5,955,913	**11.5%**
Profit attributable to shareholders of the Company	**6,235,883**	5,667,378	**10.0%**
Basic EPS (in HK dollars)	**4.92**	4.41	**11.6%**
Total dividend per share (in HK dollars)	**0.95**	0.95	**0.0%**
EBIT	**8,989,303**	7,939,737	**13.2%**
EBITDA	**12,314,972**	10,701,227	**15.1%**
Total assets	**144,708,761**	124,766,040	**16.0%**
Bank balance and cash	**16,028,099**	13,766,807	**16.4%**
Shareholders' equity	**57,321,208**	58,187,267	**(1.5)%**

Key financial indicators for the year ended 31 December	2016	2015
Average finance costs	**3.5%**	3.6%
Current ratio (times)	**0.86**	1.28
Gross profit margin	**16.9%**	15.0%
Net gearing ratio	**50.9%**	30.6%
Net profit margin	**11.9%**	9.9%
Payout ratio (%)	**19.3%**	21.5%
Return on average equity	**10.8%**	9.8%

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 2016, while global economic growth continued to maintain its recovery, the growth of key economies was still uneven with risks and uncertainties remained. The economy in Mainland China was overall stable with deepened development in its reform and innovation. The green development showed its efficacy with accelerated growth in the new economic development drivers. Beijing Enterprises Holdings Limited (the "Company" or the "Group") took the initiative to adapt to this new economic development environment. The development of its member companies flourished in terms of business, progressing whilst maintaining stability in their results.

According to the financial statements prepared under the Hong Kong Financial Reporting Standards, the Company achieved an operating revenue of HK$55.96 billion in 2016, representing a year-on-year decrease of 7%. Profit attributable to shareholders of the Company amounted to HK$6.236 billion, representing a year-on-year increase of 10%. The board of directors proposed a final dividend of HK65 cents per share.

In 2016, by continuing to leverage on its capital operation, the Company optimized the capital structure of its business segments and improved their asset quality. Furthermore, the Company still adhered to the principle of focusing on its principal businesses, and pooled resources together to develop the three major core businesses in gas, water and solid waste treatment and also the beer segment as its value investment business.

For gas business, the Group inclined to the three drivers of "growth in gas volume, investment driven, emerging business development" to push forward its development comprehensively, implemented the development strategy of "supply chain extension" proactively, and accelerated its pace in investing overseas, including the investment in the VCNG projects of Rosneft Oil Company and the acquisition of the equity interests of Beijing Gas Blue Sky Holdings Limited.

For water treatment, Beijing Enterprises Water Group Limited ("BE Water", stock code: 371) still performed superbly in its two core businesses, namely urban water service and water environment renovation. It also maintained a sound development in other project business. During the year, BE Water achieved a growth in urban water newly signed projects, additional water treatment capacity, additional contracted water environment renovation projects, and even in operating revenue. With the PRC government vigorously advocated and supported green financing and Public-Private-Partnership (PPP), BE Water actively grasped the opportunities, increased its resources investments in the PPP projects, perfected its investment system setting up, leveraged on the operation viability of its business units, synergistically cooperated to develop the opportunities of the urban water business. The investment progress of BE Water was accelerated through integrated watershed management, black-and-malodorous water body treatment, improvement in river and lake systems, flood control and drainage, improved water ecological environment, and as a result, it successfully established its market layout in seven key regions.

CHAIRMAN'S STATEMENT

In 2016, each of the environmental protection and solid waste business of the Company achieved a stable growth. Through the newly acquired EEW Energy from Waste GmbH ("EEW GmbH") in Germany, the Company greatly enhanced its operation scale and industry standing in the solid waste treatment and environmental protection sector. The project that acquired is by far the largest overseas merger and acquisition project by a Chinese enterprise in the waste utilization sector, which is also the largest merger and acquisition project by a Chinese enterprise in Germany. Accordingly, the Company demonstrated remarkably its role in the implementation of the PRC policies of "One Belt One Road" and "Going Global" for other enterprises. Furthermore, in October, the Company successfully injected 6 solid waste (hazardous waste) projects into Beijing Enterprises Environment Group Limited ("BE Environment", stock code: 154). Since then, the asset quality of BE Environment was improved thoroughly and its capacity effectiveness in solid waste industry projects improved rapidly. With the integration of the quality assets and resources of a listed company, it laid the foundation for the Company to forge to becoming an environmental protection and solid waste conglomerate.

In 2017, the Company will keep on grasping the opportunities from "One Belt One Road" and the integration of Beijing, Tianjin and Hebei, reinforce on the analyses and assessment on policies, situation, industry and market changes, positively face the pressure of results growth, be innovative and take reform as the driving force to fully optimize the asset structure and increase the corporate benefits. In future, we will continue to increase the resources allocation to the four principal businesses, namely gas, beer, water business, and environmental protection and solid waste. We will also intensify our efforts in solid waste business projects and resources integration, accelerate the introduction of advanced technologies and management of EEW GmbH, and construct the high-end technology research and development platform for its environmental protection and solid waste business, so as to develop the Company into a domestic leading environmental protection and solid waste corporation. Whilst promoting enterprise values, we will also positively perform various social responsibilities, commit to train human resources, and endeavor to play an active role in social development and environmental construction, building a better environment for next generation.

Wang Dong
Chairman

Hong Kong
31 March 2017

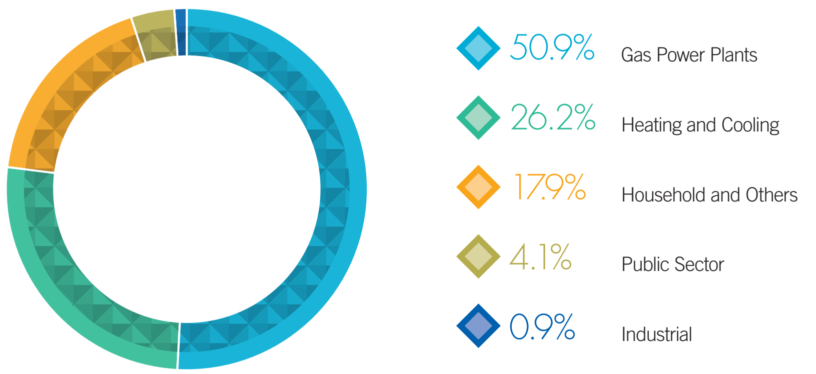
MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

Natural Gas Distribution Business

Beijing Gas Group Company Limited ("Beijing Gas") recorded a revenue of HK$39.38 billion in 2016, representing a year-on-year decrease of 10.4%, which was mainly due to the drop in average selling price in tandem with city gate price. The gas sales volume reached 14.38 billion cubic meters, representing a year-on-year growth of 10%, which was mainly due to a steady increase in gas demand for power generation and heating and cooling in 2016.

The gas sales volume of Beijing Gas in 2016 was approximately 14.38 billion cubic meters, an analysis by subscriber sector is as follows:



In 2016, there were approximately 221,300 new subscribers, of which 216,000 were household subscribers and 4,624 were public-sector subscribers. As at the end of 2016, the total number of natural gas subscribers of Beijing has reached approximately 5,750,000 and the pipelines in operation in Beijing increased to 19,491 kilometers in length. During the year, heating boilers with a total capacity of 6,227 t/h steam were developed. Capital expenditure for basic pipelines and city gates infrastructure in Beijing amounted to approximately HK$2.99 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW *(Continued)*

Natural Gas Distribution Business *(Continued)*

In 2016, Beijing Gas vigorously facilitated the development of clean air program with municipal government, innovated suburb business development model, and established coal-to-gas conversion LNG supply assurance system. It completed the coal-fire boiler transformation with a capacity of 6,227 t/h steam and coal-to-gas conversion in 78 villages. With scalable offshore LNG sourcing for the first time, Beijing Gas opened the channel for entering into international energy trade market, and gradually established the LNG trade sector of Beijing Gas. Furthermore, it also proactively implemented the development strategy of "supply chain extension", accelerated its pace in investing overseas, resolved to invest in Verkhnechonskneftegaz ("VCNG") project controlled by Rosneft Oil Company ("Rosneft"), thereby obtained the pre-emptive right of transmitting Rosneft's natural gas to China. It acquired 29% equity interest (including the potential shares in respect of the outstanding convertible bonds) of Beijing Gas Blue Sky Holdings Limited ("Blue Sky"), and established the overseas investment and financing platform.

Natural Gas Transmission Business

PetroChina Beijing Gas Pipeline Co., Ltd. ("PetroChina Beijing Pipeline Co.") recorded a gas transmission volume of 34.9 billion cubic meters in 2016, representing a year-on-year growth of 6%. The capital expenditure for the year was HK$6.53 billion, which was mainly due to accelerating the construction work of the No. 4 Shaanxi-Beijing Pipeline. Through holding the 40% equity interest of PetroChina Beijing Pipeline Co., the Group's share of net profit after taxation was HK$2.79 billion, which contributed an increase in profit of 2.2% year-on-year.

China Gas

For the half year from April to September 2016, China Gas Holdings Limited ("China Gas", stock code: 384) achieved a sales volume of 4.81 billion cubic metres in gas sales, representing a year-on-year increase of 7.1%. Its interim profit for the half year ended 30 September 2016 attributable to shareholders increased by 29.7% to HK$1.69 billion. Profit attributable to the Group amounted to HK$588 million in 2016.

I. BUSINESS REVIEW *(Continued)*

Beer Business

In 2016, facing various unfavorable factors such as industry downturn, monopolized competition, rising marketing costs and labour costs, and intensified requirements on energy conservation and emission reduction, Beijing Yanjing Brewery Co., Ltd. ("Yanjing Beer") responded proactively, continued to facilitate the three key structural adjustments in products, branding and market, strived to improve the proportion of sales volume of mid-to-high end products and increased the income per ton. During the year, the proportion of sales volume of its products with price over RMB2,500/KL has reached 51%, of which, the sales volume of cans recorded a year-on-year increase of 14.6%; the sales volume of Yanjing fresh beer recorded a year-on-year increase of 3.7%; the proportion of sales volume of "1+3" brand was 92%, of which 74% is for Yanjing's main brands; the brand value of "Yanjing" is RMB88.275 billion, representing a year-on-year increase of 10%. During the year, sales volume of Yanjing Beer reached 4.5 million kilolitres, achieving a revenue of HK$11.59 billion. The capital expenditure of Yanjing Beer amounted to HK$950 million in 2016.

Water and Environmental Business

The water and environmental operations of BE Water maintained a rapid growth in 2016. Its turnover increased 29% to HK$17.35 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 31% to HK$3.23 billion, of which HK$1.41 billion was attributable to the Company, representing a year-on-year increase of 31.1%. As at the end of 2016, BE Water already participated in 452 water plants which are or will be in operation, including 335 sewage treatment plants, 108 water distribution plants, 8 reclaimed water plants and 1 seawater desalination plant, with a total designed capacity of the water treatment service of 27,170,000 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 continued to maintain its leading position in water companies in China.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW *(Continued)*

Water and Environmental Business *(Continued)*

In 2016, China proactively promoted the launching of the environmental policies, including the Ten Provisions in Water industry (水十條) and the implementation of the PPP (Public-Private-Partnership) fund raising project model, 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 mechanism, synergistically cooperated to develop the operational management of urban water business. Its investments accelerated obviously through integrated watershed management, black-and-malodorous water body treatment, and improvement in river and lake systems, flood control and drainage, improved water ecological environment, and achieved the market layout in numerous key regions.

Solid Waste Treatment Business

In 2016, the solid waste treatment business segment of the Group has accomplished waste incineration and power generation integrated treatment capacity of 27,961 tons/day (of which, the newly acquired EEW GmbH project in Germany achieved a treatment capacity of approximately 13,000 tons/day). The entities under the solid waste segment pursued the construction progress of engineering projects in an orderly manner through enhancing project management efficiency, strengthening cost control, and continued to expand project reserves. It focused on the integration of introducing know-how and its own technology management and innovation, so as to enhance corporate specialized technology quality. In 2016, stable growth was achieved in the operating results of each entity of solid waste segment, showing healthy and positive growth trend. Of which, BE Environment and Beijing Enterprises Holdings Environment Technology Co., Ltd. ("BEHET") achieved an aggregate operating revenue of HK$790 million, and realized an operating profit of HK$210 million.

As at the end of the year, BE Environment accomplished an annual household waste input volume of 2,660,000 tons with a daily treatment volume of 7,288 tons. It accomplished an on-grid power generation volume of 636,000,000 kWh.

I. BUSINESS REVIEW *(Continued)*

Solid Waste Treatment Business *(Continued)*

In 2016, EEW GmbH in Germany accomplished treatment waste input volume of 4,579,000 tons, representing a year-on-year increase of 3.7%. It accomplished an annual on-grid power generation volume of 1,749,000,000 kWh, representing an increase of 7.2% as compared with 2015. Total revenue was EUR524 million, representing an increase of 8.5% as compared with 2015.

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 Hong Kong dollar and U.S. Dollar, has been based on rates guided by the People's Bank of China.

During 2016, the exchange rates of RMB against the Hong Kong dollar and U.S. Dollar remained weak but the Board does not expect the mild fluctuation of RMB's exchange rate in future will have material adverse impact on the operations of the Group.

Principal Uncertainties

The Group's principal businesses include natural gas distribution, natural gas transmission, water and environmental operations, solid waste treatment and beer production. Most of the utilities related businesses are governed by policies set out by National Development and Reform Commission and may be subject to 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.

MANAGEMENT DISCUSSION AND ANALYSIS

II. PROSPECTS

Natural Gas Distribution Business

Beijing Gas will continue to actively implement the clean air action plan to develop foreign markets by emphasizing on the various gas segments including pipeline gas, LNG and CNG. By seizing the integrated opportunities of Beijing, Tianjin and Hebei, it will accelerate the implementation of city gas projects in Tianjin and Hebei as priority. Furthermore, it will also firmly establish its dominant position in the distributed 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, and explore possible replacement vehicles of bus and environmental health users. By leveraging on the opportunity of industry positioning in Beijing, it will vigorously expand the gas filling market in outdoor delivery logistics enterprises and logistics and distribution hubs.

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, especially the expansion opportunity of coal-to-gas conversion, and at the same time, 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 distributed energy. Furthermore, it will also continue to maintain its dominant position in city gas, gas for vehicles and vessels, and LPG markets, and promote the synergistic development of natural gas business and liquefied petroleum gas business, intensify its efforts to business innovation, and accelerate the comprehensive development of value-added business.

Natural Gas Transmission Business

PetroChina Beijing Pipeline Co. is investing and establishing 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.

MANAGEMENT DISCUSSION AND ANALYSIS

II. PROSPECTS *(Continued)*

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, branding 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 consolidate its advantageous markets position, intensify the nationwide well-known brand position of Yanjing brand, improve its management standards in market, quality and internality by adopting centralized platform for market management, quality control, production/consumption matching and bulk materials sourcing and purchasing.

Water and Environmental Business

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. BE Water will also continue to upkeep its capital advantages and vigorously enhance its technology competitiveness to achieve the dual-mover of its capital and scientific advantages.

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 Group. BE Environment 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 Group will accelerate its resource integration processes, make itself clear in its strategic positioning and strategic planning of the environmental protection and 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.

MANAGEMENT DISCUSSION AND ANALYSIS

III. FINANCIAL REVIEW

Revenue

The revenue of the Group in 2016 was HK$55.96 billion, representing a decrease of 7% when compared with 2015. This was mainly due to the decrease in natural gas distribution price as a result of the drop in city gate price and depreciation of RMB against HKD at an average rate of approximately 5.8%. During the year, the solid waste treatment business of the newly acquired EEW GmbH in Germany contributed 10 months' revenue of HK$3.79 billion. Yanjing Beer's revenue decreased due to a drop in sales volume, which accounted for 20.7% of total revenue. The PRC solid waste treatment businesses contributed a total revenue of HK$1.14 billion, which accounted for 2% of total revenue. Other business contributed an aggregate of not more than 1% of total revenue.

Cost of Sales

Cost of sales decreased by 9% to HK$46.52 billion. Cost of sales of gas distribution business included purchase cost of natural gas as well as depreciation of piped line network. Cost of sales of brewery business included raw materials, wage expenses and absorption of certain direct overheads. Cost of sales of solid waste treatment operation included fuel charges, amortization and waste collection costs.

Gross Profit Margin

In 2016, the overall gross profit margin was 16.9%, representing an increase by 1.9% when compared with the 15% in 2015. The increase in overall gross profit margin was mainly attributable to the increase in gross profit margin of the natural gas distribution business together with higher gross profit margin of newly consolidated Germany EEW GmbH's business.

Gain on Deemed Disposal of the Partial Interest in an Associate

During the year, BE Water issued ordinary shares upon the exercise of share options by its employees. The Group recognized a gain on deemed disposal of the partial interest in an associate of HK$4.39 million.

Other Income

Other income mainly comprised of government grants amounted to HK$200 million; gain on disposal of certain water treatment business amounted to HK$270 million; gain on transfer of assets from customers amounted to HK$63.72 million; bank interest income amounted to HK$222 million; gain on disposal of materials and beer bottles by Yanjing Beer amounted to HK$71.64 million and rental income of HK$61.05 million.

Selling and Distribution Expenses

Selling and distribution expenses of the Group in 2016 decreased by 6.1% to HK$2.42 billion which was mainly due to better selling expenses control for the brewery business.

III. FINANCIAL REVIEW *(Continued)*

Administrative Expenses

Administrative expenses of the Group in 2016 were HK$4.23 billion, increased by 7.4% when compared to last year, which was mainly due to the newly consolidated solid waste treatment operation of EEW GmbH in Germany and continuous expansion of the domestic solid waste operations.

Other Operating Expenses, net

It mainly comprised of the provisions for certain other receivables and operating concession rights.

Finance Costs

Finance costs of the Group in 2016 was HK$1.49 billion, increased by 14.6% comparing to 2015, which was mainly due to a newly added bridging loan of EUR1.665 billion and a long-term loan of HK$1.4 billion with maturity of five years in 2016.

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 22.95% share of the profit attributable to shareholders of China Gas and the 43.77% share of the profit attributable to shareholders of BE Water. PetroChina Beijing Pipeline Co. is as to 40% equity interest owned by Beijing Gas and as to 60% equity interest 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 2016, the Group shared the 40% profit after taxation of PetroChina Beijing Pipeline Co. amounting to HK$2.79 billion, and in the same year, the Group shared the 22.95% net profit of China Gas amounting to HK$588 million. The Group's share of net profits of BE Water amounted to HK$1.41 billion in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

III. FINANCIAL REVIEW *(Continued)*

Tax

After deducting the share of profits and losses of associates, the effective income tax rate is 33.7%, lower than that of 35.3% in last year. It was because of the non-deductible expenses being lower 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 2016 was HK$6.236 billion (2015: HK$5.67 billion).

IV. FINANCIAL POSITION OF THE GROUP

Non-current assets

Property, plant and equipment

The net book value of property, plant and equipment increased by HK$5.69 billion, which was mainly due to the consolidation of newly acquired Germany EEW GmbH's waste treatment business in March 2016.

Goodwill

The increase of HK$6.84 billion was due to the goodwill arising from the acquisition of EEW GmbH's waste treatment business in Germany in March 2016.

Other intangible assets

The net increase of HK$3.07 billion was mainly due to intangible assets identified upon the acquisition of EEW GmbH in Germany.

Investments in associates

The increase in the balance by HK$1.17 billion was mainly due to share of attributable profits from BE Water, PetroChina Beijing Pipeline Co. and China Gas for the year of 2016.

Available-for-sale investments

The increase of HK$2.16 billion was mainly due to the completion of subscription of 0.81% equity interests in PetroChina Pipeline Company Ltd. in the current year.

Receivables under finance lease

The balance arose from the consolidation of EEW GmbH in Germany upon completion of acquisition.

Convertible bonds receivables

The balance represented convertible bonds issued by Blue Sky to Beijing Gas in the current year.

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

Current assets

Inventories

The increase in the balance by approximately HK$309 million was mainly due to the consolidation of Germany EEW GmbH's inventories in March 2016.

Prepayments, deposits and other receivables

The increase in the balance by HK$946 million was mainly attributable to the increase in a dividend receivable of approximately HK$2.22 billion from PetroChina Beijing Pipeline Co., which was offset by the decrease in balance of other receivables of HK$1.2 billion.

Other taxes recoverable

The decrease in the balance by HK$777 million, which was mainly due to continuous utilisation of amounts of value-added tax prepaid in previous years by Beijing Gas.

Cash and Bank Borrowings

As at 31 December 2016, cash and bank deposits held by the Group amounted to HK$15.97 billion. The Group maintains sufficient banking facilities for its working capital requirements and has sufficient cash resources to finance its capital expenditures in the foreseeable future.

The Group's total borrowings amounted to HK$50.63 billion as at 31 December 2016, which mainly comprised guaranteed bonds and senior notes of US$2.0 billion in total, Euro bonds amounting to EUR500 million, medium and long-term loans amounting to HK$10.38 billion and bridging loans amounting to EUR1.665 billion with the remaining loans denominated in Hong Kong dollars and RMB. Around 57.1% of the total borrowings were denominated in US and Hong Kong dollars and 35.8% in Euro. The Group had net borrowings of HK$34.66 billion as at 31 December 2016.

Assets of disposal groups classified as held for sale

The decrease in the balance by HK$2.72 billion was mainly due to completion of disposal of certain water treatment businesses to a third party.

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

Non-current liabilities

Bank and other borrowings

There was an increase of HK$15.98 billion in long and short term balance in total, which was mainly due to the new bridging loan of EUR1.665 billion drawn down for the acquisition of 100% equity interest in EEW GmbH in Germany in March 2016.

Defined benefits plans, provision for onerous contracts and major overhauls and deferred tax liabilities

The increase in balances was mainly due to consolidation of the EEW GmbH in Germany upon completion of its acquisition.

Current liabilities

Trade and bills payables

The increase in the balance by HK$288 million was mainly due to payables of natural gas purchased before year end.

Receipts in advance

The balance was mainly receipts in advance of Beijing Gas from residential users and public sector subscribers for the refillment of IC Card value.

Other payables and accruals

The increase in the balance by HK$1.24 billion mainly due to consolidation of the EEW GmbH in Germany upon completion of its acquisition and certain other payables balances.

Liquidity and Capital Resources

The downstream natural gas distribution business, plus dividend income from PetroChina Beijing Pipeline Co., dividends from BE Water, China Gas and brewery business, have been constantly contributing to the operating cash flow of the Group and significantly increased its liquidity. As at the end of 2016, the issued capital of the Company amounted to 1,262,153,268 shares and the shareholders' equity was HK$57.32 billion. Total equity was HK$68.04 billion. The gearing ratio, which is all the interest-bearing borrowings and guaranteed senior notes divided by the sum of total equity plus all interest-bearing borrowings and guaranteed senior notes was 43% (2015: 34%).

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 51, 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 51, 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 60, 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 62, is the Vice Chairman of the Company. Mr. Li was previously 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 55, is the Executive Director and Vice Chairman of the Company. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master's degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd. He is currently Vice Chairman and Executive Deputy General Manager of Beijing Enterprises Group Company Limited, and is also Chairman and Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations. Mr. Li was Vice President of the Company from August 2007 to March 2011, and subsequently re-joined the Company as Executive Director in March 2014 and was re-designated as Executive Director and Vice Chairman in March 2016.

E Meng, aged 58, is the Executive Director and Executive Vice President of the Company. Mr. E also serves as the Vice General Manager and CFO of Beijing Enterprises Group Company Limited, the Chairman and Executive Director of Beijing Enterprises Environment Group Limited (stock code: 154), and the Vice Chairman and Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. E graduated from China Science and Technology University with a master's degree in engineering and subsequently obtained an EMBA degree from The Hong Kong University of Science and Technology. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the Deputy Director of Beijing New Technology Development Zone and concurrently acting as the Director of the Department of Financial Auditing, the General Manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the Deputy Director of the State-owned Assets Management Office of Beijing Haidian District. From September 2004 to August 2015, Mr. E was Independent Non-executive Director of New Silkroad Culturaltainment Limited (formerly known as JLF Investment Company Limited; stock code: 472). Mr. E has extensive experience in economics, finance and enterprise management. Mr. E joined the Group in November 1997.

JIANG Xinhao, aged 52, is the Executive Director and Vice President of the Company. Mr. Jiang also serves as Vice General Manager of Beijing Enterprises Group Company Limited, Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) as well as Non-executive Director of China Gas Holdings Limited (stock code: 384). Mr. Jiang 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 Manager of the investment development department of Beijing Holdings Limited and General Manager of Beijing BHL Investment Center between May 2000 and February 2005. From January 2011 to June 2016, Mr. Jiang was Executive Director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Jiang has extensive experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

DIRECTORS AND SENIOR MANAGEMENT

TAM Chun Fai, aged 54, is the Executive Director, Chief Financial Officer and Company Secretary of the Company. Mr. Tam also serves as the Independent Non-executive Director of Hi Sun Technology (China) Limited (stock code: 818) and KWG Property Holding Limited (stock code: 1813). Mr. Tam graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy and is a regular member of Chartered Financial Analyst and a member of Hong Kong Institute of Certified Public Accountants. Mr. Tam has extensive experience in auditing and corporate advisory services with major international accounting firms. He was involved in floatation and audit work of a wide variety of businesses, including electronics, electrical appliances, athletic shoes manufacturing, banking, insurance, securities and property development. Mr. Tam joined the Group in April 1997 and has been involved in corporate finance, compliance and investor relationship function of the Group. Through his role as independent non-executive director in Hi Sun Technology (China) Limited and KWG Property Holding Limited, Mr. Tam further enriches his experience in corporate governance and compliance work of listed companies in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WU Jiesi, aged 65, holds a doctorate degree in Economics. Mr. Wu also serves as Independent Non-executive Director of China Taiping Insurance Holdings Company Limited (stock code: 966), China Citic Bank International Limited as well as Industrial and Commercial Bank of China (Asia) Limited; Non-executive Director of Shenzhen Investment Limited (stock code: 604) and Silver Base Group Holdings Limited (stock code: 886); and Independent Director of China Life Franklin Asset Management Co., Limited. He conducted post-doctoral research work in theoretical economics at the Nankai University in the PRC and was conferred the professorship qualification by the Nankai University in 2001. During the period from 1984 to 1995, Mr. Wu worked at the Industrial and Commercial Bank of China in a number of positions, including as the President of Shenzhen Branch. From 1995 to 1998, Mr. Wu was Vice Mayor of Shenzhen Municipal Government and from 1998 to 2000 he was the assistant to the Governor of Guangdong province. He was the Chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, and the managing director and chief executive officer of Hopson Development Holdings Limited. From September 2005 to July 2011, he was Independent Non-executive Director of China Merchants Bank Co., Ltd. (stock code: 3968). Mr. Wu was Non-executive Director and Vice Chairman of China Aoyuan Property Group Limited (stock code: 3883). He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

LAM Hoi Ham, *Justice of Peace*, aged 78, 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 50, has extensive experiences in law, investment, finance and business management. Mr. Fu graduated from the University of London with a master's degree and a doctorate degree in Law in 1989 and 1993, respectively. Between 1992 and 2003, he conducted many corporate finance transactions in investment banking firms based in Hong Kong, including serving as a director of Peregrine Capital Limited, and a deputy managing director and subsequently a managing director of BNP Paribas Peregrine Capital Limited. Mr. Fu is currently engaged in private investment business. He is currently also independent non-executive director of CPMC Holdings Limited (stock code: 906), Guotai Junan International Holdings Limited (stock code: 1788), Postal Savings Bank of China Co., Ltd. (stock code: 1658), China Resources Pharmaceutical Group Limited (stock code: 3320) and COFCO Meat Holdings Limited (stock code: 1610), all listed on the Hong Kong Stock Exchange. Mr. Fu joined the Group in July 2008.

SZE Chi Ching, *Justice of Peace*, aged 77. Mr. Sze obtained an honorary doctorate degree in social sciences from City University of Hong Kong in 2008. He previously served as Hong Kong Affairs Advisor to the State Council, vice chairman of All-China Federation of Industry and Commerce, standing committee member of the Chinese People's Political Consultative Conference of Fujian Province, member of China Trade Advisory Board of Hong Kong Trade Development Council, member of the 8th, 9th, 10th and 11th Committee of Chinese People's Political Consultative Conference; associate director of the Committee for Learning and Cultural and Historical Data of the Committee of the People's Political Consultative Conference; vice chairman of China Civilian Chamber of Commerce. He is currently committee member of China Federation of Literary, consultant of China Calligraphers Association, chairman of Hong Kong Branch of Chinese Calligraphers Association, chairman of the board of Hang Tung Resources Holding Limited, and honorary president of the Hong Kong Fujian Chamber of Commerce. He has been appointed as vice chairman and a visiting professor of Huaqiao University, a part-time professor of the Chinese Department of Xiamen University, consulting professor of Peking University, executive director of the Board of Trustees of Jimei University, etc. Mr. Sze joined the Group in March 2013.

YU Sun Say, *G.B.M., J.P.*, aged 78. Dr. Yu is chairman of the H.K.I. Group of companies, director of a number of manufacturing and investment companies, Independent Non-Executive Director of Tongda Group Holdings Limited (stock code: 698) and Wong's International Holdings Limited (stock code: 99), member of the Standing Committee of the Chinese General Chamber of Commerce, Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong. Dr. Yu was member of the Standing Committee of the Chinese People's Political Consultative Conference as well as member of the Preparatory Committee for the Hong Kong Special Administrative Region and its Hong Kong Affairs Adviser. Dr. Yu joined the Group in March 2014.

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

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

ZHI Xiaoye, aged 49, is Vice President of the Company. Mr. Zhi also serves as General Manager of Beijing Gas Group Company Limited, and Non-Executive Director and Co-Chairman of Beijing Gas Blue Sky Holdings Limited (stock code: 6828). Mr. Zhi graduated from Beijing University of Technology with a 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 48, is Vice President of the Company. Mr. Ke also serves as an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) and Executive Director, Vice Chairman and CEO of Beijing Enterprises Environment Group Limited (stock code: 154). Mr. Ke is a PRC 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 49, 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 54, 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.

SHA Ning, aged 46, is Vice President of the Company. Ms. Sha also serves as an Executive Director and Vice President of Beijing Enterprises Environment Group Limited (stock code: 154). Ms. Sha graduated from the Business Faculty of Heilongjiang University in 1992, majored in Business and Economic Studies, and obtained a second qualification in Foreign Trade Accounting in Beijing School of Business and Capital University of Economics and Business, an EMBA degree from The Hong Kong University of Science and Technology, and the title of PRC Senior Accountant. Ms. Sha has accumulated extensive experience in financial management. Ms. Sha joined the Group in 2001 and has been appointed as Vice President of the Company since January 2017.

REPORT OF THE DIRECTORS

The board of directors (the "Board") of Beijing Enterprises Holdings Limited (the "Company") present their report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016.

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 pages 8 to 19 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 56 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 2016, 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, coal-fire boiler transformation projects with a total capacity of 6,227t/h steam were completed.

The Group also provides a safer and more environmentally-friendly waste incineration for the society. During the year, it completed a waste incineration volume of 7.239 million tons, and waste-to-energy on-grid electricity of 2.385 billion kWh.

REPORT OF THE DIRECTORS

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

REPORT OF THE DIRECTORS

Stakeholders	Topics concerned	Response channel	Effectiveness of communication
Customers	Continuous and stable supply of products High-quality and safe products Considerate and convenient service Smooth communication channels	Customer forums Telephone service hot-line Community services centers Customer satisfaction survey	Continuous improvement on business operation based on customers' feedback Efficient and timely solutions for customers' complaints Continuous improvement on customers service
Business Partner	Fair 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

REPORT OF THE DIRECTORS

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 2016 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 62 to 194.

An interim dividend of HK30 cents per ordinary share was paid on 28 October 2016. The directors of the Company recommended the payment of a final dividend of HK65 cents per share for the year ended 31 December 2016 payable to shareholders on the register of members of the Company on 3 July 2017. 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 18 July 2017.

ANNUAL GENERAL MEETING

The 2017 annual general meeting will be held on Thursday, 22 June 2017. The notice of the 2017 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 2017 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 2017 annual general meeting:

Latest time to lodge transfer documents for registration	4:30 pm on Friday, 16 June 2017
Closure of register of members	Monday, 19 June 2017 to Thursday, 22 June 2017 (both dates inclusive)
Annual General Meeting	Thursday, 22 June 2017

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 pm on Tuesday, 27 June 2017
Closure of register of members	Wednesday, 28 June 2017 to Monday, 3 July 2017 (both dates inclusive)
Record date	Monday, 3 July 2017

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2017 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 2016, 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 2015 is set out on pages 195 to 196. 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 32, 33 and 37 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 19,697,000 ordinary shares of the Company on the Stock Exchange. The shares were subsequently cancelled by the Company. Details of the buy-backs of such ordinary shares are as follows:

Month	Number of shares bought back	Price per share Highest	Lowest	Total consideration paid
		HK$	*HK$*	*HK$*
February	11,697,000	35.35	32.60	397,605,800
May	8,000,000	38.00	38.00	304,000,000

The buy-back of the Company's shares during the year was effected by the directors of the Company, 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 58 to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

At 31 December 2016, 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$1,175,278,000 (2015: HK$1,071,497,000).

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

Independent Non-executive Directors

WU Jiesi
LAM Hoi Ham
FU Tingmei
SZE Chi Ching
SHI Hanmin (resigned on 29 December 2016)
YU Sun Say
MA She (appointed on 29 December 2016)

DIRECTORS OF SUBSIDIARIES

The names of directors of the Company who have served on the boards of the principal subsidiaries of the Company during the financial year ended 31 December 2016 or during the period from 1 January 2017 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 16 March 2016:

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

On 18 October 2016:

– Corporate Governance and Risk Management Committee was re-structured as Investment Committee which 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.

On 29 December 2016:

– Mr. Shi Hanmin resigned as Independent Non-executive Director.

– Mr. Ma She was appointed as Independent Non-executive Director.

During the year under review and up to the date of this report, changes in directors' information required to be disclosed pursuant to Rule 13.51(B) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") are set out as follows:

	Date of Appointment	Date of Resignation
Mr. Jiang Xinhao		
• Beijing Properties (Holdings) Limited *(Note 1)*		
– Executive Director		13 June 2016
Mr. Fu Tingmei		
• Postal Savings Bank of China Co., Ltd. *(Note 2)*		
– Independent Non-executive Director	1 May 2016	
• COFCO Meat Holdings Limited *(Note 3)*		
– Independent Non-executive Director	23 May 2016	
• China Resources Pharmaceutical Group Limited *(Note 4)*		
– Independent Non-executive Director	20 June 2016	

BOARD CHANGES AND CHANGES IN DIRECTORS' INFORMATION *(Continued)*

Note 1: an associated corporation of the Company listed on the Hong Kong Stock Exchange (stock code: 925).

Note 2: a company listed on the Hong Kong Stock Exchange (stock code: 1658).

Note 3: a company listed on the Hong Kong Stock Exchange (stock code: 1610).

Note 4: a company listed on the Hong Kong Stock Exchange (stock code: 3320).

In accordance with articles 98 and 107 of the Company's articles of association and the recommendation of the Board, Messrs. Zhou Si, Li Fucheng, E Meng, Jiang Xinhao, Lam Hoi Ham, Fu Tingmei and Ma She 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 Company are set out on pages 20 to 24 of the annual report.

DIRECTOR'S SERVICE CONTRACT

No director of the Company 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 the Company's 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 54 of the annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS & CONTRACTS

No director of the Company 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 2016, the interests and short positions of the directors and the chief executive of the Company 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 total number of issued shares
Zhou Si	210,500	0.017%
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 of the Company held any interest in any underlying shares of the Company.

(C) LONG POSITIONS IN SHARES OF ASSOCIATED CORPORATIONS

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

@ As at 31 December 2016, all interests in this associated corporations owned by the Company are indirectly held.

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

(D) LONG POSITIONS IN UNDERLYING SHARES OF ASSOCIATED CORPORATIONS

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

Director	Number of share options directly beneficially owned At 1 January 2016	Granted during the period	Exercised during the period	Cancelled during the period	At 31 December 2016	Share options granted on (year/month/day)	Exercise period (year/month/day)	Exercise price per share (HK$)
Zhou Si	7,000,000	–	–	–	7,000,000*	2011/10/28	2011/10/28 – 2021/10/27	0.465
	5,000,000	–	–	–	5,000,000*	2012/06/01	2012/06/01 – 2022/05/31	0.410
	12,000,000	–	–	–	12,000,000*	2013/05/24	2013/05/24 – 2023/05/23	0.574
	24,000,000				24,000,000			
E Meng	5,000,000	–	–	–	5,000,000*	2011/10/28	2011/10/28 – 2021/10/27	0.465
	3,600,000	–	–	–	3,600,000*	2012/06/01	2012/06/01 – 2022/05/31	0.410
	8,600,000				8,600,000			
Jiang Xinhao	5,000,000	–	–	–	5,000,000*	2011/10/28	2011/10/28 – 2021/10/27	0.465
	3,300,000	–	–	–	3,300,000*	2012/06/01	2012/06/01 – 2022/05/31	0.410
	6,000,000	–	–	–	6,000,000*	2013/05/24	2013/05/24 – 2023/05/23	0.574
	4,000,000	–	–	–	4,000,000*	2014/03/31	2014/03/31 – 2024/03/30	0.940
	2,000,000	–	–	–	2,000,000*	2014/08/28	2014/08/28 – 2024/08/27	0.750
	3,000,000	–	–	–	3,000,000*	2015/04/08	2015/04/08 – 2025/04/07	0.720
	23,300,000				23,300,000			

* All share options in Beijing Properties (Holdings) Limited granted to Mr. Zhou Si, Mr. E Meng and Mr. Jiang Xinhao were cancelled on 31 March 2017.

Long positions in share options in Beijing Enterprises Environment Group Limited[@] (a subsidiary of the Company):

Director	Number of share options directly beneficially owned At 1 January 2016	Granted during the period	Exercised during the period	Cancelled during the period	At 31 December 2016	Share options granted on (year/month/day)	Exercise period (year/month/day)	Exercise price per share (HK$)
E Meng	6,770,000	–	–	–	6,770,000	2011/06/21	2011/06/21 – 2021/06/20	1.25
	6,770,000				6,770,000			

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	At 1 January 2016	Granted during the period	Exercised during the period	Cancelled during the period	At 31 December 2016	Share options granted on (year/month/day)	Exercise period (year/month/day)	Exercise price per share (HK$)
Zhou Si	4,000,000	–	–	–	4,000,000	2014/04/16	2017/04/16 – 2019/04/15	12.40
	4,000,000				4,000,000			
Jiang Xinhao	800,000	–	–	–	800,000	2015/06/25	2017/04/16 – 2019/04/15	13.84
	800,000				800,000			

Note:

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

Save as disclosed above, as at 31 December 2016, none of the directors or the chief executive of the Company 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.

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 of the Company 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 2016, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions:

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

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 BE Group. Accordingly, BE 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 total number of issued shares
Shine Power International Limited ("Shine Power")	40,000,000	–	40,000,000	3.17%
BE Group BVI	–	40,000,000*	40,000,000	3.17%
BE Group	–	40,000,000*	40,000,000	3.17%

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

Save as disclosed above, as at 31 December 2016, 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.

REPORT OF THE DIRECTORS

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 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
1 February 2016	Term loan facility with a bank	EUR2,500	September 2017
24 June 2016	Term loan facility with a bank	HK$4,000	June 2021
22 November 2016	Term loan facility with a bank	HK$3,000	November 2021
7 December 2016	Term loan facility with a bank	HK$1,940	December 2021

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 2016.

DONATIONS

The Group's charitable donations during the year amounted to HK$23 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 of the Company, 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 2017

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Saved as disclosed below, the board of Directors (the "Board") of Beijing Enterprises Holdings Limited (the "Company") believe that during the year ended 31 December 2016, 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").

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

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 of the Company (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 2016.

BOARD OF DIRECTORS

Composition and Role

The principal focus of the Board is on the overall strategic development of the Company and its 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).

CORPORATE GOVERNANCE REPORT

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	Remuneration Committee Meeting	Nomination Committee Meeting	~Corporate Governance & Risk Management Committee Meeting	~Investment Committee Meeting	Annual General Meeting	Extraordinary General Meeting
Executive Directors									
Wang Dong	*(Chairman)*	3/4			1/1			0/1	
Hou Zibo	*(Vice Chairman)*	3/4							
Zhou Si	*(Vice Chairman & CEO)*	4/4		1/1		2/2	0/1	1/1	
Li Fucheng	*(Vice Chairman)*	2/4							
Li Yongcheng	*(Vice Chairman)*	4/4							
E Meng	*(Executive Vice President)*	4/4	3/3						
Jiang Xinhao	*(Vice President)*	4/4				2/2	1/1		
Tam Chun Fai	*(CFO & Company Secretary)*	4/4	3/3					1/1	1/1
Independent Non-executive Directors									
Wu Jiesi		4/4	3/3	1/1				1/1	0/1
Lam Hoi Ham		4/4	3/3	1/1	1/1	2/2	1/1	1/1	1/1
Fu Tingmei		4/4	3/3		1/1	2/2	1/1	1/1	1/1
Sze Chi Ching		3/4						0/1	1/1
Shi Hanmin	*(resigned on 29 December 2016)*	4/4						0/1	0/1
Yu Sun Say		4/4				2/2	1/1	0/1	0/1
Ma She	*(appointed on 29 December 2016)*	0/0						0/0	0/0

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

Note ~: On 18 October 2016, the Corporate Governance and Risk Management Committee was restructured to form the Investment Committee.

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
Independent Non-executive Directors		
Wu Jiesi		✓
Lam Hoi Ham		✓
Fu Tingmei		✓
Sze Chi Ching		✓
Shi Hanmin	*(resigned on 29 December 2016)*	✓
Yu Sun Say		✓
Ma She	*(appointed on 29 December 2016)*	N/A

Chairman and Chief Executive Officer

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

BOARD OF DIRECTORS *(Continued)*

Non-executive Directors *(Continued)*

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

Name		Term of Appointment
Wu Jiesi		3 years from 1 April 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 2016
Shi Hanmin	*(resigned on 29 December 2016)*	3 years from 28 March 2016
Yu Sun Say		3 years from 31 March 2017
Ma She	*(appointed on 29 December 2016)*	3 years from 29 December 2016

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 overseeing the Company's financial reporting system, risk management and internal controls systems of the Company. The Company has adopted the written terms of reference which describe the authority and duties of the Audit Committee in accordance with Code Provision C.3.3. A copy of the terms of reference is posted on the Company's website. The Audit Committee meets regularly to review the reporting of financial and other information to shareholders, the effectiveness and objectivity of the audit process. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

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

REMUNERATION COMMITTEE

The current members of the Remuneration Committee are:

Mr. Wu Jiesi – Committee Chairman
Mr. Lam Hoi Ham
Mr. 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 or any of his associate is involved in deciding his own remuneration.

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

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

NOMINATION COMMITTEE

The current members of the Nomination Committee are:

Mr. 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 made recommendations to the Board about the appointment of Mr. Ma She as Independent Non-executive Director to replace Mr. Shi Hanmin who tendered resignation. The Nomination Committee reviewed the composition of the Board and concluded that the composition, experience and balance of skills on the Board were still strong.

CORPORATE GOVERNANCE REPORT

INVESTMENT COMMITTEE

The current members of the Investment Committee are:

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

Formerly known as the Corporate Governance and Risk Management Committee, the Investment Committee was established on 18 October 2016 when the Corporate Governance and Risk Management Committee dissolved upon a re-structuring. The Investment Committee was established with the aims to strengthen the Company's ability in decision making for investments through assessing its major development plans and transactions, etc. The majority of the Investment Committee members are Independent Non-executive Director.

The responsibilities previously placed upon the dismissed Corporate Governance and Risk Management Committee have been delegated to the Board as to formulate and monitor the Company's corporate governance policies, and to the Audit Committee as to oversee the Company's risk management system.

During the year, the Corporate Governance and Risk Management Committee and upon its restructuring, the Investment Committee, assessed important investments of the Group and gave the Board its advice thereon.

AUDITORS' REMUNERATION

During the year ended 31 December 2016, fees paid and payable to the Company's external auditors for audit services were approximately HK$18.6 million; fees paid and payable for non-audit services were approximately HK$8.4 million, which included fees for an agreed-upon procedures engagement in connection with the Group's interim financial report and tax compliance services etc.

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledged responsibility for reviewing the accounts of the Company prepared by the Executive Directors for the year ended 31 December 2016 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.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

Main Features of the Risk Management and Internal Control Systems

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

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

The Group has also established a risk management framework with three lines of defense. Business departments and risk owners manage risks in the front line. The risk management function will coordinate, faciliate and organise risk management activities. The Internal Audit Department of the Group is monitoring and overseeing the internal control effectiveness independently.

Process Used to Identify, Evaluate and Manage Significant Risks

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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

The Internal Audit Department has conducted a review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2016 and reported the review results to the Audit Committee.

The Board has supervised the management in the design, implementation and monitoring of the risk management and internal control systems and evaluated the effectiveness of the Group's risk management and internal control systems during 2016. The yearly review covers all material controls, including financial, operational and compliance controls and the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit and financial reporting functions.

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

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

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

COMPANY SECRETARY

The Executive Director and Chief Financial Officer, Mr. Tam Chun Fai, has been the company secretary of the Company since 1997. Pursuant to Rule 3.29 of the Listing Rules. During the year 2016, 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.

To Make Enquiries to the Board

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

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

SHAREHOLDERS' RIGHTS *(Continued)*

To Put forward Proposals at an 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

During the year ended 31 December 2016, there was no significant change in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 194, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment testing	
Goodwill of the Group arose from acquisition of subsidiaries during the year and in prior years. Management is required to perform a test on goodwill for impairment on an annual basis. This test is largely based on management expectations, assumptions and estimates of future results of the cash-generating units to which the goodwill has been allocated. The assumptions are affected by expectations of future market or economic conditions. The impairment test is based on the recoverable amounts of the relevant cash-generating units, which are compared with their respective carrying values. As at 31 December 2016, the goodwill carried in the Group's financial statements was approximately HK$15,772 million excluding the goodwill included in the assets of disposal groups classified as held for sale. Given the complexity and judgemental nature of the impairment testing, management engaged an independent external valuer to prepare the valuation models to assist with the impairment assessment. Accordingly, this is identified as a key audit matter. The related disclosures are included in notes 3 and 16 to the financial statements.	We assessed the competency and objectivity of the independent external valuer engaged by the Group and involved our internal valuation experts to support us in our audit work. We evaluated management expectations, assumptions and estimates of future results of the cash-generating units used in the valuation models by (i) testing the assumptions used in the cash flow forecasts; (ii) assessing the accuracy of previous forecasts and comparing them with current performance; and (iii) obtaining corroborative evidence to support the growth assumptions. We carried out audit procedures on management's sensitivity calculations. We also assessed the adequacy of the disclosures for the impairment testing in the financial statements, specifically the key assumptions with the most significant effect on the determination of the recoverable amount of the goodwill, such as the discount rate and growth rate.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Purchase price allocation of EEW Group	
In March 2016, the Group acquired the entire equity interest in EEW Group from two independent third parties at a cash consideration of EUR1,453 million. The Group engaged an independent external valuer to assess the fair value of the identifiable assets acquired and liabilities assumed. The Group recognised, inter alia, intangible assets of EUR399 million, fair value adjustment on property, plant and equipment of EUR124 million and goodwill of EUR835 million as a result of the business combination. The accounting for this business combination relied significantly on management estimation and judgements in respect of fair value assessments and the allocation of the purchase price. Because of the significant judgements and estimation, and the materiality of the amounts involved, this is identified as a key audit matter. The related disclosures are included in notes 3 and 45 to the financial statements.	We assessed the competency and objectivity of the independent external valuer engaged by the Group and involved our internal valuation experts to support us in our audit work. We evaluated management's valuation methodologies and assumptions used in the purchase price allocation by (i) comparing them with source and market data used in the underlying assumptions used in the valuation of the assets acquired and liabilities assumed by reference to the results of other comparable companies in the same industry; (ii) evaluating the valuation methodologies adopted in determining the fair value of the identifiable assets acquired and liabilities assumed; and (iii) comparing the business plan prepared by management for the purpose of assessing the assumptions used. Furthermore, we assessed the sensitivity of management's estimates by evaluating the impact to the purchase price allocation within a certain range of the estimates. We also focused on the adequacy of the Group's disclosures of the business combination in the financial statements.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	**How our audit addressed the key audit matter**
Estimation in revenue recognition in relation to piped gas operation	
The recognition of revenue generated from piped gas operation between the date of the last meter reading and the year end depends on the estimated volume of gas sold during the period. The estimation is complex and judgements are involved to determine the unread volume of gas sold to measure revenue. The group's accrued revenue is estimated based on the billed volume from the latest meter reading period, adjusted by the location and nature of customers. The related disclosures are included in note 3 to the financial statements.	We evaluated management's estimation by comparing the subsequent actual bills with accrued revenue. We also performed substantive testing on the source data, control testing on the key control points and reviewed the calculation of accrued revenue. In addition, we performed analytical review on the overall financial performance, including monthly sales analysis by types of customer, gross profit margin analysis and recoverability analysis. We obtained explanations for material differences from our expectation formed with reference to growth of customer base and seasonal factors of current year.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

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

Zhou Si
Director

Tam Chun Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries

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

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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

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

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

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

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

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

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

2.1 BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

   (i) the materiality requirements in HKAS 1;

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

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

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

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

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

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

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

Related parties

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

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

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

Property, plant and equipment and depreciation

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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

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

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

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

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

Investment properties

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

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

Disposal groups held for sale

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

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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

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

Service concession arrangements

Consideration given by the grantor

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

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

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

Construction or upgrade services

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

Operating services

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

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

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

Intangible assets (other than goodwill)

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

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

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

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

Operating concessions

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

Patents

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Operating right

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

Customer contracts

Customer contracts represents the fair value of the economic benefits from several customer service agreements. Amortisation is provided on the straight-line basis over the contract period of 1 to 28 years.

Computer software

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

Research and development costs

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

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

Impairment of non-financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Financial assets at fair value through profit or loss are equity investments held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39. Gains or losses on investments held for trading are recognised in profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other operating expenses in profit or loss. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policies set out in "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(Continued)*

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

(b) Loans and receivables

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

(c) Available-for-sale investments

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment

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

(a) Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Derecognition

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

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

Loans and borrowings

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement (Continued)

Loans and borrowings *(Continued)*

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

Derecognition

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

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

Financial guarantee contracts

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

Offsetting of financial instruments

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

Treasury shares

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts

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

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

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

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

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

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

Contracts for services

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts for services *(Continued)*

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

Cash and cash equivalents

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

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

Provisions

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

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

Onerous contracts

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

Income tax

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

Revenue recognition

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

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

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

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

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

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

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

(g) finance lease income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

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

Other employee benefits

Pension schemes

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Other retirement benefits

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

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

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

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

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

Borrowing costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Business combination

In March 2016, the Group acquired the entire equity interest in EEW Holding GmbH and M+E Holding GmbH & Co. KG ("EEW Group") from two independent third parties at a cash consideration of EUR1,453 million. The assessment of the fair value of the identifiable assets acquired and liabilities assumed and allocation of the purchase price required significant management judgements and estimation.

The Group recognised, inter alia, intangible assets of EUR399 million, fair value adjustment on property, plant and equipment of EUR124 million and goodwill of EUR835 million, details of which is set out in note 45 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less costs to sell of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2016 was HK$15,772,276,000 (2015: HK$8,927,959,000), details of which are set out in note 16 to the financial statements. The carrying amount of goodwill included in disposal group classified as held for sale as at 31 December 2016 was HK$72,824,000 (2015: HK$657,372,000), details of which are set out in note 31 to the financial statements.

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

Estimate of gas consumption

Determination of the revenue generated for the distribution and sale of piped gas between the date of last meter reading and the year end involves an estimation of the gas supplied to customers for whom actual meter reading is not available. The estimation is done mainly based on the past consumption records and the recent consumption pattern of individual customers. The actual consumption could deviate from those estimates.

Associate

The Group regards Beijing Enterprises Water Group Limited ("BE Water", an entity listed on the Hong Kong Stock Exchange with its 43.77% equity interest held by the Group as at 31 December 2016) as an associate. In determining whether the Group has control over BE Water, the Group has taken into account its effective influence it may exercise over the decisions of BE Water's board of directors, including the voting rights held by the Group, the structure of the board of directors and senior management of BE Water and the expertise of directors designated by other shareholders. In the opinion of the directors, the Group did not have the sufficient ability to exercise power to control BE Water throughout the year ended 31 December 2016 and BE Water was accounted for as an associate in the Group's consolidated financial statements.

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

The carrying amounts of items of property, plant and equipment and other intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows or compensation to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2016 were HK$43,427,899,000 (2015: HK$37,735,621,000) and HK$6,022,013,000 (2015: HK$2,533,370,000), respectively, details of which are set out in notes 13, 17 and 18 to the financial statements.

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

Impairment of available-for-sale investments

The Group follows the guidance of HKAS 39 in determining when an investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and the extent to which the estimated value of an investment is less than its cost; and the financial health of and the short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows. The carrying amount of available-for-sale investments carried as assets in the consolidated statement of financial position as at 31 December 2016 was HK$3,171,535,000 (2015: HK$1,012,557,000), details of which are set out in note 23 to the financial statements.

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

The Group's management determines the provision for impairment of receivables under service concession arrangements, trade and bills receivables and other receivables. This estimate is based on the evaluation of collectibility and aged analysis of these receivables and on management's estimation in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been changed. The carrying amounts of receivables under service concession arrangements, trade and bills receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2016 were HK$1,669,102,000 (2015: HK$1,790,765,000), HK$3,677,157,000 (2015: HK$3,544,455,000) and HK$4,847,077,000 (2015: HK$3,418,902,000), respectively, details of which are set out in notes 17, 26 and 27 to the financial statements.

Provision for onerous contracts

Management estimates the provision for onerous contracts being the present obligation of the unavoidable costs less the economic benefits expected to be received under those solid waste treatment service contracts. The expected economic benefits are estimated based on net discounted cash flows generated from solid waste treatment fee, while unavoidable costs are waste processing costs that the Group is obligated to make under the solid waste treatment service contracts.

Management conducted an assessment of the non-cancellable contracts and had a provision of HK$334,150,000 for onerous contracts at 31 December 2016 (note 39).

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

Defined benefit plans

The present value of the retirement benefit obligations under the various defined benefit plans of the Group depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligations. Key assumptions for the obligations are based in part on the current market conditions. The carrying amount of the obligations carried as liabilities in the consolidated statement of financial position under defined benefit plans as at 31 December 2016 was HK$1,647,038,000 (2015: HK$837,704,000), details of which are disclosed in note 38 to the financial statements.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas. The Group carefully evaluates tax implications of transactions in accordance with the prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of income tax payables carried as liabilities in the consolidated statement of financial position as at 31 December 2016 was HK$908,600,000 (2015: HK$494,147,000).

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried in the consolidated statement of financial position as at 31 December 2016 were HK$1,176,529,000 (2015: HK$779,713,000) and HK$2,081,420,000 (2015: HK$480,481,000), respectively, details of which are set out in note 41 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

(d) the solid waste treatment segment comprises the construction and operation of waste incineration plants, waste treatment and the sale of electricity, heat and steam generated from waste incineration in Germany and in the PRC; and

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

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

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

During the year ended 31 December 2016, the Group acquired the entire interests in EEW Group, further details of which are set out in note 45 to the financial statements. EEW Group is principally engaged in the solid waste treatment business which now constitutes a reportable operating segment of the Group.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016

	Piped gas operation HK$'000	Brewery operation HK$'000	Water and environmental operations HK$'000	Solid waste treatment operation HK$'000	Corporate and others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Segment revenue	39,378,983	11,589,905	–	4,929,259	60,687	–	55,958,834
Cost of sales	(35,101,605)	(7,662,523)	–	(3,693,640)	(65,242)	–	(46,523,010)
Gross profit	4,277,378	3,927,382	–	1,235,619	(4,555)	–	9,435,824
Profit from operating activities	2,265,351	541,853	–	855,815	376,388	–	4,039,407
Finance costs	(29,562)	(38,595)	–	(297,342)	(1,126,836)	–	(1,492,335)
Share of profits and losses of:							
Joint ventures	5,251	–	–	–	1,372	–	6,623
Associates	3,413,505	(1,592)	1,412,463	7,147	111,750	–	4,943,273
Profit/(loss) before tax	5,654,545	501,666	1,412,463	565,620	(637,326)	–	7,496,968
Income tax	(362,951)	(219,108)	–	(242,978)	(32,686)	–	(857,723)
Profit/(loss) for the year	5,291,594	282,558	1,412,463	322,642	(670,012)	–	6,639,245
Segment profit/(loss) attributable to shareholders of the Company	5,255,196	64,866	1,412,463	198,373	(695,015)	–	6,235,883
Segment assets	75,369,165	20,943,657	7,689,266	30,552,161	20,956,757	(10,802,245)	144,708,761
Segment liabilities	19,027,517	6,899,377	–	13,072,277	48,472,909	(10,802,245)	76,669,835
Other segment information:							
Reversal of provision for onerous contracts	–	–	–	121,978	–	–	121,978
Interest income	71,814	30,467	–	91,970	27,482	–	221,733
Depreciation	1,343,455	976,170	–	570,165	39,262	–	2,929,052
Amortisation of operating concessions	–	–	–	95,501	–	–	95,501
Amortisation of other intangible assets	24,959	–	–	217,454	2,094	–	244,507
Impairment against segment assets, net*	9,537	7,505	–	96,582	25,507	–	139,131
Investments in joint ventures	219,770	–	–	120,310	5,862	–	345,942
Investments in associates	24,201,749	177,221	7,630,848	68,342	692,994	–	32,771,154
Capital expenditure**	2,986,602	953,232	–	659,488	73,260	–	4,672,582

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015 (restated)

	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Water and environmental operations *HK$'000*	Solid waste treatment operations *HK$'000*	Corporate and others *HK$'000*	Inter–segment elimination *HK$'000*	Consolidated *HK$'000*
Segment revenue	43,946,315	14,069,445	–	2,055,370	78,815	–	60,149,945
Cost of sales	(39,737,004)	(9,574,879)	–	(1,759,611)	(27,403)	–	(51,098,897)
Gross profit	4,209,311	4,494,566	–	295,759	51,412	–	9,051,048
Profit from operating activities	2,085,964	761,446	–	332,565	51,833	–	3,231,808
Finance costs	(102,379)	(79,752)	–	(138,533)	(981,199)	–	(1,301,863)
Share of profits and losses of:							
Joint ventures	(4,191)	–	–	–	4,008	–	(183)
Associates	3,374,838	6,259	1,077,087	–	249,928	–	4,708,112
Profit/(loss) before tax	5,354,232	687,953	1,077,087	194,032	(675,430)	–	6,637,874
Income tax	(271,912)	(241,260)	–	(34,303)	(134,486)	–	(681,961)
Profit/(loss) for the year	5,082,320	446,693	1,077,087	159,729	(809,916)	–	5,955,913
Segment profit/(loss) attributable to shareholders of the Company	5,065,227	142,520	1,077,087	97,117	(714,573)	–	5,667,378
Segment assets	71,097,885	22,246,260	7,565,313	16,035,078	11,692,116	(3,870,612)	124,766,040
Segment liabilities	16,663,896	7,174,547	–	11,958,815	24,187,224	(3,870,612)	56,113,870
Other segment information:							
Interest income	40,567	27,184	–	71,567	23,747	–	163,065
Depreciation	1,390,217	1,100,739	–	44,006	38,851	–	2,573,813
Amortisation of operating concessions	–	–	–	68,124	16,214	–	84,338
Amortisation of other intangible assets	26,019	–	–	1,477	10,084	–	37,580
Impairment against segment assets, net*	197,504	12,772	–	–	204,528	–	414,804
Write down to fair value less cost to sell for a disposal group held for sale	–	–	–	–	231,416	–	231,416
Investments in joint ventures	186,757	–	–	–	5,894	–	192,651
Investments in associates	23,202,366	196,406	7,483,795	24,300	692,532	–	31,599,399
Capital expenditure**	3,153,611	731,320	–	165,378	384,478	–	4,434,787

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

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

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

(b) Non-current assets

	2016	2015
	HK$'000	*HK$'000*
Mainland China	**75,253,522**	75,014,754
Germany	**9,837,156**	–
Elsewhere	**139,526**	128,577
	85,230,204	75,143,331

The non-current assets information above is based on the locations of the assets and excludes goodwill, financial instruments and deferred tax assets.

Information about major customers

During each of the years ended 31 December 2016 and 2015, none of the Group's individual customers contributed to 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS, NET

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

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

	2016 HK$'000	2015 HK$'000 (restated)
Revenue		
Piped gas operation	**39,378,983**	43,946,315
Brewery operation	**11,589,905**	14,069,445
Solid waste treatment operation	**4,929,259**	2,055,370
Corporate and others	**60,687**	78,815
	55,958,834	60,149,945

	Notes	2016 HK$'000	2015 HK$'000
Other income			
Bank interest income		**221,733**	163,065
Rental income		**61,050**	81,057
Government grants*		**200,236**	213,046
Transfer of assets from customers	*13*	**63,719**	40,325
Income from forfeiture of deposit received		**–**	77,500
Others		**726,943**	361,538
		1,273,681	936,531
Gains, net			
Fair value gain on investment properties	*14*	**–**	479,798
Gain on disposal of subsidiaries	*46*	**350,209**	–
Gain on disposal of available-for-sale investments carried at fair value, net		**–**	20,617
Foreign exchange differences, net		**–**	27,224
		350,209	527,639
Other income and gains, net		**1,623,890**	1,464,170

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

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2016 HK$'000	2015 HK$'000
Cost of inventories sold****		**45,412,928**	49,145,605
Cost of services provided		**938,109**	1,868,954
Depreciation	*13*	**2,929,052**	2,573,813
Amortisation of prepaid land premiums	*15*	**56,609**	65,759
Amortisation of operating concessions*	*17*	**95,501**	84,338
Amortisation of other intangible assets**	*18*	**244,507**	37,580
Research and development expenditure***		**87,004**	84,612
Loss on disposal of items of property, plant and equipment, net		**7,941**	8,523
Loss on disposal of prepaid land premiums		**6,906**	–
Minimum lease payments under operating leases		**240,756**	248,232
Auditors' remuneration		**12,708**	8,800
Employee benefit expense (including directors' remuneration – note 8):			
Salaries, allowances and benefits in kind		**5,380,080**	5,263,974
Net pension scheme contributions		**660,552**	635,174
Net benefit expense of defined benefit plans**	*38(a)*	**185,529**	72,162
		6,226,161	5,971,310
Foreign exchange difference, net		**44,683**	(27,224)
Impairment of items of property, plant and equipment***	*13*	**5,214**	155,832
Fair value loss on derivative component of convertible bond receivables***	*22*	**37,546**	–
Impairment of operating concession***	*17*	**81,535**	189,645
Write down to fair value less cost to sell for a disposal group held for sale ***	*31(a)*	**–**	231,416
Impairment of investment in an associate***	*31(c)*	**–**	76,478
Provision/(reversal of provision) for impairment of trade and bills receivables, net	*26(d)*	**32,089**	(23,765)
Impairment of other receivables, net***	*27(b)*	**20,293**	16,614
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**33,553**	46,230
Reversal of provision for onerous contracts*	*39*	**(121,978)**	–

* *These items are included in "Cost of sales" on the face of the consolidated statement of profit or loss.*

** *These items are included in "Administrative expenses" on the face of the consolidated statement of profit or loss, except for an amortisation of other intangible assets of HK$198,450,000 is included in "Cost of sales".*

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

**** *The "Cost of sales" amount on the face of the consolidated statement of profit or loss included government grants of HK$463,058,000 (2015: Nil) credited to profit or loss during this year ended 31 December 2016. The government grants represented government subsidies for the purchase of liquefied natural gas and are unconditional.*

7. FINANCE COSTS

	Notes	2016 HK$'000	2015 HK$'000
Interest on bank loans and other loans		**612,047**	537,247
Interest on guaranteed bonds and senior notes		**878,329**	767,022
Interest on convertible bonds	37	**–**	438
Total interest expenses		**1,490,376**	1,304,707
Increase in discounted amounts of provision for major overhauls arising from the passage of time	39	**1,959**	–
Total finance costs		**1,492,335**	1,304,707
Less: Interest included in construction in progress		**–**	(2,844)
		1,492,335	1,301,863

8. DIRECTORS' REMUNERATION

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

	2016 HK$'000	2015 HK$'000
Fees	**2,869**	2,720
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**16,245**	17,559
Pension scheme contributions	**29**	29
	16,274	17,588
	19,143	20,308

8. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2016				
Executive directors:				
Mr. Wang Dong	180	3,496	–	3,676
Mr. Hou Zibo	180	2,819	–	2,999
Mr. Zhou Si	180	2,880	–	3,060
Mr. Li Fucheng	400	–	–	400
Mr. Li Yongcheng	174	–	–	174
Mr. E Meng	150	2,514	–	2,664
Mr. Jiang Xinhao	150	2,443	–	2,593
Mr. Tam Chun Fai	150	2,093	29	2,272
	1,564	16,245	29	17,838
Independent non-executive directors:				
Mr. Wu Jiesi	261	–	–	261
Mr. Lam Hoi Ham	261	–	–	261
Mr. Fu Tingmei	261	–	–	261
Mr. Sze Chi Ching	261	–	–	261
Mr. Shi Hanmin*	–	–	–	–
Dr. Yu Sun Say	261	–	–	261
Mr. Ma She*	–	–	–	–
	1,305	–	–	1,305
Total directors' remuneration	2,869	16,245	29	19,143

8. DIRECTORS' REMUNERATION *(Continued)*

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

Mr. Shi Hanmin waived to receive any remuneration from the Company for the years ended 31 December 2016 and 2015. Save as disclosed above, there was no agreement under which a director waived or agreed to waive any remuneration during the year.

* Mr. Shi Hanmin resigned as an independent non-executive director of the Company with effect from 29 December 2016. Mr. Ma She was appointed as an independent non-executive director of the Company with effect from 29 December 2016.

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9. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees of the Group during each of the years ended 31 December 2016 and 2015 are directors of the Company, details of whose remuneration for the years are set out in note 8 to the financial statements.

10. INCOME TAX

	Note	**2016** ***HK$'000***	2015 *HK$'000*
Current:			
Mainland China		**829,380**	672,620
Hong Kong		**9,088**	4,996
Germany		**313,868**	–
Deferred	*41*	**(294,613)**	4,345
Total tax expense for the year		**857,723**	681,961

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year (2015: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries established in Mainland China are entitled to PRC corporate income tax exemptions and reductions.

10. INCOME TAX *(Continued)*

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

2016

	Hong Kong		Mainland China		Germany		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	924,476		6,020,300		552,192		7,496,968	
Tax expense at the statutory tax rate	152,544	16.5	1,505,079	25.0	165,658	30.0	1,823,281	24.3
Lower tax rate for specific provinces or enacted by local authority	–	–	(536,435)	(8.9)	–	–	(536,435)	(7.2)
Profits and losses attributable to joint ventures and associates	(330,867)	(35.8)	(448,401)	(7.4)	–	–	(779,268)	(10.4)
Income not subject to tax	(39,078)	(4.2)	(159,892)	(2.7)	(52,353)	(9.5)	(251,323)	(3.4)
Expenses not deductible for tax	226,489	24.5	69,882	1.2	77,186	14.0	373,557	5.0
Withholding tax on the distributable profits of the Group's PRC subsidiaries	–	–	4,309	0.1	–	–	4,309	0.1
Tax losses not recognised as deferred tax assets	–	–	223,602	3.7	–	–	223,602	3.0
Tax expense at the Group's effective tax rate	9,088	1.0	658,144	10.9	190,491	34.5	857,723	11.4

10. INCOME TAX *(Continued)*

2015

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

The share of tax attributable to joint ventures and associates amounting to HK$8,252,000 (2015: HK$1,906,000) and HK$1,601,453,000 (2015: HK$1,547,333,000), respectively, is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

	2016	2015
	HK$'000	*HK$'000*
Interim – HK$0.30 (2015: HK$0.30) per ordinary share	**378,646**	385,305
Proposed final – HK$0.65 (2015: HK$0.65) per ordinary share	**820,400**	833,853
	1,199,046	1,219,158

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of ordinary shares of 1,266,544,776 (2015:1,283,912,186) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2016 and 2015.

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13. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and buildings HK$'000	Leasehold improvements HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000 (note (a))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2016									
At 1 January 2016:									
Cost		12,626,208	104,705	17,623,372	19,126,131	1,131,125	812,920	5,003,314	56,427,775
Accumulated depreciation and impairment		(2,746,410)	(22,283)	(4,245,444)	(10,261,471)	(666,796)	(470,317)	(279,433)	(18,692,154)
Net carrying amount		9,879,798	82,422	13,377,928	8,864,660	464,329	342,603	4,723,881	37,735,621
Net carrying amount:									
At 1 January 2016		9,879,798	82,422	13,377,928	8,864,660	464,329	342,603	4,723,881	37,735,621
Acquisition of subsidiaries	45	1,145,526	202,578	–	5,870,530	46,662	–	41,918	7,307,214
Additions		120,956	2,887	103,304	391,988	65,113	39,392	3,539,903	4,263,543
Transfer of assets from customers	5	–	–	32,477	31,242	–	–	–	63,719
Transfer from construction in progress		1,055,140	–	1,547,566	544,802	17,331	–	(3,164,839)	–
Depreciation provided during the year	6	(477,021)	(1,898)	(805,639)	(1,480,414)	(102,339)	(61,741)	–	(2,929,052)
Impairment during the year recognised in profit or loss	6	–	–	–	(4,693)	(455)	(66)	–	(5,214)
Transfer from assets of disposal groups classified as held for sale		46,965	–	68,645	12,235	897	408	–	129,150
Disposals		(39,313)	(1,804)	–	(23,540)	(1,926)	(1,657)	(88,590)	(156,830)
Exchange realignment		(757,542)	(11,722)	(933,921)	(904,686)	(23,161)	(21,603)	(327,617)	(2,980,252)
At 31 December 2016		10,974,509	272,463	13,390,360	13,302,124	466,451	297,336	4,724,656	43,427,899
At 31 December 2016:									
Cost		14,836,202	294,999	18,140,502	30,835,060	1,294,320	778,133	4,986,197	71,165,413
Accumulated depreciation and impairment		(3,861,693)	(22,536)	(4,750,142)	(17,532,936)	(827,869)	(480,797)	(261,541)	(27,737,514)
Net carrying amount		10,974,509	272,463	13,390,360	13,302,124	466,451	297,336	4,724,656	43,427,899

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

	Notes	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000 (note (a))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2015									
At 1 January 2015:									
Cost		12,620,072	104,965	17,962,726	18,082,715	1,131,266	865,789	5,711,228	56,478,761
Accumulated depreciation and impairment		(2,546,834)	(20,466)	(3,829,816)	(9,538,500)	(616,846)	(458,049)	(147,720)	(17,158,231)
Net carrying amount		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530
Net carrying amount:									
At 1 January 2015		10,073,238	84,499	14,132,910	8,544,215	514,420	407,740	5,563,508	39,320,530
Acquisition of subsidiaries	45	15,106	–	42,837	22,750	5,224	2,619	23,269	111,805
Additions		146,749	462	76,535	219,994	53,461	36,872	3,429,125	3,963,198
Transfer of assets from customers	5	–	–	20,911	19,414	–	–	–	40,325
Transfer from construction in progress		760,383	–	1,102,874	1,968,940	7,914	4,935	(3,845,046)	–
Fair value gain on revaluation of a building upon transfer to investment properties		29,685	–	–	–	–	–	–	29,685
Transferred to investment properties	14	(57,091)	–	–	–	–	–	–	(57,091)
Depreciation provided during the year	6	(400,546)	(2,346)	(715,986)	(1,291,018)	(94,338)	(69,579)	–	(2,573,813)
Impairment during the year recognised in profit or loss	6	–	–	–	–	–	–	(155,832)	(155,832)
Transfer to assets of disposal groups classified as held for sale		(174,093)	–	(595,555)	(114,354)	(6,055)	(14,643)	(47,503)	(952,203)
Disposals		(21,560)	–	(442)	(61,707)	(126)	(7,717)	–	(91,552)
Exchange realignment		(492,073)	(193)	(686,156)	(443,574)	(16,171)	(17,624)	(243,640)	(1,899,431)
At 31 December 2015		9,879,798	82,422	13,377,928	8,864,660	464,329	342,603	4,723,881	37,735,621
At 31 December 2015:									
Cost		12,626,208	104,705	17,623,372	19,126,131	1,131,125	812,920	5,003,314	56,427,775
Accumulated depreciation and impairment		(2,746,410)	(22,283)	(4,245,444)	(10,261,471)	(666,796)	(470,317)	(279,433)	(18,692,154)
Net carrying amount		9,879,798	82,422	13,377,928	8,864,660	464,329	342,603	4,723,881	37,735,621

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

Notes:

(a) At 31 December 2015, plant and machinery of the Group situated in Mainland China with a net carrying amount of HK$77,381,000 were pledged to secure bank loans granted to the Group (note 35(c)(ii)).

(b) At 31 December 2016, land of the Group situated in Germany with a net carrying amount of HK$106,312,000 (2015: Nil) were pledged to secure bank loans granted to the Group (note 35(c)(iii)).

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

14. INVESTMENT PROPERTIES

	Notes	**2016** ***HK$'000***	2015 *HK$'000*
Carrying amount at 1 January		**1,194,258**	703,749
Transfer from property, plant and equipment	*13*	**–**	57,091
Net gain from a fair value adjustment	*5*	**–**	479,798
Exchange realignment		**(60,968)**	(46,380)
Carrying amount at 31 December		**1,133,290**	1,194,258

Notes:

(a) The investment properties are leased to third parties under operating leases. Further details are included in note 49 (a) to the financial statements.

(b) At 31 December 2016, the investment properties were revalued based on valuations performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, using investment method and direct comparison method. No fair value gain was recognised on the Group's investment properties during the year ended 31 December 2016 (2015: HK$479,798,000).

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

14. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

Fair value hierarchy disclosure

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

	Fair value measurement using significant unobservable inputs (Level 3)	
	2016	2015
	HK$'000	*HK$'000*
Recurring fair value measurement for:		
Office buildings	**1,133,290**	1,194,258

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

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil). The definitions of Level 1, Level 2 and Level 3 are explained under the heading of "Fair value measurement" in note 2.4 to the financial statements.

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

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

	Valuation techniques*	Significant unobservable inputs	Range or weighted average	
			2016	2015
Office buildings	Investment method and direct comparison method	Estimated rental value per square metre and per month (HK$)	**79 to 389**	85 to 386
		Capitalisation rate	**8% to 8.5%**	8% to 8.5%
		Price per square metre (HK$)	**8,909 to 49,302**	8,327 to 52,189

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

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

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

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15. PREPAID LAND PREMIUMS

	Note	**2016** **HK$'000**	2015 HK$'000
Carrying amount at 1 January		**1,933,254**	2,004,100
Additions		**25,713**	90,958
Disposal		**(219,855)**	–
Amortisation provided during the year	*6*	**(56,609)**	(65,759)
Exchange realignment		**(116,226)**	(96,045)
Carrying amount at 31 December		**1,566,277**	1,933,254
Portion classified as current assets		**(36,371)**	(45,222)
Non-current portion		**1,529,906**	1,888,032

16. GOODWILL

	Note	**2016** **HK$'000**	2015 HK$'000
Cost and net carrying amount:			
At 1 January		**8,927,959**	8,899,765
Acquisition of subsidiaries	*45*	**7,213,937**	143,171
Transfer to assets of disposal groups held for sale		**–**	(78,026)
Exchange realignment		**(369,620)**	(36,951)
At 31 December		**15,772,276**	8,927,959

16. GOODWILL *(Continued)*

Impairment testing of goodwill

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

	Notes	2016 HK$'000	2015 HK$'000
Piped gas operation	*(i)*	**6,998,880**	7,006,013
Brewery operation	*(ii)*	**449,053**	481,128
Solid waste treatment operation	*(iii)*	**8,256,812**	1,368,697
Others		**67,531**	72,121
		15,772,276	8,927,959

Notes:

(i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections is 10.6% (2015: 10%), which is determined by reference to average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% (2015: 3%) is used for the perpetual period.

(ii) Goodwill attributable to the brewery operation mainly arose from the Group's investments in Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), the recoverable amount of which was determined on the fair value less costs to sell basis by reference to the market value of the shares of Yanjing Brewery held by the Group (as categorised within Level 1 of the fair value hierarchy) as at 31 December 2016.

(iii) Goodwill attributable to the solid waste treatment operation mainly arose from the Group's investment in EEW (as defined in note 1 to the financial statements) and Golden State Waste Management Corporation ("GSWM"), which was acquired by the Group in March 2016 and December 2014, respectively.

The recoverable amounts of the solid waste treatment operation in Germany has been determined by reference to business valuations performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial forecasts approved by the senior management.

The recoverable amounts of the solid waste treatment operation in the PRC has been determined based on value in use calculation using cash flow projections which are based on financial forecast prepared by the management.

The financial forecast of EEW adopted the assumptions that the scale of the operation remains constant perpetually and the operation can generate cash flows perpetually from the relating solid waste treatment projects. The discount rate applied to the cash flow projections is 9%, which is determined by reference to average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% is used for the perpetual period.

The financial forecast of GSWM adopted the assumptions that the scale of the operation remains constant perpetually and the operation can generate cash flows perpetually from the relating solid waste treatment projects. The discount rate applied to the cash flow projections is 10.2% (2015: 10.7%), which is determined by reference to average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% is used for the perpetual period (2015: 2.5% for the concession period).

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2016 (2015: Nil). Details of the impairment testing of goodwill in respect of disposal groups classified as held for sale are set out in note 31(a) to the financial statements.

Key assumptions used in value in use calculation

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

Piped gas operation

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

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

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

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

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

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in value in use calculation (Continued)

Solid waste treatment operation

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

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

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

- Business environment
  There will be no major changes in the existing political, legal and economic conditions in Germany and Mainland China.

17. SERVICE CONCESSION ARRANGEMENTS

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

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Operating concessions

	Notes	**2016** ***HK$'000*** *(note (a))*	2015 *HK$'000* *(note (a))*
At 1 January:			
Cost		**3,891,890**	3,671,935
Accumulated amortisation and impairment		**(1,641,364)**	(1,412,808)
Net carrying amount		**2,250,526**	2,259,127
Net carrying amount:			
At 1 January		**2,250,526**	2,259,127
Additions		**722,140**	386,227
Amortisation provided during the year	*6*	**(95,501)**	(84,338)
Impairment	*6*	**(81,535)**	(189,645)
Exchange realignment		**(129,580)**	(120,845)
At 31 December		**2,666,050**	2,250,526
At 31 December:			
Cost		**4,299,346**	3,891,890
Accumulated amortisation and impairment		**(1,633,296)**	(1,641,364)
Net carrying amount		**2,666,050**	2,250,526

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2016 HK$'000	2015 HK$'000
Receivables under service concession arrangements attributable to solid waste treatment operation *(notes (a)(i) and (b))*	**1,669,102**	1,790,765
Portion classified as current assets	**(70,673)**	(135,675)
Non-current portion	**1,598,429**	1,655,090

Notes:

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

(i) At 31 December 2016, the Group had 9 (2015: 9) service concession arrangements on solid waste treatment with certain governmental authorities in Mainland China.

At 31 December 2016, certain solid waste treatment operation concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate net carrying amount of HK$618,648,000 (2015: HK$1,163,953,000) were pledged to secure certain bank loans granted to the Group (note 35(c)(i)).

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

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

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

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (Continued)

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

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

	2016	2015
	HK$'000	*HK$'000*
Billed:		
Within one year	**21,969**	29,568
Unbilled	**1,647,133**	1,761,197
	1,669,102	1,790,765
Portion classified as current assets	**(70,673)**	(135,675)
Non-current portion	**1,598,429**	1,655,090

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

	2016	2015
	HK$'000	*HK$'000*
Less than one year past due	**21,969**	29,568

18. OTHER INTANGIBLE ASSETS

	Notes	Patents HK$'000	Operating right HK$'000	Computer software HK$'000	Customer contracts HK$'000	Total HK$'000
Year ended 31 December 2016						
At 1 January 2016:						
Cost		52,491	80,576	280,942	–	414,009
Accumulated amortisation		(1,055)	(4,660)	(125,450)	–	(131,165)
Net carrying amount		51,436	75,916	155,492	–	282,844
Net carrying amount:						
At 1 January 2016		51,436	75,916	155,492	–	282,844
Acquisition of subsidiaries	45	–	–	11,254	3,447,018	3,458,272
Additions		–	–	70,142	–	70,142
Amortisation provided during the year	6	(2,094)	(3,444)	(40,519)	(198,450)	(244,507)
Exchange alignment		(735)	(13,387)	(11,349)	(185,317)	(210,788)
At 31 December 2016		48,607	59,085	185,020	3,063,251	3,355,963
At 31 December 2016:						
Cost		49,866	66,050	389,193	3,251,535	3,756,644
Accumulated amortisation		(1,259)	(6,965)	(204,173)	(188,284)	(400,681)
Net carrying amount		48,607	59,085	185,020	3,063,251	3,355,963

18. OTHER INTANGIBLE ASSETS *(Continued)*

	Notes	Patents *HK$'000*	Operating right *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
Year ended 31 December 2015					
At 1 January 2015:					
Cost		55,116	84,605	192,124	331,845
Accumulated amortisation		(851)	(2,355)	(91,661)	(94,867)
Net carrying amount		54,265	82,250	100,463	236,978
Net carrying amount:					
At 1 January 2015		54,265	82,250	100,463	236,978
Acquisition of subsidiaries	*45*	–	–	44,014	44,014
Additions		–	–	85,362	85,362
Transfer to assets of disposal groups classified as held for sale		–	–	(34,080)	(34,080)
Amortisation provided during the year	*6*	(2,094)	(3,444)	(32,042)	(37,580)
Exchange alignment		(735)	(2,890)	(8,225)	(11,850)
At 31 December 2015		51,436	75,916	155,492	282,844
At 31 December 2015:					
Cost		52,491	80,576	280,942	414,009
Accumulated amortisation		(1,055)	(4,660)	(125,450)	(131,165)
Net carrying amount		51,436	75,916	155,492	282,844

19. INTERESTS IN JOINT VENTURES

	Notes	2016 HK$'000	2015 HK$'000
Investments in joint ventures, included in non-current assets:			
Share of net assets	*(a)*	**345,942**	192,651
Due from joint ventures, included in current assets	*27*	**179,916**	78,571
Interests in joint ventures		**525,858**	271,222

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

	2016 HK$'000	2015 HK$'000
Share of the joint ventures' profit/(loss) and total comprehensive income/(loss) for the year	**6,623**	(183)
Share of net assets of the joint ventures recognised by the Group	**345,942**	192,651

20. INTERESTS IN ASSOCIATES

	Notes	2016 HK$'000	2015 HK$'000
Investments in associates, included in non-current assets:			
Share of net assets	*(b)*	**24,528,386**	23,690,025
Investment deposits		**204,916**	219,552
Goodwill on acquisition	*(b), (c)*	**8,037,852**	7,689,822
		32,771,154	31,599,399

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

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

Company name	Place of incorporation/ registration and business	Particulars of issued shares held	Percentage of: Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activities
中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas")	PRC/ Mainland China	Issued capital	40	40	40	Provision of natural gas transmission services
BE Water[π]	Bermuda/ Hong Kong	Ordinary shares	43.77	43.77	43.77	Sewage treatment, reclaimed water treatment, water distribution and construction services
China Gas Holdings Limited ("China Gas")[Ω]	Bermuda/ Hong Kong	Ordinary shares	22.95	22.95	22.95	Distribution and sale of piped natural gas, sale of liquefied petroleum gas and gas connection

π BE Water is a listed company on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of BE Water held by the Group as at 31 December 2016, based on its then quoted market price, amounted to approximately HK$19,733,601,000 (2015: HK$20,766,285,000).

During the year ended 31 December 2016, the Group's equity interest in BE Water was diluted from 43.84% to 43.77% upon the (i) exercise of 34,214,000 share options by certain option holders of BE Water, resulting in the issue of 34,214,000 ordinary shares and a gain on deemed disposal of HK$4,387,000 was recognised by the Group; and (ii) repurchase and cancellation of 19,296,000 ordinary shares by BE Water.

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

Ω China Gas is a listed company on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of China Gas held by the Group as at 31 December 2016, based on its then quoted market price, amounted to approximately HK$11,771,135,000 (2015: HK$12,598,073,000).

During the year ended 31 December 2016, the Group's equity interest in China Gas increased from 22.7% to 22.95% upon the repurchase and cancellation of 24,958,000 ordinary shares by China Gas.

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

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures

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

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

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

(iii) China Gas, which is an investment holding company and majority of its subsidiaries are principally engaged in the distribution and sale of piped natural gas, sale of liquefied petroleum gas, and gas connection in the PRC.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

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

	PetroChina Beijing Gas		BE Water		China Gas*	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current assets	**3,370,266**	651,815	**21,974,889**	18,153,002	**13,245,609**	13,300,586
Non-current assets	**36,288,129**	32,943,386	**59,072,381**	46,338,746	**42,283,127**	39,044,038
Current liabilities	**(11,504,512)**	(3,376,381)	**(20,614,591)**	(17,772,851)	**(21,024,203)**	(17,602,395)
Non-current liabilities	**(760,471)**	(2,124,314)	**(33,665,339)**	(26,428,482)	**(13,261,840)**	(13,758,503)
Net assets	**27,393,412**	28,094,506	**26,767,340**	20,290,415	**21,242,693**	20,983,726
Less: Non-controlling interests	**(8,548)**	(8,008)	**(10,266,198)**	(4,106,582)	**(3,216,298)**	(3,070,536)
Net assets attributable to shareholders of the associates	**27,384,864**	28,086,498	**16,501,142**	16,183,833	**18,026,395**	17,913,190
Reconciliation to the Group's investments in the associates						
Proportion of the Group's ownership	**40%**	40%	**43.77%**	43.84%	**22.95%**	22.70%
Group's share of net assets of the associates, excluding goodwill recognised by the Group	**10,953,946**	11,234,599	**7,222,550**	7,094,992	**4,136,716**	4,065,794
Goodwill on acquisition recognised by the Group	**–**	–	**443,586**	424,091	**7,341,288**	7,264,039
Other reconciling items	**–**	–	**(35,288)**	(35,288)	**–**	–
Carrying amount of the investments	**10,953,946**	11,234,599	**7,630,848**	7,483,795	**11,478,004**	11,329,833

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

	PetroChina Beijing Gas		BE Water		China Gas*	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other disclosures						
Revenues	**13,304,730**	13,738,316	**17,354,833**	13,502,957	**28,169,177**	30,239,778
Profit for the year	**6,979,458**	6,830,564	**3,672,982**	2,769,793	**3,146,126**	3,456,489
Profit for the year attributable to shareholders of the associates	**6,978,362**	6,828,268	**3,227,013**	2,455,370	**2,660,777**	2,903,939
Other comprehensive loss for the year	**–**	–	**(2,665,141)**	(1,657,851)	**(1,007,701)**	(411,042)
Other comprehensive loss for the year attributable to shareholders of the associates	**–**	–	**(2,009,564)**	(1,404,594)	**(736,722)**	(330,587)
Share of the associates' profit for the year	**2,791,345**	2,731,309	**1,412,463**	1,077,087	**588,405**	656,286
Share of the associates' other comprehensive loss for the year	**–**	–	**(879,586)**	(615,733)	**(169,604)**	(75,153)
Dividend received/receivable by the Group	**2,314,856**	2,074,765	**420,671**	351,842	**219,908**	182,374

* The financial statements of China Gas used in applying the equity method for the year ended 31 December 2016 are as of 30 September 2016 or for twelve months ended 30 September 2016 which is not coterminous with that of the Company's financial year end date because the statutory financial year-end date of this associate is 31 March. The financial statements for the twelve months ended 30 September 2016 are the most updated financial statements of China Gas available for equity accounting by the Group.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

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

	2016	2015
	HK$'000	*HK$'000*
Share of the associates' profit and total comprehensive income for the year	**151,060**	243,430
Share of net assets of the associates, excluding goodwill recognised by the Group	**2,250,462**	1,329,928
Goodwill on acquisition recognised by the Group	**252,978**	1,692

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

	2016	2015
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**7,689,822**	7,601,527
Acquisition of associates or additional interests in associates	**348,143**	88,666
Exchange realignment	**(113)**	(371)
At 31 December	**8,037,852**	7,689,822

21. FINANCE LEASE RECEIVABLES

One of the Group's solid waste treatment plants in Germany are leased out under finance lease and has remaining lease term of 7.5 years.

	Minimum lease payment		Present value of minimum lease payment	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance lease receivables comprises:				
Within one year	**140,665**	–	**135,477**	–
In the second year	**139,925**	–	**125,616**	–
In the third to fifth years, inclusive	**388,937**	–	**303,653**	–
After five years	**686,011**	–	**419,415**	–
Total minimum finance lease receivables	**1,355,538**	–	**984,161**	–
Less: unearned finance income	**(371,377)**	–		
Total net finance lease receivables	**984,161**	–		
Portion classified as current assets	**(135,477)**	–		
Non-current portion	**848,684**	–		

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22. DEBT AND DERIVATIVE COMPONENTS OF CONVERTIBLE BONDS RECEIVABLES

On 11 May 2016, pursuant to the convertible bond agreement (the "CB Agreement") dated 5 January 2016 entered into between Beijing Gas, a wholly-owned subsidiary of the Company, and Blue Sky Power Holdings Limited ("Blue Sky"), a company listed on the Main Board of the Hong Kong Stock Exchange (Stock code: 6828). Beijing Gas subscribed the convertible bonds issued by Blue Sky with an aggregate principal amount of HK$350,000,000 and an initial conversion price of HK$0.45 per share (equivalent to 777,777,777 ordinary shares). The convertible bonds bore interest at 4.5% per annum and had a maturity of three years. Blue Sky is principally engaged in sale and distribution of natural gas and other related products in the PRC and is an associate of the Group acquired on the same date.

The convertible bonds were bifurcated into debt and derivative components for accounting purpose. The Group classified the debt component as loans and receivables and the derivative component was deemed as held for trading and recognised at fair value through profit or loss on initial recognition with changes in fair value recognised in profit or loss subsequently.

On 30 December 2016, the Group had exercised its conversion option and converted an aggregate principal amount of HK$220,000,000 to 488,888,889 ordinary shares of Blue Sky at the conversion price of HK0.45 per share. The remaining aggregate principal amount of the convertible bonds receivables was HK$130,000,000 as at 31 December 2016.

As at 31 December 2016, the carrying amount of debt component of convertible bond receivables amounted to HK$83,107,000.

The fair value of the derivative component of convertible bonds as at 31 December 2016 amounted to HK$40,376,000 and was determined by the directors of the Company with reference to the valuation performed by independent qualified valuers, Crowe Horwath (HK) Consulting & Valuation Limited. The changes in the fair value of the derivative component of convertible bond amounting to HK$37,546,000 were charged to profit or loss during the year.

In the opinion of the directors, since the financial impact of the derivative component of convertible bond receivables is insignificant, information in respect of the valuation techniques, assumptions and key inputs to the valuation of this instrument is not disclosed in the financial statements.

23. AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
	HK$'000	*HK$'000*
Listed equity investments, at fair value	**517,753**	584,721
Unlisted equity investments, at cost	**2,665,140**	439,194
Impairment	**(11,358)**	(11,358)
	3,171,535	1,012,557

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

24. INVENTORIES

	2016	2015
	HK$'000	*HK$'000*
Raw materials	**4,061,085**	3,832,704
Work in progress	**480,664**	383,687
Finished goods	**411,200**	427,808
	4,952,949	4,644,199

25. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	2016 HK$'000	2015 HK$'000
Amounts due from contract customers:		
Non-current portion	9,943	388,771
Current portion	23,335	39,623
	33,278	428,394
Amounts due to contract customers	(322,684)	(329,589)
	(289,406)	98,805
Contract costs incurred plus recognised profits less recognised losses to date	538,512	868,550
Less: Progress billings received and receivable	(827,918)	(769,745)
	(289,406)	98,805

26. TRADE AND BILLS RECEIVABLES

	2016 *HK$'000*	2015 *HK$'000*
Trade and bills receivables	**3,872,752**	3,721,749
Impairment *(note (d))*	**(195,595)**	(177,294)
	3,677,157	3,544,455

Notes:

(a) Included in the Group's trade and bills receivables as at 31 December 2016 was an aggregate amount of HK$57,857,000 (2015: HK$95,612,000) and HK$168,700,000 (2015: Nil) due from certain fellow subsidiaries and a joint venture of the Group arising from transactions carried out in the ordinary course of business of the Group, respectively. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the Group to its major customers.

(b) As at 31 December 2016, trade receivables amounted to HK$100,110,000 were pledged to secure certain bank loans (note 35(c)(iv)).

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

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

	2016 *HK$'000*	2015 *HK$'000*
Billed:		
Within one year	**2,435,956**	1,733,227
One to two years	**54,286**	46,493
Two to three years	**30,323**	13,489
Over three years	**39,584**	35,677
	2,560,149	1,828,886
Unbilled	**1,117,008**	1,715,569
	3,677,157	3,544,455

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26. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

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

	Note	**2016** **HK$'000**	2015 *HK$'000*
At 1 January		**177,294**	257,534
Provision/(reversal of provision) for impairment, net	*6*	**32,089**	(23,765)
Amount written off as uncollectible		**(464)**	(46,728)
Exchange realignment		**(13,324)**	(9,747)
At 31 December		**195,595**	177,294

The above provision for impairment of trade and bills receivables represented provision for individually impaired trade and bills receivables with an aggregate carrying amount of HK$242,560,000 (2015: HK$194,190,000). The individually impaired trade receivables relate to customers that were in financial difficulties or were in default or delinquency in principal payments and only a portion of the receivables is expected to be recovered.

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

	2016 **HK$'000**	2015 *HK$'000*
Neither past due nor impaired	**2,223,117**	1,653,237
Less than one year past due	**124,733**	68,952
More than one year past due	**165,334**	89,801
	2,513,184	1,811,990

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

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

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2016 HK$'000	2015 HK$'000
Prepayments	(a)(iii),(iv)	**2,876,044**	3,636,967
Deposits and other receivables	(a)(i),(ii),(vi)	**2,082,471**	1,771,971
Due from associates	(a)(v)	**2,219,846**	–
Due from holding companies	28	**292,186**	1,449,844
Due from fellow subsidiaries	28	**165,064**	113,735
Due from joint ventures	19, 28	**179,916**	78,571
Due from related parties	28	**46,546**	131,277
		7,862,073	7,182,365
Impairment	(b)	**(138,952)**	(126,496)
		7,723,121	7,055,869
Portion classified as current assets		**(4,781,741)**	(3,835,300)
Non-current portion		**2,941,380**	3,220,569

Notes:

(a) The Group's prepayments, deposits and other receivables as at 31 December 2016 and 2015 include, inter alia, the following:

(i) certain deposits of HK$171,761,000 (2015: HK$98,911,000) in total were paid for the construction or purchase of buildings, pipelines, equipment and machinery. The deposits were classified as non-current assets;

(ii) an amount of RMB600 million (equivalent to approximately HK$750 million) was advanced to a local government authority for an investment in a wastage treatment plant project in Haidian district in Beijing, the PRC as at 31 December 2015. The amount was unsecured and bore interest at 8.5% per annum. The advance was fully repaid by the local government authority during the year ended 31 December 2016;

(iii) an amount of RMB2,016 million (equivalent to approximately HK$2,400 million) prepaid to a capital investment fund for investing in a company engaged in piped gas transportation as at 31 December 2015 and the amount was transferred to available-for-sale investments upon the subscription of the fund during the current year;

(iv) an amount of RMB1,900 million (equivalent to approximately HK$2,111 million) prepaid for the subscription of 176 million shares (1.95% of the total issued shares) in CNPC Capital Company Limited, a company listed on the Shenzhen Stock Exchange and engaged in financial services business as at 31 December 2016. The amount was recognised as prepayment for acquisition of available-for-sale investments as at 31 December 2016 and was classified as non-current assets;

(v) dividend of HK$2.2 billion receivable from Petrochina Beijing Gas. The amount was received in January 2017; and

(vi) a deposit of EUR27 million (equivalent to approximately HK$220 million) (2015: Nil) were paid to a bank for securing certain bank facilities granted. Such depoist will be refunded upon the expiry of the banking facilities (note 35(c)(v)).

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

Notes: (Continued)

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

	Note	2016 HK$'000	2015 HK$'000
At 1 January		**126,496**	114,821
Impairment losses recognised	*6*	**20,293**	16,614
Exchange realignment		**(7,837)**	(4,939)
At 31 December		**138,952**	126,496

The above provision for impairment of other debtors of the Group represented provision for individually impaired other debtors with an aggregate carrying amount of HK$142,614,000 (2015: HK$147,544,000).

(c) Other than those mentioned above, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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

The amounts due from/(to) holding companies, fellow subsidiaries, joint ventures and related parties are unsecured, interest-free and have no fixed terms of repayment, except for an aggregate amount of RMB78,400,000 (equivalent to HK$87,111,000) (2015: RMB40,000,000 (equivalent to HK$47,619,000)) due from a joint venture, which is unsecured, bears interest at a range from 3.92% to 4.35% per annum and is repayable within one year. Interest income of RMB2,430,000 (equivalent to HK$2,700,000) (2015: RMB2,040,000 (equivalent to HK$2,519,000)) was recognised in profit or loss in respect of the balance.

The balances with holding companies, fellow subsidiaries, joint ventures and related parties of the Group included in trade and bills receivables, deposits and other receivables, trade and bills payables, and other payables are disclosed in notes 26(a), 27, 42 and 43 to the financial statements, respectively.

29. RESTRICTED CASH AND PLEDGED DEPOSITS

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Restricted cash	*(a)*	**30,932**	28,526
Pledged deposits	*(b)*	**25,615**	44,477
Restricted cash and pledged deposits		**56,547**	73,003

Notes:

(a) Restricted cash of the Group mainly represented the proceeds from a government surcharge of HK$26,624,000 (2015: HK$28,526,000) collected prior to 2003 by Beijing Gas, a wholly-owned subsidiary indirectly held the Company, from piped gas customers on behalf of 北京市發展和改革委員會 (the Beijing Municipal Commission of Development and Reform) (the "BMCDR"). The proceeds held on behalf of the BMCDR, which are deposited in a specific bank account of the Group, together with any interest earned therefrom, are repayable to the BMCDR (note 43(a)).

(b) bank balances of HK$25,615,000 (2015: HK$44,477,000) as at 31 December 2016 were pledged to secure certain bank loans (note 35(c)(v)) granted to the Group.

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30. CASH AND CASH EQUIVALENTS

	2016	2015
	HK$'000	*HK$'000*
Cash and bank balances:		
Placed in banks	**9,110,546**	8,097,898
Placed in a financial institution *(note 51(a)(ix))*	**2,196,315**	1,345,140
Time deposits:		
Placed in banks	**3,248,156**	2,025,618
Placed in a financial institution *(note 51(a)(ix))*	**1,473,082**	2,298,151
	16,028,099	13,766,807
Less: Restricted cash and pledged deposits *(note 29)*	**(56,547)**	(73,003)
Cash and cash equivalents	**15,971,552**	13,693,804

Notes:

(a) At 31 December 2016, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$10.8 billion (2015: HK$9.4 billion). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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

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

	2016			2015			
	Beijing Gas Development	**Others**	**Total**	GSWG	Beijing Gas Development	Others	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note (b))	*(note (c))*		*(note (a))*	*(note (b))*	*(note (c))*	
Assets							
Property, plant and equipment	**727,006**	**–**	**727,006**	28,209	946,515	5,688	980,412
Prepaid land premium	**–**	**–**	**–**	8,081	–	–	8,081
Goodwill	**72,824**	**–**	**72,824**	579,346	78,026	–	657,372
Operating concession	**–**	**–**	**–**	317,687	–	–	317,687
Other intangible assets	**24,773**	**–**	**24,773**	–	32,960	1,120	34,080
Investments in associates	**458,678**	**1,888,889**	**2,347,567**	734,174	480,609	2,025,316	3,240,099
Investments in joint ventures	**–**	**–**	**–**	81,074	–	12,431	93,505
Available-for-sale investment	**–**	**–**	**–**	2,857	–	–	2,857
Amounts due from contract customers	**–**	**–**	**–**	–	–	833	833
Deferred tax assets	**3,392**	**–**	**3,392**	–	3,916	–	3,916
Inventories	**38,176**	**–**	**38,176**	1,861	74,928	7,947	84,736
Trade and bills receivables	**50,518**	**–**	**50,518**	33,802	41,747	64,907	140,456
Prepayments, deposits and other receivables	**47,054**	**–**	**47,054**	42,964	51,068	52,180	146,212
Other tax recoverable	**33,945**	**–**	**33,945**	–	35,629	–	35,629
Restricted cash and pledged deposits	**–**	**–**	**–**	–	16,726	220	16,946
Cash and bank balances	**225,230**	**–**	**225,230**	93,256	239,674	194,138	527,068
Assets of disposal groups classified as held for sale	**1,681,596**	**1,888,889**	**3,570,485**	1,923,311	2,001,798	2,364,780	6,289,889
Liabilities							
Bank and other borrowings	**(144,444)**	**–**	**(144,444)**	(263,922)	(130,952)	–	(394,874)
Amounts due to contract customers	**–**	**–**	**–**	–	–	(319)	(319)
Trade and bills payables	**(60,718)**	**–**	**(60,718)**	(14,586)	(97,015)	(99,208)	(210,809)
Other payables and accruals	**(5,384)**	**–**	**(5,384)**	(47,956)	(18,758)	(129,860)	(196,574)
Receipts in advance	**(106,678)**	**–**	**(106,678)**	(66)	(168,392)	–	(168,458)
Income tax payables	**(522)**	**–**	**(522)**	(1,582)	–	–	(1,582)
Liabilities directly associated with the assets of disposal groups classified as held for sale	**(317,746)**	**–**	**(317,746)**	(328,112)	(415,117)	(229,387)	(972,616)
Net assets of disposal groups held for sale	**1,363,850**	**1,888,889**	**3,252,739**	1,595,199	1,586,681	2,135,393	5,317,273

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

Notes:

(a) The Group acquired the entire equity interests in Golden State Environmental Investment Corporation ("GSEI") in prior years.

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

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

On 29 July 2016, the Group entered into a share purchase agreement with an independent third party ("the Buyer"), pursuant to which the Group agreed to sell and the Buyer agreed to purchase the entire equity interest in GSWG at a cash consideration of US$296 million (equivalent to approximately HK$2,296 million). The transaction was completed on 30 November 2016.

For the year ended 31 December 2015, the recoverable amount of the sewage and water treatment operation has been determined by reference to a business valuation performed by Crowe Horwath (HK) Consulting & Valuation Limited, independent professionally qualified valuers, on a fair value less costs to sell basis using cash flow projections which are based on financial forecasts approved by the senior management covering the service concession period. The valuation was based on the assumption that the operation can generate cash flows within the respective concession periods of the relating sewage and water treatment projects. The discount rate applied to the cash flow projections was 10.2%, which was determined by reference to average rates for a similar industry and the business risk of the relevant business unit. A growth rate of 3% was used for the concession period.

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

Key assumptions used in fair value less costs to sell calculation

The following describes each key assumption adopted by management in the preparation of the cash flow projections for the purpose of impairment testing of goodwill for the year ended 31 December 2015:

Sewage and water treatment operation

- Budgeted turnover

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

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

Notes: (Continued)

(a) *(Continued)*

Sewage and water treatment operation *(Continued)*

- Budgeted gross margins

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

- Discount rates

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

- Business environment

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

(b) On 26 November 2014, the Group entered into a conditional share purchase agreement with China Gas, pursuant to which the Group conditionally agreed to sell and China Gas conditionally agreed to purchase the entire equity interest in Beijing Gas Development Limited ("Beijing Gas Development", a wholly-owned subsidiary of the Group) at the initial consideration of RMB1,633 million (equivalent to approximately HK$2,064 million), which would be satisfied by China Gas allotting and issuing 149,122,250 ordinary shares to the Group. The transaction was approved by an ordinary resolution at the special general meeting of shareholders of China Gas on 17 March 2015.

On 28 June 2016, the Group entered into an amended and restated share purchase agreement with China Gas, pursuant to which the Group and China Gas agreed to amend the composition of project companies held by Beijing Gas Development and the Group has conditionally agreed to sell and China Gas has conditionally agreed to purchase the entire equity interest in Beijing Gas Development at a revised consideration of RMB1,213 million (equivalent to approximately HK$1,534 million), which would be satisfied by China Gas allotting and issuing 110,823,011 ordinary shares to the Group.

Beijing Gas Development was classified as a disposal group held for sale as at 31 December 2016. The transaction was subsequently completed on 16 February 2017. A total of 110,823,011 shares of China Gas were allotted and issued as consideration to the Group.

(c) On 28 August 2015, the Group entered into a disposal agreement with Beijing Enterprises Group, pursuant to which the Group agreed to sell and Beijing Enterprises Group agreed to purchase the entire equity interest in Keqi Coal-based Gas Company ("Keqi Gas", an 34% owned associate of the Group) at a cash consideration of RMB1,700 million (equivalent to approximately HK$2,024 million). The transaction was approved by the independent shareholders of the Company on 15 January 2016.

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

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

Notes: (Continued)

(c) *(Continued)*

As at 31 December 2016, the consideration of RMB500 million was received. The Group is in the process of completing the equity transfer procedure at the date of approval of these financial statements and the transaction is expected to complete in 2017. Keqi Gas was classified as disposal group held for sale as at 31 December 2016 and 2015.

32. SHARE CAPITAL

Shares

	2016	2015
	HK$'000	*HK$'000*
Issued and fully paid:		
1,262,153,268 (2015: 1,282,850,268) ordinary shares	30,401,883	30,401,883

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

	Notes	**Number of shares in issue**	**Share capital** *HK$'000*
At 1 January 2015		1,284,350,268	30,401,883
Shares repurchased and cancelled	*(a)*	(1,500,000)	–
At 31 December 2015 and 1 January 2016		1,282,850,268	30,401,883
Shares repurchased in 2015 and cancelled during the year	*(a)*	(1,000,000)	–
Shares repurchased and cancelled	*(b)*	(19,697,000)	–
At 31 December 2016		1,262,153,268	30,401,883

32. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

Notes:

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

During the year ended 31 December 2016, the remaining 1,000,000 ordinary shares were cancelled by the Company, and the total amount paid for the repurchase of these shares of HK$46,623,000 has been reclassified from treasury shares account and charged to retained profits of the Company. As at 31 December 2016, the Company no longer had any treasury shares.

(b) During the year ended 31 December 2016, the Company repurchased a total of 19,697,000 ordinary shares of the Company on the Hong Kong Stock Exchange at a weighted average cost of HK$35.62 per share. The total consideration amounted to approximately HK$701,606,000 (and transaction cost of HK$3,446,000), which was wholly paid out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. All the repurchased shares were cancelled by the Company during the year and the total amount paid for the repurchase of these shares of HK$705,052,000 has been charged to retained profits of the Company.

33. SHARE OPTION SCHEME

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

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

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

33. SHARE OPTION SCHEME *(Continued)*

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

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

All share options granted under the Scheme in prior years were either exercised or forfeited in prior years. No share options were granted during the years ended 31 December 2016 and 2015 and there was no share option outstanding under the Scheme as at these dates.

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

34. RESERVES

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

(b) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2016 were distributable in the form of cash dividends.

35. BANK AND OTHER BORROWINGS

	2016	2015
	HK$'000	*HK$'000*
Bank loans:		
Secured	**748,405**	1,026,690
Unsecured	**25,858,887**	9,481,819
	26,607,292	10,508,509
Other loans:		
Secured	**–**	571,429
Unsecured	**4,687,851**	4,231,076
	4,687,851	4,802,505
Total bank and other borrowings	**31,295,143**	15,311,014
Analysed into:		
Bank loans repayable:		
Within one year	**14,623,418**	3,295,019
In the second year	**569,395**	296,309
In the third to fifth years, inclusive	**11,004,352**	6,327,741
Beyond five years	**410,127**	589,440
	26,607,292	10,508,509
Other loans repayable:		
Within one year	**3,795,140**	3,752,946
In the second year	**168,162**	117,384
In the third to fifth years, inclusive	**394,760**	430,145
Beyond five years	**329,789**	502,030
	4,687,851	4,802,505
Total bank and other borrowings	**31,295,143**	15,311,014
Portion classified as current liabilities	**(18,418,558)**	(7,047,965)
Non-current portion	**12,876,585**	8,263,049

35. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

	2016	2015
	HK$'000	*HK$'000*
HK$	**13,462,265**	8,851,917
RMB	**3,568,518**	4,169,555
US$	**163,973**	2,284,286
Euro	**14,100,387**	5,256
	31,295,143	15,311,014

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

(i) amortised cost of an interest-free loan of HK$128,806,000 (2015: HK$138,006,000) granted by a non-controlling equity holder of a subsidiary;

(ii) an aggregate amount of HK$3,370 million (2015: HK$3,400 million) and RMB919 million (equivalent to HK$1,021 million) (2015: RMB884 million (equivalent to HK$1,052 million)) due to an 48.16% owned associate, which bears interest at rates ranging from HIBOR plus 1.05% to 5.32% per annum. Interest expenses of HK$29,549,000 (2015: HK$28,457,000) were recognised in profit or loss during the year (note 51(a)(ix)); and

(iii) certain bank and other loans, with an aggregate carrying amount of HK$168,348,000 (2015: HK$212,893,000), that principally came from proceeds of certain loans granted by three overseas governments and the Asian Development Bank to the PRC government and a number of loans from 北京市財政局 (the Finance Bureau of Beijing) to finance certain of the Group's pipeline construction projects. Except for an interest-free loan of HK$8,412,000 (2015: HK$8,965,000), these loans bear interest at rates ranging from 2% to 6.3% per annum.

35. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

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

(i) mortgages over certain solid waste treatment operation concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) for an aggregate net carrying amount of HK$618,648,000 (2015: HK$1,163,953,000) as at 31 December 2016, which are under the management of the Group pursuant to the relevant service concession agreements entered into with the grantors (note 17(a)(i));

(ii) a mortgage over plant and machinery of the Group with a net carrying amount of HK$77,381,000 as at 31 December 2015 (note 13(a)). The respective loan was fully repaid during the year;

(iii) a mortgage over land of the Group with a net carrying amount of HK$106,312,000 (2015: Nil) as at 31 December 2016 (note 13(b));

(iv) the assignment of the Group's trade receivables with an aggregate amount of HK$100,110,000 (2015: Nil) (note 26(b));

(v) a deposit of EUR27 million (equivalent to approximately HK$220 million) (2015: Nil) paid to a bank as at 31 December 2016 (note 27(a)(vi)); and

(vi) the Group's bank balances of HK$25,615,000 (2015: HK$44,477,000) as at 31 December 2016 (note 29(b)).

(d) At 31 December 2016, the bank loans of the Group included a five-year HK$4 billion term loan, a five year HKD$3 billion term loan, a five-year HK$1.94 billion term loan, a five-year HK$1.44 billion term loan and a one-year EUR1.67 billion loan with the related facilities obtained by the Group in 2015, 2016, 2016, 2016 and 2016, respectively, which bear annual interest at HIBOR+1.5%, HIBOR+0.68%, HIBOR+1.06%, HIBOR+0.88% and EURIBOR +0.7%, respectively, and are fully payable on 27 November 2020, 22 November 2021, 7 December 2021, 24 June 2021 and 1 March 2017, respectively.

The loan agreements in respect of the loans outstanding as at 31 December 2016 include certain conditions imposing specific performance obligations on the Company's holding companies, among which the following events would constitute events of default on the loan facilities:

(i) if Beijing Enterprises Group does not or ceases to own, directly or indirectly, at least 40% or 50% of the beneficiary interest of the Company; and

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

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

36. GUARANTEED BONDS AND SENIOR NOTES

	Notes	**Principal at original currency *'million***	**Contractual interest rate *(%)* per annum**	**Maturity**	**2016 *HK$'000***	2015 *HK$'000*
2011 First Senior Notes	*(a)*	**US$600**	**5%**	**2021**	**4,589,062**	4,584,148
2011 Second Senior Notes	*(a)*	**US$400**	**6.375%**	**2041**	**3,059,375**	3,056,099
2012 Senior Notes	*(a)*	**US$800**	**4.5%**	**2022**	**6,141,126**	6,134,766
2015 EUR Bonds	*(b)*	**EUR500**	**1.435%**	**2020**	**4,040,754**	4,164,482
2015 US Bonds	*(c)*	**US$200**	**4.99%**	**2040**	**1,503,633**	1,505,097
					19,333,950	19,444,592

Notes:

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

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

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

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

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

37. CONVERTIBLE BONDS

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

	Yanjing Brewery Convertible Bonds
Issuance date	15 October 2010
Maturity date	14 October 2015
Original principal amount (RMB'000):	429,804
Coupon rate (per annum)	0.5% – 1.4%
Conversion price per ordinary share of:	
– Yanjing Brewery (RMB)	7.58

For accounting purposes, the convertible bond was bifurcated into a liability component and an equity component or a derivative component, as appropriate, as further described in the accounting policy for "Convertible bonds" set out in note 2.4 to the financial statements. The following tables summarise the movements in the principal amounts, the liability component and derivative component of the Group's convertible bonds during the year ended 31 December 2015:

	Yanjing Brewery Convertible Bonds ***HK$'000***
Principal amount outstanding	
At 1 January 2015	83,394
Conversion to ordinary shares of Yanjing Brewery	(80,216)
Redemption of convertible bonds	(3,178)
At 31 December 2015	–
Liability component	
At 1 January 2015	84,556
Interest expense (note 7)	438
Interest paid	(444)
Conversion to ordinary shares of Yanjing Brewery	(80,216)
Redemption of convertible bonds	(3,178)
Exchange realignment	(1,156)
At 31 December 2015	–

37. CONVERTIBLE BONDS *(Continued)*

	Yanjing Brewery Convertible Bonds *HK$'000*
Derivative component	
At 1 January 2015	7,639
Conversion to ordinary shares of Yanjing Brewery	(7,347)
Exchange realignment	(292)
At 31 December 2015	–

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

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

The fair values of the derivative component of the Yanjing Brewery Convertible Bonds and the date of issue were determined by reference to valuations performed by an independent professionally qualified valuer using the Binomial Option Pricing Model in prior years.

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

38. DEFINED BENEFIT PLANS

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

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

	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement and other retirement benefit plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2016				
Current service cost	**38,112**	**4,423**	**53,928**	**96,463**
Past service cost	**28,238**	**3,581**	**–**	**31,819**
Interest cost	**24,229**	**6,221**	**26,797**	**57,247**
Net benefit expense	**90,579**	**14,225**	**80,725**	**185,529**
Year ended 31 December 2015				
Current service cost	30,549	3,596	–	34,145
Past service cost	8,605	944	–	9,549
Interest cost	22,635	5,690	143	28,468
Net benefit expense	61,789	10,230	143	72,162

38. DEFINED BENEFIT PLANS *(Continued)*

(b) Present value of the defined benefit obligations

2016

	Supplemental post-retirement medical reimbursement plan *HK$'000*	Supplemental post-retirement allowance and beneficiary benefit plans *HK$'000*	Internal retirement and other retirement benefit plan *HK$'000*	Total *HK$'000*
At 1 January 2016	663,150	172,288	2,266	837,704
Acquisition of subsidiaries *(note 45)*	-	-	541,961	541,961
Net benefit expenses recognised in profit or loss	90,579	14,225	80,725	185,529
Benefits paid	(5,297)	(6,383)	(8,610)	(20,290)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	223,012	6,513	(24,314)	205,211
Exchange realignment	(57,912)	(12,124)	(33,041)	(103,077)
At 31 December 2016	913,532	174,519	558,987	1,647,038
Portion classified as current liabilities included in other payables and accruals *(note 43)*				(13,093)
Non-current portion				1,633,945

38. DEFINED BENEFIT PLANS *(Continued)*

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

2015

	Supplemental post-retirement medical reimbursement plan *HK$'000*	Supplemental post-retirement allowance and beneficiary benefit plans *HK$'000*	Internal retirement benefit plan *HK$'000*	Total *HK$'000*
At 1 January 2015	540,612	137,470	4,441	682,523
Net benefit expenses recognised in profit or loss	61,789	10,230	143	72,162
Benefits paid	(4,482)	(3,753)	(1,870)	(10,105)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	96,465	36,419	(308)	132,576
Exchange realignment	(31,234)	(8,078)	(140)	(39,452)
At 31 December 2015	663,150	172,288	2,266	837,704
Portion classified as current liabilities included in other payables and accruals *(note 43)*				(9,744)
Non-current portion				827,960

(c) Principal assumptions

The most recent actuarial valuations of the present value of the defined benefit obligations for Beijing Gas Group and EEW Group were carried out at 31 December 2016 by Towers Watson and Aon Hewitt respectively, using the projected unit credit method. The material actuarial assumptions used in determining the defined benefit obligations for the Group's plans are as follows:

	2016	2015
Beijing Gas Group		
Discount rate	**3.75%**	3.75%
Healthcare cost inflation rate	**8.00%**	8.00%
EEW Group		
Discount rate	**1.8%**	–

38. DEFINED BENEFIT PLANS *(Continued)*

(c) Principal assumptions *(Continued)*

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016 and 2015 is shown below:

	Increase in rate	Increase/ (decrease) in net defined benefit obligations	Decrease in rate	Increase/ (decrease) in net defined benefit obligations
	%	*HK$'000*	*%*	*HK$'000*
Beijing Gas Group				
2016				
Discount rate	**0.25**	**(74,191)**	**0.25**	**81,499**
Healthcare cost inflation rate	**1.00**	**320,713**	**1.00**	**(225,669)**
2015				
Discount rate	0.25	(53,004)	0.25	57,935
Healthcare cost inflation rate	1.00	218,596	1.00	(156,300)
EEW Group				
2016				
Discount rate	**0.25**	**(41,712)**	**0.25**	**43,440**

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

At 31 December 2016, the expected contribution to be made within the next 12 months out of the defined benefit obligations was HK$13,093,000 (2015: HK$9,744,000).

39. PROVISION FOR ONEROUS CONTRACTS AND MAJOR OVERHAULS

Pursuant to the service concession arrangements on the Group's toll road operation and solid waste treatment operations in the PRC, the Group has contractual obligations to maintain the infrastructures it operates to a specified level of serviceability and/or to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession periods. Pursuant to the contractual arrangement for one of the Group's plant in Germany, the Group is obliged to demolish the solid waste treatment plant in the year 2025. These contractual obligations to demolish of plant, maintain or restore the infrastructures, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs are collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Obligation under onerous contracts is arose form the solid waste treatment services contract entered for the solid waste treatment operation in Germany. Management consider the unavoidable costs of meeting the obligation under such contracts exceed the economic benefits expected to be recover under such contracts.

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

	Major overhauls *HK$'000*	Onerous contracts *HK$'000*	Total *HK$'000*
At 1 January 2015	30,544	–	30,544
Exchange alignment	(2,181)	–	(2,181)
At 31 December 2015	28,363	–	28,363
Acquisition of subsidiaries *(note 45)*	127,647	476,928	604,575
Additional provisions	25,770	–	25,770
Increase in a discounted amount arising from the passage of time	1,959	–	1,959
Reversal of provision	–	(121,978)	(121,978)
Exchange alignment	(10,551)	(20,800)	(31,351)
At 31 December 2016	173,188	334,150	507,338
Portion classified as current liabilities	–	(46,235)	(46,235)
Non-current portion	173,188	287,915	461,103

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

40. OTHER NON-CURRENT LIABILITIES

	Note	**2016** **HK$'000**	2015 *HK$'000*
Other liabilities – non-current portion	*43*	**323,278**	30,322
Deferred income		**699,358**	731,624
		1,022,636	761,946

41. DEFERRED TAX

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

	2016 **HK$'000**	2015 *HK$'000*
Deferred tax assets	**1,176,529**	779,713
Deferred tax liabilities	**(2,081,420)**	(480,481)
	(904,891)	299,232

41. DEFERRED TAX *(Continued)*

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

	Notes	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*
		Attributable to											
At 1 January 2015		26,690	(2,101)	31,267	(108,090)	(18,234)	355,535	169,160	9,082	(64,909)	17,735	(122,025)	294,110
Deferred tax credited/(charged) to profit or loss during the year	*10*	(7,541)	(174)	–	11,853	(592)	75,735	32,066	–	(115,692)	–	–	(4,345)
Deferred tax credited to other comprehensive income during the year		–	–	–	–	5,155	–	33,144	–	–	–	–	38,299
Transfer to assets of disposal groups classified as held for sale	*31*	–	–	–	–	–	(3,916)	–	–	–	–	–	(3,916)
Acquisition of subsidiaries	*45*	606	–	–	–	–	–	–	–	–	–	–	606
Exchange realignment		(7,521)	106	(1,489)	4,719	54	(16,963)	(10,384)	(1,446)	8,295	(893)	–	(25,522)
At 31 December 2015		12,234	(2,169)	29,778	(91,518)	(13,617)	410,391	223,986	7,636	(172,306)	16,842	(122,025)	299,232

	Notes	**Fair value adjustments arising from acquisition of subsidiaries** ***HK$'000***	**Depreciation allowances in excess of related depreciation** ***HK$'000***	**Other temporary differences related to property, plant and equipment** ***HK$'000***	**Transfer of assets from customers** ***HK$'000***	**Fair value adjustments on available-for-sale investments** ***HK$'000***	**Impairment provision and accrued expenses** ***HK$'000***	**Provision for bonus and defined benefit plans** ***HK$'000***	**Provision for major overhauls and onerous contracts** ***HK$'000***	**Revaluation of investment properties and operating concession** ***HK$'000***	**Losses available for offsetting future taxable profits** ***HK$'000*** *(note (a))*	**Withholding tax** ***HK$'000*** *(note (b))*	**Net deferred tax assets/ (liabilities)** ***HK$'000***
		Attributable to											
At 1 January 2016		**12,234**	**(2,169)**	**29,778**	**(91,518)**	**(13,617)**	**410,391**	**223,986**	**7,636**	**(172,306)**	**16,842**	**(122,025)**	**299,232**
Deferred tax credited/(charged) to profit or loss during the year	*10*	**74,670**	**(164)**	**(16,260)**	**(14,158)**	**–**	**200,741**	**70,797**	**(28,862)**	**–**	**7,849**	**–**	**294,613**
Deferred tax credited to other comprehensive income during the year		**–**	**–**	**–**	**–**	**–**	**–**	**50,099**	**–**	**–**	**–**	**–**	**50,099**
Acquisition of subsidiaries	*45*	**(1,312,934)**	**–**	**(628,829)**	**–**	**–**	**24,768**	**124,859**	**181,372**	**–**	**–**	**–**	**(1,610,764)**
Exchange realignment		**70,794**	**152**	**38,956**	**6,730**	**477**	**(42,935)**	**(26,921)**	**(8,722)**	**24,530**	**(1,132)**	**–**	**61,929**
At 31 December 2016		**(1,155,236)**	**(2,181)**	**(576,355)**	**(98,946)**	**(13,140)**	**592,965**	**442,820**	**151,424**	**(147,776)**	**23,559**	**(122,025)**	**(904,891)**

41. DEFERRED TAX *(Continued)*

Notes:

(a) At 31 December 2016, deferred tax assets have not been recognised in respect of unused tax losses of HK$3,806,009,000 (2015: losses of HK$3,712,817,000) as they have been arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, tax losses of HK$3,784,637,000 (2015: HK$3,691,445,000) will expire in one to five years.

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%, depending on the jurisdiction of the respective investment enterprises. The Group is therefore liable to withholding taxes on dividends declared by those subsidiaries, joint ventures and associates established in Mainland China in respect of earnings generated from 1 January 2008.

Withholding tax applicable to dividend declared by subsidiaries in Germany and Luxembourg is 26.375% and 15%, respectively. The tax rate may be reduced under the tax treaties entered into between the countries in which the Group operates.

Deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China, Germany and Luxembourg. In the opinion of the directors, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries, joint ventures and associates in Mainland China, Germany and Luxembourg for which deferred tax liabilities have not been recognised totalled approximately HK$15,561,019,000 (2015: HK$11,263,281,000) as at 31 December 2016.

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

42. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 *HK$'000*	2015 *HK$'000*
Billed:		
Within one year	**2,801,186**	2,022,042
One to two years	**64,644**	304,034
Two to three years	**11,122**	140,151
Over three years	**29,961**	171,715
	2,906,913	2,637,942
Unbilled	**1,022,284**	1,003,012
	3,929,197	3,640,954

42. TRADE AND BILLS PAYABLES *(Continued)*

Included in the Group's trade and bills payables as at 31 December 2016 are amounts of HK$28,458,000 (2015: HK$48,630,000) due to fellow subsidiaries, arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related parties to their major customers.

43. OTHER PAYABLES AND ACCRUALS

	Notes	2016 HK$'000	2015 HK$'000
Accruals		**964,985**	480,468
Defined benefit plans – current portion	*38(b)*	**13,093**	9,744
Other liabilities		**7,043,399**	6,266,486
Due to a holding company	*28*	**1,555,143**	1,261,656
Due to related parties	*28*	**247,315**	268,921
		9,823,935	8,287,275
Portion classified as current liabilities		**(9,500,657)**	(8,256,953)
Non-current portion	*40*	**323,278**	30,322

The Group's other liabilities as at 31 December 2016 included, inter alia, the following:

(a) an amount of HK$26,624,000 (2015: HK$28,526,000) payable to the BMCDR in respect of a government surcharge collected on its behalf by the Group, further details of which are set out in note 29(a) to the financial statements; and

(b) construction project costs of HK$104,528,000 (2015: HK$106,717,000) payable to certain fellow subsidiaries of the Group. The balances with the fellow subsidiaries are unsecured, interest-free, and are repayable within credit periods similar to those offered by the fellow subsidiaries to their major customers.

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

Details of Yanjing Investment (an 80% owned subsidiary which holds 57.40% equity interests in Yanjing Brewery) and its subsidiaries (collectively the "Yanjing Investment Group") that have material non-controlling interests are set out below:

	2016	2015
	HK$'000	*HK$'000*
Profit for the year allocated to non-controlling interests	**217,692**	278,334
Dividends paid to non-controlling interests of the Yanjing Investment Group	**250,844**	281,730
Accumulated balances of non-controlling interests at the reporting dates	**8,296,764**	8,888,701

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

	2016	2015
	HK$'000	*HK$'000*
Revenue	**11,589,905**	14,069,445
Total expenses	**(11,307,347)**	(13,682,631)
Profit for the year	**282,558**	386,814
Total comprehensive income/(loss) for the year	**(232,564)**	77,242
Current assets	**7,078,482**	7,467,760
Non-current assets	**13,865,175**	14,834,581
Current liabilities	**(6,670,221)**	(9,298,818)
Non-current liabilities	**(229,156)**	(370,818)
Net cash flows from operating activities	**1,260,048**	1,725,629
Net cash flows used in investing activities	**(905,094)**	(789,360)
Net cash flows used in financing activities	**(402,526)**	(1,148,847)
Net decrease in cash and cash equivalents	**(47,572)**	(212,578)

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

45. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2016 as at their respective dates of acquisition were as follows:

	Notes	**2016** ***HK$'000*** ***(note (a))***	2015 *HK$'000* *(note (b))*
Net assets acquired:			
Property, plant and equipment	*13*	**7,307,214**	111,805
Other intangible assets	*18*	**3,458,272**	44,014
Interests in associates		**33,558**	–
Deferred tax assets	*41*	**717,906**	606
Inventories		**203,429**	5,092
Receivables under finance lease		**1,031,469**	–
Trade and bills receivables		**630,556**	3,835
Prepayments, deposits and other receivables		**547,646**	64,879
Income tax recoverable		**85,579**	1,677
Restricted cash and pledged deposits		**27,734**	–
Cash and cash equivalents		**445,141**	35,882
Bank and other borrowings		**(3,921,575)**	–
Other non-current liabilities		**(264,566)**	–
Deferred tax liabilities	*41*	**(2,328,670)**	–
Trade and bills payables		**(154,440)**	(12,143)
Defined benefits plan	*38*	**(541,961)**	–
Provision for onerous contracts and major overhauls	*39*	**(604,575)**	–
Income tax payables		**(322,678)**	–
Other payables and accruals		**(259,816)**	(125,828)
Total identifiable net assets at fair value		**6,090,223**	129,819
Non-controlling interests		**(750,845)**	(90,524)
		5,339,378	39,295
Goodwill on acquisition	*16*	**7,213,937**	143,171
Consideration transferred		**12,553,315**	182,466

45. BUSINESS COMBINATIONS *(Continued)*

	2016	2015
	HK$'000	*HK$'000*
	(note (a))	*(note (b))*
Satisfied by:		
Cash	**12,553,315**	100,000
Reclassification from interest in a joint venture to interest in a subsidiary	**–**	82,466
	12,553,315	182,466
Revenue for the year of the acquired business since acquired	**3,791,197**	49,075
Profit for the year of the acquired business since acquisition	**233,285**	17,561

The Group has elected to measure the non-controlling interests in the subsidiaries acquired at the non-controlling interests' proportionate share of the identifiable net assets of the subsidiaries acquired for those business combinations in the current and prior years.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2016	2015
	HK$'000	*HK$'000*
	(note (a))	*(note (b))*
Cash and cash equivalents acquired	**445,141**	35,882
Cash consideration	**(12,553,315)**	(100,000)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(12,108,174)**	(64,118)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$6,718,273,000 (2015: HK$5,985,560,000) and the Group's revenue would have been HK$56,670,516,000 (2015: HK$60,380,123,000).

45. BUSINESS COMBINATIONS *(Continued)*

Notes:

(a) In March 2016, the Group acquired the entire equity interest in the EEW Group from two independent third parties at a cash consideration of EUR1,453,000,000 (equivalent to HK$12,553,000,000). EEW Group is principally engaged in the provision of electricity, steam and heat from waste in Germany.

(b) Business combinations during the year ended 31 December 2015 mainly included the following transactions:

(i) In January 2015, the Group acquired a 70% equity interest in 北控安耐得環保科技發展常州有限公司 ("Changzhou") from an independent third party at a cash consideration of RMB84,000,000 (equivalent to HK$100,000,000). Changzhou is principally engaged in the hazardous and industrial solid waste treatment operation in Jiangsu Province, the PRC; and

(ii) In December 2015, Beijing Gas Group Company Limited, a wholly-owned subsidiary of the Group, reached a consent with another shareholder of 北京北燃港華燃氣有限公司 ("Ganghua"), a then 50% joint venture of the Group, for the entrustment of its power in the board of directors of Ganghua to the Group. Upon execution of the new articles of association, the Group was entitled to vest control over the financing and operating policies of Ganghua. Accordingly, Ganghua became a 50% owned subsidiary of the Group. Ganghua is principally engaged in the provision of pipeline gas in Beijing City, the PRC.

46. DISPOSAL OF SUBSIDIARIES

	Note	2016 *HK$'000*
Net assets disposed of:		
Property, plant and equipment		**27,043**
Prepaid land premium		**10,662**
Goodwill		**579,171**
Interests in joint ventures		**88,206**
Interests in associates		**733,747**
Intangible assets		**313,090**
Available-for-sale investments		**2,667**
Amount due from contract customers		**514**
Inventories		**8,508**
Trade and bills receivables		**110,751**
Prepayments, deposits and other receivables		**418,035**
Pledged deposits		**12,134**
Cash and cash equivalents		**174,062**
Bank and other borrowings		**(33,623)**
Trade payables		**(131,464)**
Other payables and accruals		**(288,453)**
Income tax payables		**(1,326)**
Non-controlling interests		**(11,767)**
		2,011,957
Transaction costs paid		**757**
Exchange fluctuation reserve		**58,619**
Gain on disposal of subsidiaries	*5*	**350,209**
		2,421,542
Satisfied by:		
Cash		**2,421,542**

46. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

	2016
	HK$'000
Cash consideration	**2,421,542**
Cash and bank balances disposed of	**(174,062)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**2,247,480**

Notes:

Disposal of subsidiaries during the year ended 31 December 2016 included the following transactions:

(a) In July 2016, the Group entered into a share purchase agreement with an independent third party ("the Buyer"), pursuant to which the Group agreed to sell and the Buyer agreed to purchase the entire equity interest in GSWG at a cash consideration of US$296 million. The transaction was completed on 30 November 2016.

(b) On 23 December 2014, Prime Technology Group Limited ("PTG"), a wholly-owned subsidiary of BEEGL, entered into an equity transfer agreement with a fellow subsidiary of the Company, Beijing Enterprises Group Information Limited ("BEGIL", a wholly-owned subsidiary of Beijing Enterprises Group), pursuant to which PTG conditionally agreed to dispose of its entire equity interest in BE Information Technology Group Limited ("BEITG") and its subsidiaries (collectively, the "BEITG Group") to BEGIL for a total cash consideration of HK$126,000,000. The transaction was completed in March 2016 upon the settlement of the consideration.

47. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Apart from the transactions as detailed in note 27 to the financial statements, the Group had no other major non-cash transactions of investing and financing activities during the years ended 31 December 2016 and 2015.

48. CONTINGENT LIABILITIES

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

49. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for original terms ranging from 1 to 5 years. The terms of the leases generally require the tenants to pay security deposits.

As at the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**7,498**	2,949
In the second to fifth years, inclusive	**7,178**	266
	14,676	3,215

49. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases certain of its land, office properties and staff quarters under operating lease arrangements, with leases negotiated with original terms ranging from 1 to 39 years.

As at the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**152,549**	71,602
In the second to fifth years, inclusive	**137,348**	128,305
After five years	**499,014**	556,277
	788,911	756,184

50. CAPITAL COMMITMENTS

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

	2016	2015
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Buildings	**72,203**	269,373
Gas pipelines and plant and machinery	**1,022,481**	1,105,112
New service concession arrangements on a BOO basis	**199,684**	–
New service concession arrangements on a BOT basis	**84,246**	236,217
Acquisition of an associate	**8,525,000**	–
	9,903,614	1,610,702

51. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had entered into the following material transactions with related parties during the year:

Name of related party	Nature of transaction	*Notes*	**2016** ***HK$'000***	2015 *HK$'000*
Non-controlling equity holders of subsidiaries and their associates:				
Yanjing Beer Group and its associates	Purchase of bottle labels^γ	*(i)*	**38,288**	100,933
	Purchase of bottle caps^γ	*(i)*	**18,827**	77,851
	Canning service fees paid^γ	*(ii)*	**10,676**	41,079
	Comprehensive support service fees paid^γ	*(iii)*	**18,076**	19,191
	Land rent expenses^γ	*(iv)*	**2,150**	2,283
	Trademark licensing fees paid^γ	*(v)*	**66,788**	68,312
	Less: refund for advertising subsidies^γ	*(v)*	**(6,252)**	(5,348)
Fellow subsidiaries:				
Beiran Enterprises and its subsidiaries	Sale of gas#	*(vi)*	**70,287**	37,351
	Engineering service income#	*(vii)*	**10,805**	14,675
	Comprehensive service income#	*(vii)*	**8,014**	12,175
	Sale of goods#	*(x)*	**58,260**	91,753
	Engineering service expenses#	*(vii)*	**90,744**	101,907
	Comprehensive service expenses#	*(vii)*	**44,537**	45,126
	Building rental expenses#	*(viii)*	**87,062**	100,442
	Building rental income#	*(viii)*	**448**	480
	Purchase of goods#	*(viii)*	**123,435**	157,926
Associates:				
Beijing Enterprises Group Finance Co. Ltd.	Interest expense	*(ix)*	**29,549**	28,457
	Interest income#	*(ix)*	**21,081**	14,473

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

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

51. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes:

(i) The purchase prices for bottle labels and bottle caps were determined by reference to the agreed prices for the preceding year and an annual adjustment determined by reference to the price index in Beijing in the preceding year.

(ii) The canning service fees were charged at a rate equal to the costs of the canning services incurred by Yanjing Beer Group plus a mutually-agreed profit margin.

(iii) The comprehensive support service fees paid include the following:

– fees for security and canteen services which were determined based on the annual cost of labour, depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and

– rental expenses, related to the premises occupied and used by Yanjing Brewery as its office, canteen and staff dormitories, which were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.

(iv) The land rent expenses were charged at a mutually-agreed amount of RMB1,849,000 (equivalent to HK$2,150,000) (2015: RMB1,849,000 (equivalent to HK$2,283,000)) per annum.

(v) The trademark licensing fees paid were for the use of the "Yanjing" trademark and were determined based on 0.94% of the annual sales of beer and mineral water products made by Yanjing Brewery and at a rate of RMB0.008 per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Brewery Group would refund 20% of the trademark licensing fees from sales of beer received from Yanjing Brewery for the use by Yanjing Brewery to develop and promote the "Yanjing" trademark.

(vi) The selling price of gas and the gas transmission fee were prescribed by the PRC government.

(vii) The service fees were determined by reference to the then prevailing market rates and set at prices not higher than the guidance prices set by the PRC government.

(viii) The purchase prices of goods and the building rentals were determined by reference to the then prevailing market rates.

51. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes: (Continued)

(ix) Beijing Enterprises Group Finance Co. Ltd. ("BE Group Finance") is a 48.16% owned associate of the Group and also a subsidiary of Beijing Enterprises Group. BE Group Finance was established to act as platform for members of Beijing Enterprises Group for the provision of intra-group facilities through financial products including deposit-taking, money-lending and custodian services.

Pursuant to a deposit services master agreement (the "Deposit Services Master Agreement") entered into between the Company and BE Group Finance on 29 December 2014, the Group may, in its ordinary and usual course of business, place and maintain deposits with BE Group Finance on normal commercial terms from time to time. The term of the Deposit Services Master Agreement shall commence on the date of the Deposit Services Master Agreement and continue up to and including 31 December 2016. Subject to compliance with the Listing Rules, upon the expiration of such initial term, the Deposit Services Master Agreement may be renewed by the Company and BE Group Finance by agreement in writing. The daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the term of the Deposit Services Master Agreement will not exceed HK$3,700 million.

On 30 December 2016, the Company and BE Group Finance entered into the 2017 Deposit Agreement (the "Deposit Agreement") whereby the Company and BE Group Finance will continue to carry out the transactions under the Deposit Services Master Agreement for three years from 1 January 2017 to 31 December 2019, with terms and conditions substantially the same as those under the Deposit Services Master Agreement. The revised daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the term of the Deposit Agreement will not exceed HK$2,200 million.

The deposit services provided by BE Group Finance constitute continuing connected transactions that are subject to the announcement, reporting and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Interest rates on deposits placed in and loans offered by BE Group Finance denominated in Renminbi were determined by reference to the then prevailing market rates offered by People's Bank of China, while the related interest rates for deposits and loans denominated in other currencies were determined by reference to the then prevailing market rates offered by major bankers of the Group.

The amounts of deposits placed by the Group with BE Group Finance as at the end of the reporting period are disclosed in note 30 to the financial statements. The amounts of loans borrowed by the Group from BE Group Finance as at the end of reporting period are disclosed in note 35(b)(ii) to the financial statements.

(x) The selling prices of goods were determined on a cost-plus basis.

(b) Outstanding balances with related parties

(i) Details of the Group's balances with related parties included in deposits and other receivables, and trade and bills payables and other payables and accruals are disclosed in notes 27, 42 and 43 to the financial statements, respectively.

(ii) Details of the Group's balances with joint ventures, associates, holding companies and fellow subsidiaries are disclosed in notes 19, 20, 26(a), 27, 28, 35(b)(ii) and 42 to the financial statements, respectively.

51. RELATED PARTY DISCLOSURES *(Continued)*

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

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

(d) Compensation of key management personnel of the Group

	2016	2015
	HK$'000	*HK$'000*
Short term employee benefits	**25,958**	27,938
Pension scheme contributions	**29**	29
Total compensation paid to key management personnel	**25,987**	27,967

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

52. FINANCIAL INSTRUMENTS BY CATEGORY

Other than derivative financial instruments and certain equity investments being classified as available-for-sale investments, as disclosed in note 22 and 23 to the financial statements, all financial assets and liabilities of the Group as at 31 December 2016 and 2015 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

53. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made.

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

As disclosed in note 23 to the financial statements, listed equity investments of the Group are stated at fair value based on their quoted market prices (as categorised within Level 1 of the fair value hierarchy); whilst the unlisted equity investments of the Group are stated at cost less any accumulated impairment losses because fair values of which cannot be reasonably assessed and therefore, no disclosure of the fair values of these financial instruments is made.

The fair value of the Group's guaranteed bonds and senior notes was HK$20,922,771,000 (2015: HK$20,695,007,000) which was determined as Level 1. The fair value of the Group's guaranteed bonds and senior notes are based on price quotations from financial institutions at the reporting date.

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

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

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other loans, the guaranteed bonds and senior notes and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as amounts due from/to contract customers, trade and bills receivables, deposits and other receivables, trade and bills payables, other payables and accruals, receivables under service concession arrangements and amounts due from/to holding companies, fellow subsidiaries, an associate, joint ventures, and related parties.

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

Interest rate risk

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

Banks loans, the guaranteed bonds and senior notes, cash and short term deposits are stated at amortised cost and not revalued. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

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

Interest rate risk *(Continued)*

The following tables set out the carrying amounts of the Group's financial instruments as at the end of the reporting period that are exposed to interest rate risk:

	Total	Effective interest rate
	HK$'000	*%*
At 31 December 2016		
Floating rate:		
Restricted cash and pledged deposits	**56,547**	**0.35**
Cash and cash equivalents	**11,250,314**	**0.35**
Interest-bearing bank and other borrowings	**(30,028,532)**	**1.58**
Fixed rate:		
Cash and cash equivalents	**4,721,238**	**1.1**
Interest-bearing bank and other borrowings	**(1,129,393)**	**4.19**
Guaranteed bonds and senior notes	**(19,333,950)**	**4.37**
At 31 December 2015		
Floating rate:		
Restricted cash and pledged deposits	73,003	0.35
Cash and cash equivalents	9,370,035	0.35
Interest-bearing bank and other borrowings	(13,648,009)	2.22
Fixed rate:		
Cash and cash equivalents	4,323,769	1.23
Interest-bearing bank and other borrowings	(1,516,034)	6.64
Guaranteed bonds and senior notes	(19,444,592)	4.35

At 31 December 2016, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other loans and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK$70,004,000 (2015: HK$31,301,000).

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

Interest rate risk *(Continued)*

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for 2015.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, the Group's statement of financial position can be affected significantly by movements in the RMB/HK$ exchange rate.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB/HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity *HK$'000*
2016		
If Hong Kong dollar weakens against RMB by 5%	**561,500**	**3,515,924**
If Hong Kong dollar strengthens against RMB by 5%	**(561,500)**	**(3,515,924)**
2015		
If Hong Kong dollar weakens against RMB by 5%	455,234	3,435,795
If Hong Kong dollar strengthens against RMB by 5%	(455,234)	(3,435,795)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

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

Credit risk

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

At the end of the reporting period, concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables under service concession arrangements and trade and bills receivables are set out in notes 17 and 26 to the financial statements, respectively.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from joint ventures and associates, deposits and other receivables and amounts due from holding companies, fellow subsidiaries and related parties, arises from default of the counterparty, with a maximum exposure to the carrying amounts of these instruments.

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank loans, other loans, the guaranteed bonds and senior notes. In addition, banking facilities have been put in place for contingency purposes.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of short term loans to cover expected cash demands, subject to approval by management of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

Liquidity risk *(Continued)*

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

At 31 December 2016

	On demand or within 1 year *HK$'000*	In the second year *HK$'000*	3 to 5 years *HK$'000*	Beyond 5 years *HK$'000*	Total *HK$'000*
Bank loans	**14,767,065**	**622,480**	**12,277,204**	**491,403**	**28,158,152**
Other loans	**3,858,814**	**173,504**	**472,168**	**408,818**	**4,913,304**
Guaranteed bonds and senior notes	**844,460**	**844,460**	**11,215,041**	**16,311,544**	**29,215,505**
Trade and bills payables	**3,929,197**	**–**	**–**	**–**	**3,929,197**
Accruals and other liabilities	**7,698,199**	**323,278**	**–**	**–**	**8,021,477**
Due to a holding company	**1,555,143**	**–**	**–**	**–**	**1,555,143**
Due to related parties	**247,315**	**–**	**–**	**–**	**247,315**
	32,900,193	**1,963,722**	**23,964,413**	**17,211,765**	**76,040,093**

At 31 December 2015

	On demand or within 1 year *HK$'000*	In the second year *HK$'000*	3 to 5 years *HK$'000*	Beyond 5 years *HK$'000*	Total *HK$'000*
Bank loans	3,392,747	346,370	7,220,259	891,853	11,851,229
Other loans	3,811,338	127,482	512,001	642,802	5,093,623
Guaranteed bonds and senior notes	844,460	844,460	6,741,680	22,336,090	30,766,690
Trade and bills payables	3,640,954	–	–	–	3,640,954
Accruals and other liabilities	6,726,376	30,322	–	–	6,756,698
Due to a holding company	1,261,656	–	–	–	1,261,656
Due to related parties	268,921	–	–	–	268,921
	19,946,452	1,348,634	14,473,940	23,870,745	59,639,771

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

Fair value risk

The Group's financial instruments that are carried in the financial statements at other than fair values are disclosed in note 53 to the financial statements. In the opinion of the directors, the Group's exposure to fair value risk in respect of its financial instruments is minimal.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

Depending on the market conditions and funding arrangements, if at any time, repurchase of the Company's shares will lead to an enhancement of the net asset value per share and/or earnings per share of the Group, the directors will authorise such transactions.

The Group monitors capital using a net gearing ratio, which is net borrowing divided by the total equity. Net borrowing includes total bank and other borrowings, guaranteed bonds and senior notes (as shown in the consolidated statement of financial position) less cash and bank balances and time deposits (including restricted cash and pledged deposits). The net gearing ratios as at the end of the reporting periods are as follows:

	2016	2015
	HK$'000	*HK$'000*
Guaranteed bonds and senior notes	**19,333,950**	19,444,592
Total bank and other borrowings	**31,295,143**	15,311,014
Less: Cash and bank balances and time deposits	**(16,028,099)**	(13,766,807)
Net borrowing	**34,600,994**	20,988,799
Total equity	**68,038,926**	68,652,170
Net gearing ratio	**50.9%**	30.6%

55. OTHER FINANCIAL INFORMATION

The net current liabilities and total assets less current liabilities of the Group as at 31 December 2016 amounted to HK$5,423,898,000 (2015: net current assets of HK$7,330,571,000) and HK$105,448,565,000 (2015: HK$98,458,561,000), respectively.

56. EVENTS AFTER THE REPORTING PERIOD

In November 2016, Beijing Gas entered into an acquisition agreement (the "PJSC Agreement") with independent third parties (the "Seller"), pursuant to which Beijing Gas agreed to purchase and the Seller agreed to sell approximately 20% equity interest (an aggregate of 6,901,160 ordinary shares) of PJSC Verkhnechonskneftegaz ("PJSC") at a cash consideration of US$1,100 million.

PJSC is an Oil and Gas Company located in Irkutsk, Russia Federation, with its principal business engaged in exploring, appraising, developing, producing and marketing oil, gas and condensate field.

The transaction has not yet been completed as at the date of approval of these financial statements.

Further details were set out in the Company's announcement published on the website of the Hong Kong Stock Exchange on 9 November 2016.

57. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated in the preparation of these financial statements as a result of the change in reportable segments due to the acquisition of EEW Group, details of which are set out in note 45 to the financial statements.

58. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 **HK$'000**	2015 HK$'000
ASSETS		
Non-current assets:		
Property, plant and equipment	**1,375**	3,491
Investment properties	**56,914**	56,914
Investments in subsidiaries	**60,648,920**	57,569,731
Investments in associates	**106,128**	106,128
Available-for-sale investments	**1,256,381**	1,261,570
Total non-current assets	**62,069,718**	58,997,834
Current assets:		
Trade and bills receivables	**977**	1,047
Prepayments, deposits and other receivables	**191,329**	1,358,684
Cash and cash equivalents	**2,492,280**	1,183,806
Total current assets	**2,684,586**	2,543,537
TOTAL ASSETS	**64,754,304**	61,541,371

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

	2016 HK$'000	2015 HK$'000
EQUITY AND LIABILITIES		
Equity:		
Share capital	**30,401,883**	30,401,883
Reserves (note)	**1,183,286**	1,032,882
TOTAL EQUITY	**31,585,169**	31,434,765
Non-current liabilities:		
Bank and other borrowings	**10,092,265**	5,371,917
Due to subsidiaries	**17,801,657**	17,795,339
Total non-current liabilities	**27,893,922**	23,167,256
Current liabilities:		
Other payables and accruals	**1,819,841**	1,436,478
Income tax payable	**85,372**	85,372
Bank and other borrowings	**3,370,000**	5,417,500
Total current liabilities	**5,275,213**	6,939,350
TOTAL LIABILITIES	**33,169,135**	30,106,606
TOTAL EQUITY AND LIABILITIES	**64,754,304**	61,541,371

Zhou Si
Director

Tam Chun Fai
Director

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

Note:

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

	Share premium account	Capital redemption reserve	Treasury shares	Capital reserve	Available-for-sale investment revaluation reserve	Property revaluation reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	–	–	–	13,220	(22,773)	17,561	1,127,104	1,135,112
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	1,195,379	1,195,379
Final 2014 dividend declared	–	–	–	–	–	–	(796,297)	(796,297)
Interim 2015 dividend	–	–	–	–	–	–	(385,305)	(385,305)
Shares repurchased	–	–	(46,623)	–	–	–	(69,384)	(116,007)
At 31 December 2015 and 1 January 2016	–	–	(46,623)	13,220	(22,773)	17,561	1,071,497	1,032,882
Profit/(loss) for the year and total comprehensive income for the year	–	–	–	–	–	–	2,067,955	2,067,955
Final 2015 dividend	–	–	–	–	–	–	(833,853)	(833,853)
Interim 2016 dividend	–	–	–	–	–	–	(378,646)	(378,646)
Shares repurchased and cancelled	–	–	46,623	–	–	–	(751,675)	(705,052)
At 31 December 2016	–	–	–	13,220	(22,773)	17,561	1,175,278	1,183,286

59. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2017.

FIVE YEAR FINANCIAL SUMMARY

31 December 2016

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 2015, is set out below:

RESULTS

	Year ended 31 December				
	2012 *HK$'000*	2013 *HK$'000*	2014 *HK$'000*	2015 *HK$'000*	**2016** ***HK$'000***
Revenue	35,569,649	42,360,528	47,935,795	60,149,945	**55,958,834**
Operating profit	2,105,580	2,563,977	2,158,562	1,929,945	**2,547,072**
Share of profits and losses of:					
Joint ventures	(343)	(5,847)	4,827	(183)	**6,623**
Associates	2,049,495	2,742,612	3,807,092	4,708,112	**4,943,273**
Profit before tax	4,154,732	5,300,742	5,970,481	6,637,874	**7,496,968**
Income tax	(557,155)	(545,287)	(564,834)	(681,961)	**(857,723)**
Profit for the year	3,597,577	4,755,455	5,405,647	5,955,913	**6,639,245**
ATTRIBUTABLE TO:					
Shareholders of the Company	3,234,992	4,183,878	4,831,678	5,667,378	**6,235,883**
Non-controlling interests	362,585	571,577	573,969	288,535	**403,362**
	3,597,577	4,755,455	5,405,647	5,955,913	**6,639,245**

FIVE YEAR FINANCIAL SUMMARY

31 December 2016

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	89,498,621	109,621,824	124,173,816	124,766,040	**144,708,761**
Total liabilities	(41,830,946)	(45,553,745)	(56,077,836)	(56,113,870)	**(76,669,835)**
NET ASSETS	47,667,675	64,068,079	68,095,980	68,652,170	**68,038,926**
Equity attributable to shareholders of the Company	39,637,454	54,021,238	57,176,356	58,187,267	**57,321,208**
Non-controlling interests	8,030,221	10,046,841	10,919,624	10,464,903	**10,717,718**
TOTAL EQUITY	47,667,675	64,068,079	68,095,980	68,652,170	**68,038,926**

YEARS OF LISTING
北京控股有限公司上市二十周年
BEIJING ENTERPRISES HOLDINGS LIMITED