ANNUAL
REPORT
2017

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

BEIJING ENTERPRISES HOLDINGS LIMITED

Stock Code : 392

CONTENT

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INVESTMENT COMMITTEE

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

COMPANY SECRETARY

Mr. Tam Chun Fai *CPA CFA*

STOCK CODE

392

WEBSITE

www.behl.com.hk

SHARE REGISTRAR

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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

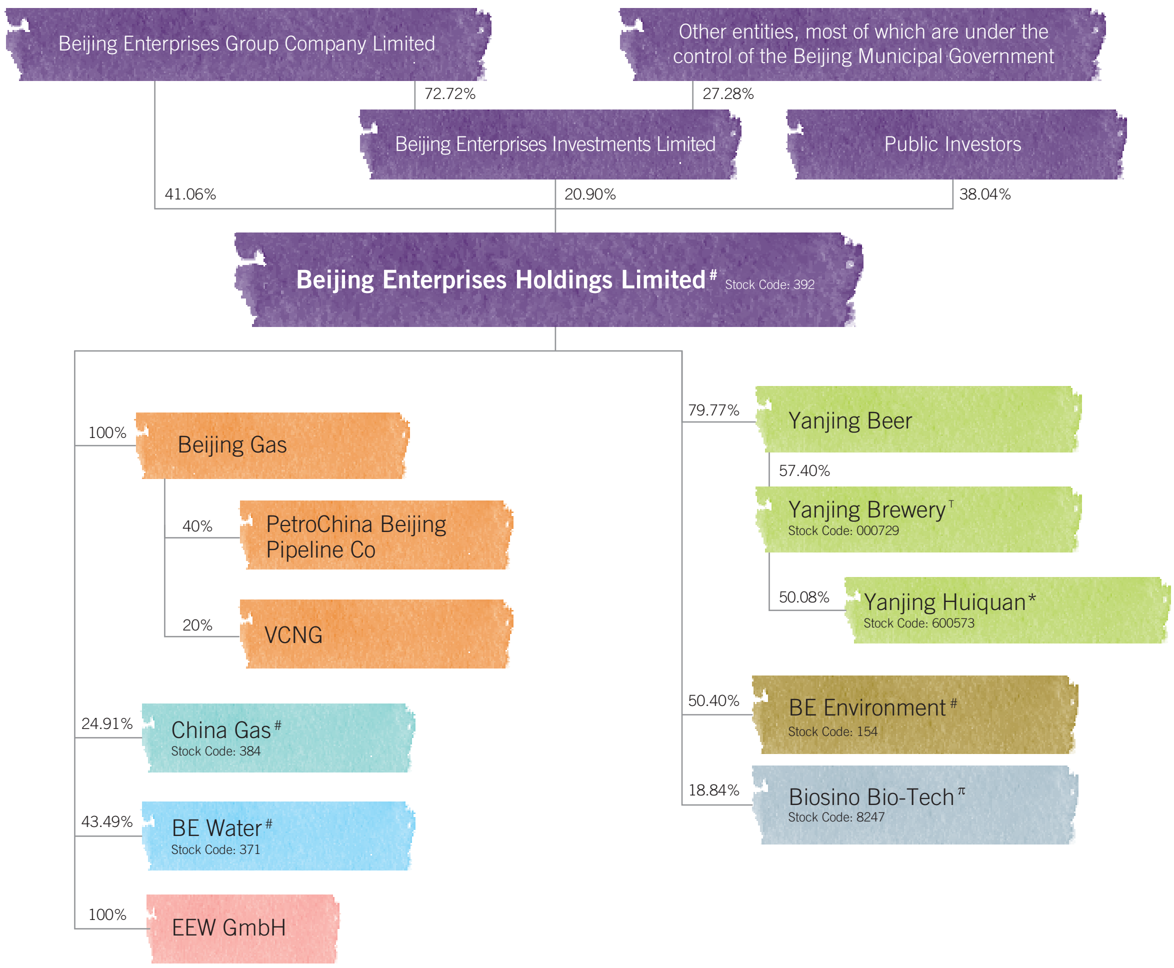
In Hong Kong
Bank of China, Hong Kong Branch
Bank of Communications, Hong Kong Branch
DBS Bank Ltd., Hong Kong Branch

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

ADR Depository Bank
The Bank of New York

CORPORATE STRUCTURE

As at 31 December 2017



* *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	2017 *HK$'000*	2016 *HK$'000*	Change
Turnover	**57,508,025**	55,958,834	**2.8%**
Gross profit	**9,362,883**	9,435,824	**-0.8%**
Profit for the year	**7,187,277**	6,639,245	**8.3%**
Profit attributable to shareholders of the Company	**6,880,378**	6,235,883	**10.3%**
Basic EPS (in HK dollars)	**5.45**	4.92	**10.8%**
Total dividend per share (in HK dollars)	**0.98**	0.95	**3.2%**
EBIT	**9,628,942**	8,989,303	**7.1%**
EBITDA	**13,131,581**	12,314,972	**6.6%**
Total assets	**171,549,018**	144,708,761	**18.5%**
Bank balance and cash	**17,884,920**	16,028,099	**11.6%**
Shareholders' equity	**67,568,050**	57,321,208	**17.9%**

Key financial indicators for the year ended 31 December	2017	2016
Average finance costs	**2.9%**	3.5%
Current ratio (times)	**1.05**	0.86
Gross profit margin	**16.3%**	16.9%
Net gearing ratio	**53.8%**	50.9%
Net profit margin	**12.5%**	11.9%
Payout ratio (%)	**18.0%**	19.3%
Return on average equity	**11.0%**	10.8%

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 2017, the Chinese economy maintained a sound development trend. There have been remarkable achievements in supply-side structural reform and continuous improvements in the quality of economic growth. Through continuous capital operations, Beijing Enterprises Holdings Limited (the "Company" or the "Group") optimized its capital structure and enhanced its asset quality. While celebrating the 20th anniversary of the Company's listing, the Group strongly abided our working principles of "determination in reform, innovative expansion, improvements in quality and efficiency, win-win development". Each of our business segments such as gas, beer, water and environment as well as solid waste treatment achieved sound development with corporate earnings seeing continuous and stable growth.

According to the financial statements prepared under the Hong Kong Financial Reporting Standards, the Company achieved an operating revenue of HK$57.51 billion in 2017, representing a year-on-year increase of 2.8%. Profit attributable to shareholders of the Company amounted to HK$6.88 billion, representing a year-on-year increase of 10.3%. Basic and diluted earnings per share amounted to HK$5.45, representing a year-on-year increase of 10.8%. The board of directors proposed a final dividend of HK68 cents per share.

For gas business, Beijing Gas Group Company Limited ("Beijing Gas") actively fulfilled its social responsibilities and enhanced its natural gas supply assurance. It continued to implement the clean air action plan by carrying out rural coal-to-gas conversion projects in cooperation with government planning. It took the initiative to serve the Xiong'an New District national strategy and participated in energy planning preparation work. With the smooth completion of the investment in the PJSC Verkhnechonskneftegaz ("VCNG") project of Rosneft Oil Company, Beijing Gas successfully marched forward its first step in overseas expansion.

CHAIRMAN'S STATEMENT

For beer business, Beijing Yanjing Brewery Co., Ltd. ("Yanjing Beer") brought in new management members in 2017. In response to the new development trends and demand in the current beer market, Yanjing Beer overcame difficulties, forged ahead and actively propelled adjustments in its product structure. It also focused on boosting its technological innovation capabilities and products quality, and largely maintained stable, sound and sustainable operation.

For water treatment and environmental business, Beijing Enterprises Water Group Limited ("BE Water", stock code: 371) seized the historic opportunity of the prevailing environmental governance policy, the Public-Private-Partnership (PPP). It facilitated the implementation of the strategic goal of "transforming into an eco-oriented enterprise" and continued to strengthen its two core businesses, namely urban water service and water environment renovation. Also, it accelerated the market construction in key regions, consolidated its existing business and pushed for market expansion.

For solid waste treatment business, the Company conducted precise operation management with a strong focus on environmental compliance and safe production, and achieved an orderly increase in the projects' operational benefits. Meanwhile, the Group reinforced the integration of our solid waste business, improved overall operational efficiency and endeavoured to achieve effective interactions among subsidiaries in the solid waste business segment. In 2017, two batches of domestic technicians successfully completed their training projects in EEW Energy from Waste GmbH ("EEW GmbH"), strengthening the in-depth integration of advanced management and technology between domestic projects and EEW GmbH.

The year 2018 marks a critical period for the Company in heading towards a new stage of high-end development after going through a glorious 20-year period since listing. The Company will continue to grasp the strategic opportunities brought by "The Belt and Road" as well as regional economic integration, fully exert our leading advantages in capital operation and investment and financing, accelerate the pace of intensifying market-oriented reform and strengthen cross-segment synergies, therefore building a solid foundation for entering a new journey of high-end development and achieving new value-creation objectives. While improving our corporate values, the Group will also focus on the harmonious development of our own business with the economy, society and environment, and proactively perform various social responsibilities. We will exert positive impact on social development and environmental construction, in return for the support and understanding from our shareholders and all sectors of the society.

Hou Zibo
Chairman and Chief Executive Officer

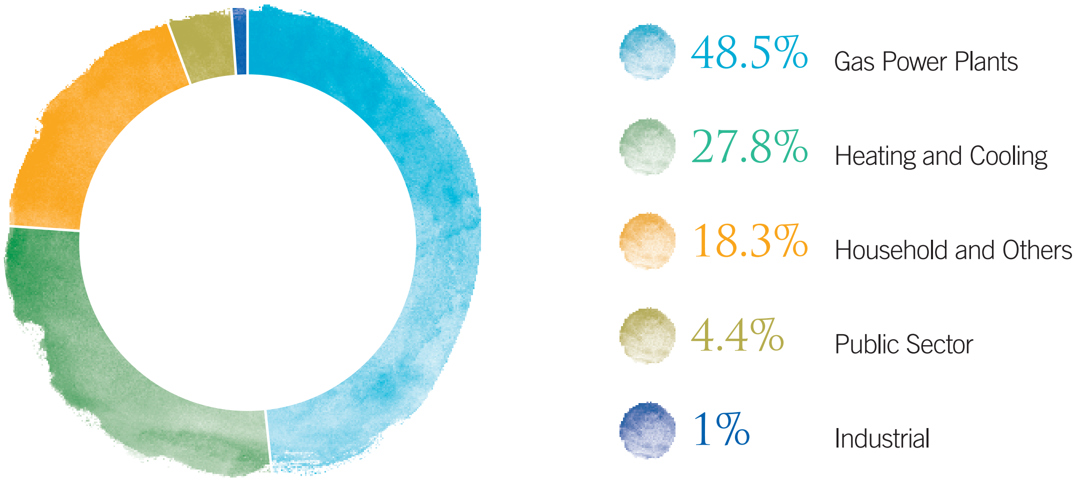
Hong Kong
29 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

Natural Gas Distribution Business

Beijing Gas Group Company Limited ("Beijing Gas") recorded a revenue of HK$39.89 billion in 2017, representing a year-on-year increase of 1.3%. Driven by gas consumption in the heating sector, the volume of gas sold for the year increased moderately by 1.4% to 14.58 billion cubic meters. An analysis by subscriber sector is shown as follows:



In 2017, Beijing Gas developed 272,000 new household subscribers and 6,763 new public sector subscribers. New heating and cooling subscribers with a total capacity of 10,862 t/h were developed. As at the end of 2017, Beijing Gas had approximately 6.03 million piped gas subscribers in Beijing and approximately 20,700 kilometers of natural gas pipelines in operation. Beijing Gas's capital expenditure during the year amounted to approximately HK$5.98 billion.

I. BUSINESS REVIEW *(Continued)*

Natural Gas Distribution Business *(Continued)*

In 2017, Beijing Gas actively promoted the construction of gas supply infrastructure in Beijing to strengthen its gas supply assurance. With its natural gas pipeline in Yanqing District formally put into operation, the "natural gas for all districts of the city" connectivity target was achieved. In the implementation of Clean Air Action Plan, Beijing Gas completed its rural gas for coal replacement project throughout the year covering a total of approximately 126,000 households in 328 villages, in 44 towns and in 10 districts, and constructed 3,482 km pipelines and 420 pressure-control stations (boxes). In the 50 boiler coal-to-gas conversion projects, 88 kilometers of the pipeline construction were completed. In the 24 township connection projects, 106 kilometers of pipeline construction were completed. At the same time, a number of major distributed energy projects with multi-functional synergetic intelligent and integration features within and outside Beijing, represented by Beijing City sub-center No.6 Energy Station, the energy supply project in Badaling Area of Zhongguancun Yanqing Science Park, Shigu. Tianxitai project in Baoji, Shaanxi and Taiyang City energy station progressed in an orderly manner. In addition, Beijing Gas took the initiative to serve the national strategy of Xiong'an New District with in-depth participation in the preparation of the energy planning of Xiong'an New District, and provided smart integrated solutions for gas supply in the construction of the new district.

Natural Gas Transmission Business

PetroChina Beijing Gas Pipeline Co., Ltd. ("PetroChina Beijing Pipeline Co.") recorded a gas transmission volume of 38.62 billion cubic meters in 2017, representing a year-on-year growth of 14.8%. The No.4 Shaanxi-Beijing Pipeline was put into operation in November 2017. As a result of the downward adjustment of the inter-provincial natural gas pipeline transmission price effective 1 September 2017, the Group's share of net profit after taxation, through its 40% equity interests in PetroChina Beijing Pipeline Co., decreased by 18.2% to HK$2.28 billion. The capital expenditure of PetroChina Beijing Pipeline Co. for the year was HK$11.64 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW *(Continued)*

VCNG of Rosneft

Beijing Gas successfully completed the acquisition of the 20% stake in PJSC Verkhnechonskneftegaz ("VCNG") project of Rosneft Oil Company ("Rosneft") at the end of June 2017 and natural gas will give priority to deliver to Beijing Gas from VCNG, which will greatly enhance the gas supply capacity of Beijing Gas and safeguard its future development. The Group began to share the economic benefits of VCNG from the second half of 2017. Profit contribution to the Group amounted to HK$421 million.

China Gas

China Gas Holdings Limited ("China Gas", stock code: 384) achieved a profit attributable to the Group of HK$1.39 billion in 2017. During the six months ended 30 September 2017, China Gas recorded significant growth in both the financial and operating performance in its three major business segments (natural gas sales and pipeline connections, LPG sales, and value-added services). Its natural gas sales reached 8.25 billion cubic meters, representing a year-on-year increase of 74.3%; sales of LPG reached 1.94 million tons, representing a year-on-year increase of 12.8%. Its half-year profit attributable to shareholders increased by 100.7% to HK$3.395 billion.

Beer Business

In 2017, China's beer consumption showed signs of stability, but there were still fluctuations; beer consumption was more diversified and individualised; consumers' pursuit of high quality became more common. At the same time, the beer industry is also facing pressures such as rising costs, increasing environmental protection requirements, and more intense competition. Beijing Yanjing Brewery Co., Ltd. ("Yanjing Beer") actively adjusted and catered to the changes in the market, focused on improving technological innovation capabilities and product quality, continuously strengthened and improved its internal management, consistently implemented and executed the green production concept, and further promoted the three major structural adjustments namely products, brands and market, set up the integrated online and offline marketing layout.

Yanjing Beer achieved total beer sales volume of 4.16 million kilolitres during the year, of which "1+3" brand products accounted for 92% and Yanjing's main brand products accounted for 74%. The sales volume of products of RMB2,500 or above per kilolitre accounted for 52%, of which sales volume of canned beer was 0.633 million kilolitres, representing 15.2%, sales volume of Yanjing fresh beer was 1.037 million kilolitres, accounting for 24.9%, and sales volume of white beer recorded a 37.8% year-on-year growth. In 2017, Yanjing Beer recorded an operating revenue of HK$11.41 billion. The capital expenditure of Yanjing Beer in the year was approximately HK$819 million.

I. BUSINESS REVIEW *(Continued)*

Water and Environmental Business

In 2017, Beijing Enterprises Water Group Limited ("BE Water", stock code: 371) continued to strengthen and expand its two core businesses, namely water treatment services and construction services for the water environment renovation, and explored new profit growth drivers centering on the segments with resources advantage, and achieved a revenue of HK$21.19 billion for the year, representing a year-on-year increase of 22.1%. Profit attributable to its shareholders increased by 15.2% to HK$3.72 billion, of which HK$1.62 billion was attributable to the Group, representing a year-on-year increase of 14.5%.

As at the end of 2017, BE Water already participated in 782 water plants which are or will be in operation, including 655 sewage treatment plants, 112 water distribution plants, 14 reclaimed water plants and 1 seawater desalination plant, with a total designed capacity of 31,390,000 tons/day. Total designed capacity of new projects for the year was 4,840,000 tons/day.

Solid Waste Treatment Business

As at the end of 2017, the waste incineration and power generation integrated treatment capacity in the solid waste treatment business segment of the Group reached 21,975 tons/day, with hazardous waste treatment capacity of 115,000 tons/year. During the year, EEW Energy from Waste GmbH ("EEW GmbH") achieved an operating revenue of HK$4.8 billion. Beijing Enterprises Environment Group Limited ("BE Environment", Stock Code: 154) and Beijing Enterprises Holdings Environment Technology Co., Ltd ("BEHET") together achieved total revenue of HK$1.31 billion with profit attributable to shareholders of the Group of HK$115 million. The capital expenditure of solid waste treatment-related business (domestically and overseas) for the year amounted to approximately HK$1.8 billion.

In 2017, EEW GmbH accomplished a waste treatment volume of 4.553 million tons and sales of electricity of 1.626 billion KWH. The domestic projects of the Group completed a waste treatment volume of 3.253 million tons, with an on-grid power generation volume of 830 million KWH and hazardous waste input volume of 71,000 tons, proactively incorporating advanced technological R&D achievements and operating experiences from EEW GmbH. The Haidian household waste incineration project, a representative project of BE Environment, was put into commercial trial operation in November 2017, which improves the overall ability and market position of BE Environment as a leading enterprise in the solid waste treatment industry in Beijing.

I. BUSINESS REVIEW *(Continued)*

Material Capital Operation

In 2017, the Group raised approximately HK$17.41 billion of fundings through foreign currency guaranteed bonds and loans. The Company successfully issued 5-year guaranteed bonds of EUR800 million and listed for trading in Ireland to replace part of the bridging loans for acquiring EEW GmbH. Beijing Gas successfully issued the 5-year guaranteed notes amounting to US$500 million.

Principal Risks – Exchange Rate Fluctuation

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

During 2017, the exchange rates of RMB against Hong Kong dollar and U.S. Dollar remained strong. The Board does not expect the mild fluctuation of RMB's exchange rate in the future will have material adverse impact on the operations of the Group. As the Euro assets and Euro debts of the Group were basically matched, the Group was less affected by the fluctuation of Euro exchange rate.

Main Uncertainties

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

II. PROSPECTS

Natural Gas Distribution Business

With the accelerating transformation towards clean and low carbon energy utilisation, natural gas continues to increase its weighting in the overall energy consumption structure. Beijing Gas will persist in the development of clean energy, continue to push forward "coal-to-gas replacement" projects, and give priority to the Beijing City sub-center project and Xiong'an New District project to lead the gas business expansion in surrounding towns. Beijing Gas will focus on the resources integration in gas sourcing, storage and sales to achieve breakthrough development in natural gas business from safeguarding gas supply to gas trading. At the same time, Beijing Gas will accelerate the construction of LNG storage tanks at receiving terminals and ancillary pipelines to lay a foundation for broadening the channels to import overseas LNG resources, safeguarding the natural gas supply in Beijing and achieving LNG import and distribution.

MANAGEMENT DISCUSSION AND ANALYSIS

II. PROSPECTS *(Continued)*

China Gas

China Gas will continue to make clear its geographical focus in the future strategy planning with Beijing Gas, and accelerate the nationwide layout of its city gas business. At the same time, it will continue to strengthen its corporate management and risk control, optimise its capital structure and financing channels, and improve its safe operation and supply capabilities during peak seasons in order to further explore the market. China Gas will double its efforts in developing the "replacement of coal with gas" business in towns and villages while continuing to develop and consolidate urban gas business and LPG business. Meanwhile, China Gas will also accelerate its market expansion of distributed energy business and promote the development of various new businesses such as LNG trading, value-added business and thermoelectric in order to transform itself into a truly outstanding market-oriented enterprise.

Natural Gas Transmission Business

After the No. 4 Shaanxi-Beijing Pipeline is fully put into operation, the total transmission capacity of the Shaanxi-Beijing Pipelines will be further expanded to meet the future demand, which will effectively alleviate the winter gas shortage in the Beijing-Tianjin-Hebei region, facilitate the optimization of the energy structure in Beijing and Northern China, and promote the air pollution treatment in the region. The Group will benefit from the transmission business size expansion in the long run.

Beer Business

The China beer market witnessed a continuous and steady structural adjustment. The market share of medium– to high-end products continued to increase, while the overall demand structure was further moving towards the direction of fragmentation, individuation and diversification. Yanjing Beer will adhere to consumer-oriented development to comprehensively strengthen market building and establish an excellent quality management system. By leveraging the supply side structural reform, Yanjing Beer will persist to implement its fresh beer strategy and canned beer strategy and endeavour to increase the market share of medium– to high-end products. Yanjing Beer will also continue to optimise the brand structure, distinctively position "Yanjing" as a national brand and build a globalised national brand that is in line with international standards.

II. PROSPECTS *(Continued)*

Water and Environmental Business

The strategic deployment of the national ecological civilization construction has brought new opportunities for the environmental protection industry. In addition, the public-private partnership ("PPP") model has entered into the quality upgrade phase, and those companies that can provide comprehensive solutions and treatment technologies have further highlighted their development advantages. BE Water will grasp the policy direction and market trends, and gradually transform itself into a light asset company by building asset management platform and operation management platform. BE Water will strengthen investment risk management, focus resources on key projects; strengthen technology research and development, improve technology marketing capabilities; improve project construction management level, establish a unified procurement management platform; and fully enhance corporate core competitiveness.

Solid Waste Treatment Business

With the continuous promotion of urban-rural integration, the waste collection and transfer system is becoming more and more matured and the demand of waste treatment is also increasing gradually. Some of the domestic household waste incineration power generation projects in operation are undergoing technological transformation and expansion construction, which will enable them to meet the growing environmental standards. The Group will give full play to its advantages in terms of branding, capital, resources and technology to strengthen the in-depth integration of advanced management and technology concept from EEW GmbH into domestic projects, improve overall operating performance, consolidate industry foundation and continue to enhance the overall competitiveness of the solid waste treatment segment of the Group. At the same time, the Group will enhance security and quality management in project construction, improve sophisticated and systematic operation management, and establish a benchmark enterprise. The Group will also establish big data operation management, intensify effectiveness control, explore new profit growth drivers and improve the capacity of value creation in the business chain.

III. FINANCIAL REVIEW

Revenue

The revenue of the Group in 2017 was HK$57.51 billion, representing an increase of 2.8% when compared with 2016. Of which, the revenue of Beijing Gas sales was HK$39.89 billion representing a year-on-year increase of 1.3%, which accounted for 69.4% of total revenue. The revenue of beer sales was HK$11.41 billion, which accounted for 19.8% of total revenue. The solid waste treatment businesses contributed a total revenue of HK$6.2 billion, which accounted for 10.8% of total revenue and included the revenue of EEW GmbH amounting to HK$4.8 billion.

Cost of Sales

Cost of sales increased by 3.5% to HK$48.15 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 2017, the overall gross profit margin was 16.3%, representing a decrease by 0.6% when compared with the 16.9% in 2016. The decrease in overall gross profit margin was mainly attributable to increase of employees cost and energy cost of Yanjing Beer during the year.

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 recognised a gain on deemed disposal of the partial interest in an associate of HK$10.41 million.

Other Income

Other income mainly comprised of government grants amounted to HK$151 million; dividend income of HK$120 million, gain on disposal of certain fixed assets of HK$204 million; gain on transfer of assets from customers amounted to HK$66.36 million; bank interest income amounted to HK$276 million; gain on disposal of scrap materials and beer bottles by Yanjing Beer amounted to HK$74.55 million and rental income of HK$50.17 million.

Selling and Distribution Expenses

Selling and distribution expenses of the Group in 2017 decreased by 5.1% to HK$2.3 billion which was mainly due to the enhancement of marketing efficiency and effective selling and distribution expenses control for the brewery business.

III. FINANCIAL REVIEW *(Continued)*

Administrative Expenses

Administrative expenses of the Group in 2017 were HK$4.37 billion, increased by 3.4% when compared to last year, which was mainly due to continuous expansion of natural gas distribution business.

Other Operating Expenses, net

It mainly comprised of the impairment for certain construction in progress.

Finance Costs

Finance costs of the Group in 2017 was HK$1.6 billion, increased by 7% comparing to 2016, which was mainly due to issuance of bonds of EUR 800 million in April 2017 and US$500 million guaranteed notes issued by Beijing Gas.

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 24.91% share of the profit attributable to shareholders of China Gas and the 43.49% share of the profit attributable to shareholders of BE Water.

In 2017, the Group shared the profit after taxation of PetroChina Beijing Pipeline Co. amounting to HK$2.28 billion, and in the same year, the Group shared the profit after taxation of China Gas amounting to HK$1.39 billion. The Group's share of net profits of BE Water amounted to HK$1.62 billion.

Taxation

After deducting the share of profits and losses of associates and jointly-controlled entities, the effective income tax rate is 38.8%, higher than that of 33.7% in last year. This was mainly due to higher income tax rate of EEW GmbH and higher non-deductible operation expenses of Yanjing Beer when compared with last year.

Profit Attributable to Shareholders of the Company

The profit attributable to the shareholders of the Company for the year ended 31 December 2017 was HK$6.88 billion (2016: HK$6.24 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$8.3 billion, which was mainly due to new coal-to-gas conversion project of Beijing Gas.

Other intangible assets

Other intangible assets were mainly from EEW GmbH.

Investments in associates

The increase in the balance by HK$15.21 billion was mainly due to acquisition of VCNG project in June 2017 and share of attributable profits from BE Water, PetroChina Beijing Pipeline Co. and China Gas.

Available-for-sale investments

The increase of HK$3.26 billion was mainly due to the transfer of a prepayment balance of RMB1.9 billion to an available-for-sale investment during the year and the increase of its fair value.

Receivables under finance lease

Balance of receivables under finance lease was from EEW GmbH.

Prepayments, deposits and other receivables

The decrease in the prepayment balance by HK$2.05 billion was mainly attributable to as at the end of last year transfer of a balance amount of RMB1.9 billion to an available-for-sale investment during the year.

Convertible bonds receivables

The balance represented convertible bonds issued by Beijing Gas Blue Sky Holdings Limited ("Blue Sky") to Beijing Gas.

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

Current assets

Inventories

The increase in the balance by HK$342 million was mainly due to increase in inventories of Yanjing Beer.

Prepayments, deposits and other receivables

The decrease in the balance by HK$596 million was mainly attributable to that dividend receivable from PetroChina Beijing Pipeline Co. as at the end of last year was received during the year.

Cash and Bank Borrowings

As at 31 December 2017, cash and bank deposits held by the Group amounted to HK$17.84 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$60.49 billion as at 31 December 2017, which comprised, inter alia, guaranteed bonds and senior notes of US$2.5 billion in total, Euro guaranteed bonds amounting to EUR1.3 billion, medium and long-term loans amounting to HK$15.19 billion and bridging loans amounting to EUR430 million with the remaining loans denominated in Hong Kong dollar and RMB. Around 60.9% of the total borrowings were denominated in US and Hong Kong dollar and 33.3% in Euro. The Group had net borrowings of HK$42.65 billion as at 31 December 2017.

Assets of disposal groups classified as held for sale

The decrease in the balance was mainly due to completion of the disposal of the ten city gas projects by Beijing Gas to China Gas and the coal to gas project in Keshiketeng County during the year. As at the end of current year, the balance related to assets from intended disposal of PetroChina Jingtang LNG Co., Ltd. ("Jingtang LNG") to Blue Sky by Beijing Gas.

Non-current liabilities

Bank and other borrowings

There was a decrease of HK$2.22 billion in long and short term balance in total, which was mainly due to issuance of guaranteed bonds of EUR800 million in the current year used for repayment of partial bridging loan drawn down for the acquisition of equity interest in EEW GmbH in Germany last year.

Guaranteed bonds, notes and senior notes

The balance increased by HK$12.08 billion, which was mainly generated from additional guaranteed bonds amounted to EUR800 million, and the US$500 million guaranteed notes issued by Beijing Gas in the year.

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

Non-current liabilities *(Continued)*

Onerous contracts and major overhauls

The balances were mainly from EEW GmbH.

Other non-current liabilities

The increase of HK$528 million in the balance was mainly due to the increase in amounts payable of Beijing Gas in coal-to-gas project.

Current liabilities

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$2.92 billion mainly due to the consideration payable to Jingtang LNG project acquired by Beijing Gas during the year and the increase in amounts payable of coal-to-gas project.

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 2017, the issued capital of the Company amounted to 1,262,053,268 shares and the shareholders' equity was HK$67.57 billion. Total equity was HK$79.17 billion. The gearing ratio, which is all the interest bearing borrowings, guaranteed bonds, notes and senior notes divided by the sum of total equity plus all interest-bearing borrowings, guaranteed bonds, notes and senior notes was 43% (2016: 43%).

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

HOU Zibo, aged 52, is the Executive Director, Chairman and CEO of the Company. Mr. Hou also serves as Vice Chairman and General Manager of Beijing Enterprises Group Company Limited. Mr. Hou graduated from the School One of Ministry of Aerospace Industry with the specialty in Structural Mechanics and China Europe International Business School with the specialty in Business Administration; possesses a master degree in engineering, an MBA degree and the title of Professor-grade Senior Engineer. He was Deputy Director of Institute 702 of Ministry of Aerospace Industry and participated in many science and research projects of the state. Subsequently, Mr. Hou acted as Director and Deputy General Manager of Beijing Jingcheng Machinery Electric Holding Co., Ltd. From 2005 to 2010, he was Deputy Director of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Hou has extensive experience in state-owned assets management, corporate assets management and capital operations. Mr. Hou joined the Group in March 2012.

LI Yongcheng, aged 56, is the Executive Director and Vice Chairman of the Company. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master's degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd. He is currently Vice Chairman and Executive Deputy General Manager of Beijing Enterprises Group Company Limited, and is also Chairman and Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations. Mr. Li was Vice President of the Company from August 2007 to March 2011, and subsequently re-joined the Company as Executive Director in March 2014 and was re-designated as Executive Director and Vice Chairman in March 2016.

ZHAO Xiaodong, aged 45, is the Executive Director and Vice Chairman of the Company. Mr. Zhao obtained a master's degree of mechanical engineering and automation from Beijing University of Technology and once studied for a doctor's degree in management at Beijing University of Technology. Mr. Zhao has joined Beijing Yanjing Beer since 1998. He is currently Chairman and General Manager of both Beijing Yan Jing Beer Group Company and Beijing Yanjing Brewery Co., Ltd. (the shares of which are listed on the Shenzhen Stock Exchange with stock code: 000729). Mr. Zhao was appointed as Executive Director and Vice Chairman of the Company in September 2017.

DIRECTORS AND SENIOR MANAGEMENT

E Meng, aged 59, 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 53, 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.

TAM Chun Fai, aged 55, 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.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

WU Jiesi, aged 66, holds a doctorate degree in Economics. Mr. Wu also serves as Independent Non-executive Director of China Taiping Insurance Holdings Company Limited (stock code: 966), China Citic Bank International Limited as well as Industrial and Commercial Bank of China (Asia) Limited; Non-executive Director of Shenzhen Investment Limited (stock code: 604) and Silver Base Group Holdings Limited (stock code: 886). He conducted post-doctoral research work in theoretical economics at the Nankai University in the PRC and was conferred the professorship qualification by the Nankai University in 2001. During the period from 1984 to 1995, Mr. Wu worked at the Industrial and Commercial Bank of China in a number of positions, including as the President of Shenzhen Branch. From 1995 to 1998, Mr. Wu was Vice Mayor of Shenzhen Municipal Government and from 1998 to 2000 he was the assistant to the Governor of Guangdong province. He was the Chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, and the managing director and chief executive officer of Hopson Development Holdings Limited. From September 2005 to July 2011, he was Independent Non-executive Director of China Merchants Bank Co., Ltd. (stock code: 3968). Mr. Wu was Non-executive Director and Vice Chairman of China Aoyuan Property Group Limited (stock code: 3883). He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

LAM Hoi Ham, *Justice of Peace*, aged 79, 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.

SZE Chi Ching, *Justice of Peace*, aged 78. 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 honorary committee member of China Federation of Literary, consultant of China Calligraphers Association, chairman of Hong Kong Branch of Chinese Calligraphers Association, chairman of the board of Hang Tung Resources Holding Limited, and honorary president of the Hong Kong Fujian Chamber of Commerce. He has been appointed as vice chairman and a visiting professor of Huaqiao University, a part-time professor of the Chinese Department of Xiamen University, consulting professor of Peking University, executive director of the Board of Trustees of Jimei University, etc. Mr. Sze joined the Group in March 2013.

DIRECTORS AND SENIOR MANAGEMENT

YU Sun Say, *G.B.M., J.P.*, aged 79. 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 61, 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.

SENIOR MANAGEMENT

ZHI Xiaoye, aged 50, is Vice President of the Company. Mr. Zhi also serves as General Manager of Beijing Gas Group Company Limited, and Non-Executive Director and Co-Chairman of Beijing Gas Blue Sky Holdings Limited (stock code: 6828). Mr. Zhi graduated from Beijing University of Technology with a master degree in Management Science and Engineering, possesses the title of senior engineer, and had worked at Tokyo Gas in Japan as Researcher, at Beijing Gas Group Company Limited as transmission branch Manager, at Beijing Dingxin New Technology Company Limited（北京市鼎新新技術有限公司）as Chairman and at Beijing Gas Group Company Limited as Executive Deputy General Manager. Mr. Zhi has plenty of experience in pipe gas business and corporate management. Mr. Zhi was appointed as Vice President of the Company in July 2014.

DIRECTORS AND SENIOR MANAGEMENT

KE Jian, aged 49, 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 50, 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.

SHA Ning, aged 47, 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.

JIN Feng, aged 39, is Vice President of the Company. Mr. Jin studied at School of Economics and Business Administration, Beijing Normal University from 2001 to 2004 for the corporate management professional postgraduate programme. During his tenure at the research institute and general office of State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality from 2004 to 2009, Mr. Jin was once transferred to work with State-owned Assets Supervision and Administration Commission of the State Council. From 2009 to 2017, he worked with Beijing Enterprises Group Company Limited as senior office manager, and later as deputy director of research institute and officer director, respectively. Mr. Jin was appointed as Vice President of the Company in July 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 2017.

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

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

KEY PERFORMANCE INDICATORS

The key performance indicators of the Company's business are stated in the section titled "Financial Highlights" on page 5 of this 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 environmental, 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 2017, Beijing Gas continued to actively work with Beijing Municipal Government for the implementation of Clean Energy Action Plan, facilitated clean energy transformation of coal-fire boiler, coal-to-gas conversion projects, vehicle gas and distributed energy to speed up the adjustment in energy structure. In the implementation of Clean Air Action Plan, Beijing Gas completed its rural gas for coal replacement project throughout the year covering a total of approximately 126,000 households in 328 villages, in 44 towns and in 10 districts, and constructed 3,482 km pipelines and 420 pressure-control stations (boxes).

The Group also provides a safer and more environmentally-friendly waste incineration for the society. As at the end of 2017, waste incineration and power generation integrated treatment capacity of the Group reached 21,975 tons/day, with hazardous waste treatment capacity of 115,000 tons/year.

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 and investors	Satisfactory investment return Good market value Transparent operation Improvement of profitability and core competitiveness	Annual reports and announcements Roadshows and investors meetings Telephone conference with analysts Annual general meeting Company website	Established good relationship with investors Continuous improvement on credibility with investors Obtained the support from investors and shareholders on material decisions

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

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

REPORT OF THE DIRECTORS

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 60 to 194.

An interim dividend of HK30 cents per ordinary share was paid on 18 October 2017. The directors of the Company recommended the payment of a final dividend of HK68 cents per share for the year ended 31 December 2017 payable to shareholders on the register of members of the Company on 3 July 2018. Subject to the approval of shareholders at the forthcoming annual general meeting, the final dividend will be paid on 18 July 2018.

ANNUAL GENERAL MEETING

The 2018 annual general meeting will be held on Tuesday, 12 June 2018. The notice of the 2018 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).

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the 2018 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 2018 annual general meeting:

Latest time to lodge transfer documents for registration	4:30 pm on Wednesday, 6 June 2018
Closure of register of members	Thursday, 7 June 2018 to Tuesday, 12 June 2018 (both dates inclusive)
Annual General Meeting	Tuesday, 12 June 2018

CLOSURE OF REGISTER OF MEMBERS *(Continued)*

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 pm on Tuesday, 26 June 2018
Closure of register of members	Wednesday, 27 June 2018 to Tuesday, 3 July 2018 (both dates inclusive)
Record date	Tuesday, 3 July 2018

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2018 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 2017, 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.

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 2016 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 AND SHARE OPTIONS

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

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company bought back a total of 100,000 ordinary shares of the Company on the Stock Exchange. The shares were subsequently cancelled by the Company. Details of the buy-back of such ordinary shares are as follows:

Month	Number of shares bought back	Price per share Highest	Price per share Lowest	Total consideration paid
		HK$	*HK$*	*HK$*
May	100,000	37.20	37.20	3,720,000

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 56 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2017, 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$1,025,283,000 (2016: HK$1,175,278,000).

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

HOU Zibo
LI Yongcheng
Zhao Xiaodong (appointed on 1 September 2017)
E Meng
JIANG Xinhao
TAM Chun Fai
WANG Dong (resigned on 1 September 2017)
ZHOU Si (resigned on 1 September 2017)
LI Fucheng (resigned on 1 September 2017)

DIRECTORS OF THE COMPANY *(Continued)*

Independent Non-executive Directors

WU Jiesi
LAM Hoi Ham
SZE Chi Ching
YU Sun Say
MA She
FU Tingmei (retired on 22 June 2017)

DIRECTORS OF SUBSIDIARIES

The names of directors who have served on the boards of the principal subsidiaries of the Company during the financial year ended 31 December 2017 or during the period from 1 January 2018 up to the date of this report are available on the Company's website (www.behl.com.hk).

BOARD CHANGES AND CHANGES IN DIRECTORS' INFORMATION

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

With effect from the conclusion of the Company's annual general meeting held on 22 June 2017:

(i) Mr. Fu Tingmei retired as Independent Non-executive Director; and

(ii) Mr. Ma She replaced Mr. Fu Tingmei to concurrently hold the positions of member of the Audit Committee, member of the Nomination Committee and member of the Investment Committee.

On 1 September 2017:

(i) Mr. Wang Dong resigned as Executive Director and Chairman of the Board;

(ii) Due to retirement, Mr. Zhou Si resigned as Executive Director, Vice Chairman of the Board and Chief Executive Officer;

(iii) Due to retirement, Mr. Li Fucheng resigned as Executive Director and Vice Chairman of the Board;

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

(iv) Executive Director and Vice Chairman of the Board Mr. Hou Zibo was re-designated as Executive Director, Chairman of the Board, Chief Executive Officer, Chairman of the Nomination Committee, Member of the Remuneration Committee and Chairman of the Investment Committee; and

(v) Mr. Zhao Xiaodong was appointed as Executive Director and Vice Chairman of the Board.

In accordance with articles 98 and 107 of the Company's articles of association and the recommendation of the Board, Messrs. Hou Zibo, Zhao Xiaodong, Tam Chun Fai, Wu Jiesi and Sze Chi Ching 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 53 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 2017, 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
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
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 2017, all interests in these 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:

	Number of share options directly beneficially owned							
Director	At 1 January 2017	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2017	Share options granted on (year/month/day)	Exercise period (year/month/day)	Exercise price per share (HK$)
E Meng	5,000,000	–	–	*(5,000,000)*	0	2011/10/28	2011/10/28 – 2021/10/27	0.465
	3,600,000	–	–	*(3,600,000)*	0	2012/06/01	2012/06/01 – 2022/05/31	0.410
	8,600,000			*(8,600,000)*	0			
Jiang Xinhao	5,000,000	–	–	*(5,000,000)*	0	2011/10/28	2011/10/28 – 2021/10/27	0.465
	3,300,000	–	–	*(3,300,000)*	0	2012/06/01	2012/06/01 – 2022/05/31	0.410
	6,000,000	–	–	*(6,000,000)*	0	2013/05/24	2013/05/24 – 2023/05/23	0.574
	4,000,000	–	–	*(4,000,000)*	0	2014/03/31	2014/03/31 – 2024/03/30	0.940
	2,000,000	–	–	*(2,000,000)*	0	2014/08/28	2014/08/28 – 2024/08/27	0.750
	3,000,000	–	–	*(3,000,000)*	0	2015/04/08	2015/04/08 – 2025/04/07	0.720
	23,300,000			*(23,300,000)*	0			

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

	Number of share options directly beneficially owned							
Director	At 1 January 2017	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2017	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 2017**	**Granted during the year**	**Exercised during the year**	**Cancelled during the year**	**At 31 December 2017**	**Share options granted on (year/month/day)**	**Exercise period (year/month/day)**	**Exercise price per share (HK$)**
Jiang Xinhao	800,000	–	–	*(800,000)*	0	2015/06/25	2017/04/16 – 2019/04/15	13.84
	800,000			*(800,000)*	0			

Note:

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

Save as disclosed above, as at 31 December 2017, 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 2017, 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")	1,465,677	–	1,465,677	0.12%
BE Group BVI	–	1,465,677*	1,465,677	0.12%
BE Group	–	1,465,677*	1,465,677	0.12%

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

Save as disclosed above, as at 31 December 2017, 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 50 to the financial statements.

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

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

SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDERS

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

Date of the Agreement(s)	Nature of the Agreement(s)	Aggregate amount *(million)*	Final Maturity
5 May 2011	Purchase agreement for issuance of bonds	US$600	May 2021
5 May 2011	Purchase agreement for issuance of bonds	US$400	May 2041
18 April 2012	Purchase agreement for issuance of bonds	US$800	April 2022
29 April 2015	Subscription agreement for issuance of bonds	EUR500	May 2020
27 November 2015	Term loan facility with a bank	HK$4,000	November 2020
1 December 2015	Subscription agreement for issuance of bonds	US$200	December 2040
24 June 2016	Term loan facility with a bank	HK$4,000	June 2021
22 November 2016	Term loan facility with a bank	HK$3,000	November 2021
7 December 2016	Term loan facility with a bank	HK$1,940	December 2021
12 April 2017	Subscription agreement for issuance of bonds	EUR800	April 2022
13 July 2017	Term loan facility with a bank	HK$4,000	July 2022
28 February 2018	Term loan facility with a bank	EUR2,500	April 2018

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 2017.

DONATIONS

The Group's charitable donations during the year amounted to HK$7 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

Hou Zibo
Chairman & CEO

Hong Kong
29 March 2018

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Save as disclosed below, the board of Directors (the "Board") of Beijing Enterprises Holdings Limited (the "Company") believe that during the year ended 31 December 2017, the Company has complied with the code provisions (the "Code Provisions") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

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

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

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 2017.

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.

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	Investment Committee Meeting	Annual General Meeting
Executive Directors							
Hou Zibo**	*(Chairman & CEO)*	1/2				0/0	
Li Yongcheng	*(Vice Chairman)*	2/2					
Zhao Xiaodong**	*(Vice Chairman)*	0/0					
E Meng	*(Executive Vice President)*	2/2					
Jiang Xinhao	*(Vice President)*	2/2				0/0	
Tam Chun Fai	*(CFO & Company Secretary)*	2/2					1/1
Wang Dong**	*(Resigned on 1 September 2017)*	1/2			1/2		0/1
Zhou Si**	*(Resigned on 1 September 2017)*	2/2		1/1			
Li Fucheng**	*(Resigned on 1 September 2017)*	2/2					
Independent Non-executive Directors							
Wu Jiesi		2/2	2/2	1/1			0/1
Lam Hoi Ham		2/2	2/2	1/1	2/2	0/0	1/1
Sze Chi Ching		2/2					0/1
Yu Sun Say		2/2				0/0	1/1
Ma She		2/2	1/1		1/1	0/0	0/1
Fu Tingmei*	*(Retired on 22 June 2017)*	1/1	1/1		1/1		0/1

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

Note *: On 22 June 2017:

- Mr. Fu Tingmei retired as Independent Non-executive Director with effect from the conclusion of the annual general meeting.

BOARD OF DIRECTORS *(Continued)*

Composition and Role *(Continued)*

Note **: On 1 September 2017:

- Executive Director and Vice Chairman Mr. Hou Zibo was re-designated as Executive Director, Chairman of the Board and CEO.
- Mr. Zhao Xiaodong was appointed as Executive Director and Vice Chairman of the Board.
- Mr. Wang Dong resigned as Executive Director and Chairman of the Board.
- Mr. Zhou Si resigned as Executive Director, Vice Chairman of the Board and CEO due to retirement.
- Mr. Li Fucheng resigned as Executive Director and Vice Chairman of the Board due to retirement.

Directors' Training

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

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

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

Name		Attend Seminars/ Read Training Materials
Executive Directors		
Hou Zibo		✓
Li Yongcheng		✓
Zhao Xiaodong		✓
E Meng		✓
Jiang Xinhao		✓
Tam Chun Fai		✓
Wang Dong	*(Resigned on 1 September 2017)*	N/A
Zhou Si	*(Resigned on 1 September 2017)*	N/A
Li Fucheng	*(Resigned on 1 September 2017)*	N/A

BOARD OF DIRECTORS *(Continued)*

Directors' Training *(Continued)*

Name		Attend Seminars/ Read Training Materials
Independent Non-executive Directors		
Wu Jiesi		✓
Lam Hoi Ham		✓
Sze Chi Ching		✓
Yu Sun Say		✓
Ma She		✓
Fu Tingmei	*(retired on 22 June 2017)*	N/A

Non-executive Directors

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

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

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

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

BOARD OF DIRECTORS *(Continued)*

Corporate Governance Functions

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

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

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

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

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

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

AUDIT COMMITTEE

The current members of the Audit Committee are:

Mr. Lam Hoi Ham – Committee Chairman
Mr. Wu Jiesi
Mr. Ma She (appointed on 22 June 2017 to replace 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. Hou Zibo (appointed on 1 September 2017 to replace 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, the Remuneration Committee advised the Board on the Company's overall remuneration policy and structure as well as remuneration packages for Directors and senior management of the Company.

NOMINATION COMMITTEE

The current members of the Nomination Committee are:

Mr. Hou Zibo – Committee Chairman (appointed on 1 September 2017 to replace Mr. Zhou Si)
Mr. Lam Hoi Ham
Mr. Ma She (appointed on 22 June 2017 to replace 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 Board changes. 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.

INVESTMENT COMMITTEE

The current members of the Investment Committee are:

Mr. Hou Zibo – Committee Chairman (appointed on 1 September 2017 to replace Mr. Zhou Si)
Mr. Jiang Xinhao
Mr. Lam Hoi Ham
Dr. Yu Sun Say
Mr. Ma She (appointed on 22 June 2017 to replace Mr. Fu Tingmei)

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. During the year, the Investment Committee did not hold any meeting as the Group did not have any important investment to assess important investments.

AUDITORS' REMUNERATION

During the year ended 31 December 2017, fees paid and payable to the Company's external auditors for audit services were approximately HK$13 million; fees paid and payable for non-audit services were approximately HK$5.89 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 2017 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. The review covers all material controls, including financial, operational and compliance controls. It evaluates the effectiveness of the systems at least annually to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.

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

The Board understands that it is responsible for evaluating and determining the nature and extent of the risks it is willing to take and ensuring that the Group has established and maintained appropriate and effective risk management and internal control systems. The Board is also responsible for overseeing its risk management and internal control systems on an ongoing basis and reviewing the effectiveness of the risk management and internal control systems 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, facilitate 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.

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 2017 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 2017. 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. During the year 2017, 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 2017, 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 60 to 194, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 for Beijing Gas Group Company Limited ("Beijing Gas") and EEW Holding GmbH and M+E Holding GmbH & Co. KG ("EEW Group")	
In June 2007 and March 2016, the Company completed the acquisition of Beijing Gas and EEW Group and goodwill of HK$7.0 billion and HK$7.8 billion arose from the acquisitions, respectively. 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 2017, the goodwill carried in the Group's financial statements was approximately HK$16,910 million. Given the complexity and judgemental nature of the impairment testing, the Group engaged 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 assist 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; and (ii) 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.

KEY AUDIT MATTERS *(Continued)*

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

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	*5*	**57,508,025**	55,958,834
Cost of sales		**(48,145,142)**	(46,523,010)
Gross profit		**9,362,883**	9,435,824
Gain on deemed disposal of partial interest in an associate	*20(a)*	**10,410**	4,387
Other income and gains, net	*5*	**1,487,837**	1,623,890
Selling and distribution expenses		**(2,295,994)**	(2,418,684)
Administrative expenses		**(4,370,235)**	(4,225,780)
Other operating expenses, net		**(420,512)**	(380,230)
PROFIT FROM OPERATING ACTIVITIES	*6*	**3,774,389**	4,039,407
Finance costs	*7*	**(1,596,534)**	(1,492,335)
Share of profits and losses of:			
Joint ventures	*19*	**26,609**	6,623
Associates	*20(b)*	**5,827,944**	4,943,273
PROFIT BEFORE TAX		**8,032,408**	7,496,968
Income tax	*10*	**(845,131)**	(857,723)
PROFIT FOR THE YEAR		**7,187,277**	6,639,245
ATTRIBUTABLE TO:			
Shareholders of the Company		**6,880,378**	6,235,883
Non-controlling interests		**306,899**	403,362
		7,187,277	6,639,245
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*12*		
Basic and diluted		**HK$5.45**	HK$4.92

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	Note	**2017** **HK$'000**	2016 HK$'000
PROFIT FOR THE YEAR		**7,187,277**	6,639,245
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**754,529**	(66,968)
Income tax effect		**(214,084)**	–
		540,445	(66,968)
Exchange differences:			
Exchange differences on translation of foreign operations		**3,861,933**	(4,474,137)
Reclassification adjustments for a foreign operation disposed of during the year	*45*	**(15,530)**	58,619
		3,846,403	(4,415,518)
Share of other comprehensive income/(loss) of associates		**748,953**	(1,040,848)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**5,135,801**	(5,523,334)
Items not to be reclassified to profit or loss in subsequent periods:			
Defined benefit plans:			
Actuarial gain/(loss)		**115,148**	(205,211)
Income tax effect		**(28,135)**	50,099
		87,013	(155,112)
Share of other comprehensive income/(loss) of associates		**16,020**	(6,393)
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**103,033**	(161,505)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		**5,238,834**	(5,684,839)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**12,426,111**	954,406
ATTRIBUTABLE TO:			
Shareholders of the Company		**11,293,553**	1,086,172
Non-controlling interests		**1,132,558**	(131,766)
		12,426,111	954,406

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	*13*	**51,728,816**	43,427,899
Investment properties	*14*	**1,184,287**	1,133,290
Prepaid land premiums	*15*	**1,622,278**	1,529,906
Goodwill	*16*	**16,910,280**	15,772,276
Operating concessions	*17*	**3,118,641**	2,666,050
Other intangible assets	*18*	**3,637,627**	3,355,963
Investments in joint ventures	*19*	**344,850**	345,942
Investments in associates	*20*	**47,982,745**	32,771,154
Available-for-sale investments	*23*	**6,432,085**	3,171,535
Amounts due from contract customers	*25*	**10,608**	9,943
Receivables under service concession arrangements	*17*	**1,895,320**	1,598,429
Receivables under finance lease	*21*	**955,843**	848,684
Prepayments, deposits and other receivables	*27*	**890,781**	2,941,380
Debt component of convertible bond receivables	*22*	**98,682**	83,107
Derivative component of convertible bond receivables	*22*	**40,376**	40,376
Deferred tax assets	*40*	**1,293,072**	1,176,529
Total non-current assets		**138,146,291**	110,872,463
Current assets:			
Prepaid land premiums	*15*	**38,747**	36,371
Inventories	*24*	**5,294,480**	4,952,949
Receivables under finance lease	*21*	**90,421**	135,477
Amounts due from contract customers	*25*	**29,021**	23,335
Receivables under service concession arrangements	*17*	**85,492**	70,673
Trade and bills receivables	*26*	**4,013,063**	3,677,157
Prepayments, deposits and other receivables	*27*	**4,185,818**	4,781,741
Other taxes recoverable		**630,797**	560,011
Restricted cash and pledged deposits	*29*	**43,311**	56,547
Cash and cash equivalents	*30*	**17,841,609**	15,971,552
		32,252,759	30,265,813
Assets of disposal groups classified as held for sale	*31*	**1,149,968**	3,570,485
Total current assets		**33,402,727**	33,836,298
TOTAL ASSETS		**171,549,018**	144,708,761

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	*32*	**30,401,883**	30,401,883
Reserves	*34(a)*	**37,166,167**	26,919,325
		67,568,050	57,321,208
Non-controlling interests		**11,604,955**	10,717,718
TOTAL EQUITY		**79,173,005**	68,038,926
Non-current liabilities:			
Bank and other borrowings	*35*	**22,684,864**	12,876,585
Guaranteed bonds, notes and senior notes	*36*	**31,410,505**	19,333,950
Defined benefit plans	*37*	**1,852,033**	1,633,945
Provision for onerous contracts and major overhauls	*38*	**332,987**	461,103
Other non-current liabilities	*39*	**1,550,980**	1,022,636
Deferred tax liabilities	*40*	**2,594,476**	2,081,420
Total non-current liabilities		**60,425,845**	37,409,639

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Current liabilities:			
Trade and bills payables	*41*	**4,121,974**	3,929,197
Amounts due to contract customers	*25*	**653,635**	322,684
Receipts in advance		**6,952,774**	5,566,252
Other payables and accruals	*42*	**12,417,239**	9,500,657
Provision for onerous contracts	*38*	**53,156**	46,235
Income tax payables		**1,077,325**	908,600
Other taxes payables		**282,326**	250,267
Bank and other borrowings	*35*	**6,391,739**	18,418,558
		31,950,168	38,942,450
Liabilities directly associated with the assets of disposal groups classified as held for sale	*31*	**–**	317,746
Total current liabilities		**31,950,168**	39,260,196
TOTAL LIABILITIES		**92,376,013**	76,669,835
TOTAL EQUITY AND LIABILITIES		**171,549,018**	144,708,761

Hou Zibo
Director

Tam Chun Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		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	45	–	–	–	–	–	–	58,619	–	–	58,619	–	58,619
Defined benefit plans:													
Actuarial losses	37(b)	–	–	–	–	–	(206,250)	–	–	–	(206,250)	1,039	(205,211)
Income tax effect	40	–	–	–	–	–	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	44	–	–	–	–	–	–	–	–	–	–	750,845	750,845
Disposal of subsidiaries	45	–	–	–	–	–	–	–	–	–	–	(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		–	–	–	–	–	–	–	–	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		Attributable to shareholders of the Company										
	Notes	Share capital HK$'000	Capital reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Defined benefit plans reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 34(b))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017		30,401,883	816,049*	5,859*	75,599*	(260,812)*	(2,810,296)*	8,779,912*	20,313,014*	57,321,208	10,717,718	68,038,926
Profit for the year		–	–	–	–	–	–	–	6,880,378	6,880,378	306,899	7,187,277
Other comprehensive income/(loss) for the year:												
Available-for-sale investments:												
Changes in fair value		–	–	754,529	–	–	–	–	–	754,529	–	754,529
Income tax effect		–	–	(214,084)	–	–	–	–	–	(214,084)	–	(214,084)
Exchange differences:												
Translation of foreign operations		–	–	–	–	–	3,036,217	–	–	3,036,217	825,716	3,861,933
Reclassification adjustments for a foreign operation disposed of during the year	45	–	–	–	–	–	(15,530)	–	–	(15,530)	–	(15,530)
Defined benefit plans:												
Actuarial losses	37(b)	–	–	–	–	115,229	–	–	–	115,229	(81)	115,148
Income tax effect	40	–	–	–	–	(28,159)	–	–	–	(28,159)	24	(28,135)
Share of other comprehensive income of associates		–	–	–	8,452	7,568	748,953	–	–	764,973	–	764,973
Total comprehensive income for the year		–	–	540,445	8,452	94,638	3,769,640	–	6,880,378	11,293,553	1,132,558	12,426,111
Capital contribution from non-controlling equity holders		–	–	–	–	–	–	–	–	–	64,099	64,099
Shares repurchased	32	–	–	–	–	–	–	–	(3,733)	(3,733)	–	(3,733)
Disposal of subsidiaries	45	–	–	–	–	–	–	–	–	–	(30,230)	(30,230)
Deemed disposal of partial interest in an associate		–	–	–	–	–	4,993	–	–	4,993	–	4,993
Share of reserves of associates		–	151,045	–	–	–	–	–	–	151,045	–	151,045
Final 2016 dividend	11	–	–	–	–	–	–	–	(820,400)	(820,400)	–	(820,400)
Interim 2017 dividend	11	–	–	–	–	–	–	–	(378,616)	(378,616)	–	(378,616)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	(279,190)	(279,190)
Transfer to reserves		–	–	–	–	–	–	1,073,303	(1,073,303)	–	–	–
At 31 December 2017		30,401,883	967,094*	546,304*	84,051*	(166,174)*	964,337*	9,853,215*	24,917,340*	67,568,050	11,604,955	79,173,005

* *These reserve accounts comprise the consolidated other reserves of HK$37,166,167,000 (2016: HK$26,919,325,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**8,032,408**	7,496,968
Adjustments for:			
Gain on deemed disposal of partial interest in an associate		**(10,410)**	(4,387)
Bank interest income	5	**(276,492)**	(221,733)
Transfer of assets from customers	5	**(66,355)**	(63,719)
Gain on disposal of subsidiaries	5	**(14,389)**	(350,209)
Loss/(Gain) on disposal of items of property, plant and equipment, net	5,6	**(204,183)**	7,941
Investment income from an available-for-sale investment	5	**(120,444)**	–
Compensation income	5	**(86,818)**	–
Depreciation	6	**3,042,029**	2,929,052
Amortisation of prepaid land premiums	6	**45,992**	56,609
Amortisation of operating concessions	6	**109,168**	95,501
Amortisation of other intangible assets	6	**305,450**	244,507
Loss on disposal of prepaid land premiums	6	**–**	6,906
Impairment of items of property, plant and equipment, net	6	**244,220**	5,214
Fair value loss on derivative component of convertible bond receivables	6	**–**	37,546
Impairment of operating concession	6	**–**	81,535
Provision for impairment of trade and bills receivables, net	6	**11,860**	32,089
Impairment of other receivables, net	6	**463**	20,293
Reversal of provision for onerous contracts and major overhauls	6	**(189,543)**	(121,978)
Finance costs	7	**1,596,534**	1,492,335
Share of profits and losses of joint ventures and associates		**(5,854,553)**	(4,949,896)
		6,564,937	6,794,574
Decrease/(increase) in inventories		**24,529**	(432,158)
Decrease/(increase) in amounts due from contract customers		**(3,882)**	20,855
Decrease/(increase) in receivables under service concession arrangements		**(188,013)**	2,385
Decrease/(increase) in trade and bills receivables		**(38,807)**	248,066
Decrease in prepayments, deposits and other receivables		**117,463**	2,363,323
Decrease/(increase) in other taxes recoverable		**(27,019)**	805,310
Increase/(decrease) in trade and bills payables		**(99,725)**	352,235
Increase in amounts due to contract customers		**300,742**	15,768
Increase in receipts in advance		**965,934**	583,495
Increase in other payables and accruals		**744,587**	980,161
Increase/(decrease) in other taxes payable		**10,435**	(204,155)
Increase in defined benefit plans		**170,374**	165,239
Increase in other non-current liabilities		**685,571**	485,362
Increase in provision for major overhauls		**5,178**	25,770
Cash generated from operations		**9,232,304**	12,206,230
Mainland China income tax paid		**(849,207)**	(663,439)
Overseas income tax paid		**(56,188)**	–
Net cash flows from operating activities		**8,326,909**	11,542,791

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from joint ventures and associates		**5,644,372**	640,579
Purchases of items of property, plant and equipment		**(8,191,650)**	(4,263,543)
Proceeds from disposal of items of property, plant and equipment		**631,407**	148,889
Additions of prepaid land premiums		**(82,413)**	(25,713)
Additions of operating concessions		**(412,693)**	(181,624)
Additions of other intangible assets		**(66,353)**	(70,142)
Acquisition of subsidiaries	*44*	**–**	(12,108,174)
Disposal of subsidiaries	*45*	**(232,997)**	2,247,480
Acquisition of/increase in investments in joint ventures and associates		**(9,031,334)**	(970,000)
Prepayment for acquisition of available-for-sale investments		**–**	(2,392,052)
Subscription of convertible bond		**–**	(350,000)
Decrease/(increase) in amounts due from and loans to joint ventures and associates		**97,122**	(111,541)
Increase in time deposits with maturity of more than three months when acquired		**(722,085)**	(127,786)
Decrease in restricted cash and pledged deposits		**15,481**	44,190
Investment income received from an available-for-sale investment		**120,444**	–
Interest received		**276,492**	221,733
Net cash flows used in investing activities		**(11,954,207)**	(17,297,704)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		**64,099**	28,448
Proceed from deemed disposal of partial interest in a subsidiary		**–**	1,872
Repurchase of the Company's shares	*32*	**(3,733)**	(705,052)
Proceeds from issue of a guaranteed bond and a guaranteed senior note, net of issuance costs		**10,977,334**	–
New loans		**13,286,131**	21,936,195
Repayment of loans		**(17,639,523)**	(9,970,367)
Interest paid		**(1,605,000)**	(1,490,376)
Dividends paid		**(1,199,016)**	(1,212,499)
Dividends paid to non-controlling equity holders		**(279,190)**	(386,347)
Net cash flows from financing activities		**3,601,102**	8,201,874
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(26,196)**	2,446,961
Cash and cash equivalents at beginning of year		**16,063,717**	14,209,132
Effect of foreign exchange rate changes, net		**922,242**	(592,376)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**16,959,763**	16,063,717

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances:			
Placed in banks	*30*	**8,367,506**	9,110,546
Placed in a financial institution	*30*	**660,309**	2,196,315
Time deposits:			
Placed in banks	*30*	**6,667,674**	3,248,156
Placed in a financial institution	*30*	**2,189,431**	1,473,082
Less: Restricted cash and pledged deposits	*30*	**(43,311)**	(56,547)
Cash and cash equivalents as stated in the consolidated statement of financial position		**17,841,609**	15,971,552
Less: Time deposits with maturity of more than three months when acquired		**(881,846)**	(133,065)
Add: Cash and bank balances attributable to disposal groups	*31*	**–**	225,230
Cash and cash equivalents as stated in the consolidated statement of cash flows		**16,959,763**	16,063,717

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 sale of electricity, heat and steam generated from waste incineration in Germany and in the PRC

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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries

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

Company name	Place of incorporation/ registration and business	Issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Gas Group Company Limited ("Beijing Gas")	PRC/Mainland China	RMB5,883,767,802	–	100	Distribution and sale of piped gas
北京燕京啤酒投資有限公司 ("Yanjing Investment")	PRC/Mainland China	RMB3,409,828,000	–	79.77	Investment holding
Beijing Yanjing Brewery Company Limited ("Yanjing Brewery")*	PRC/Mainland China	RMB2,808,451,958	–	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	–	42.32†	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司	PRC/Mainland China	RMB349,366,900	–	34.69†	Production and sale of beer
燕京啤酒(玉林)股份有限公司	PRC/Mainland China	RMB430,000,000	–	35.14†	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
新疆燕京啤酒有限公司	PRC/Mainland China	RMB683,650,000	–	45.79†	Production and sale of beer
燕京啤酒(衡陽)有限公司	PRC/Mainland China	RMB525,660,000	–	44.80†	Production and sale of beer
燕京啤酒(萊州)有限公司	PRC/Mainland China	RMB187,053,800	–	68.87	Production and sale of beer
燕京啤酒(仙桃)有限公司	PRC/Mainland China	RMB292,353,000	–	45.69†	Production and sale of beer
燕京啤酒(曲阜三孔)有限責任公司	PRC/Mainland China	RMB260,817,189	–	84.88	Production and sale of beer
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	–	58.23	Production and sale of beer

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place of incorporation/ registration and business	Issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
新疆燕京農產品開發有限公司	PRC/Mainland China	RMB230,000,000	–	45.79†	Production and sale of raw materials
北京高安屯垃圾焚燒有限公司	PRC/Mainland China	RMB274,000,000	–	42.78†	Solid waste treatment operation
北控環境再生能源(張家港)有限公司 (formerly known as "張家港金州再生能源有限公司")	PRC/Mainland China	RMB282,000,000	–	50.39	Solid waste treatment operation
Beijing Enterprises Environment Group Limited ("BEEGL")Ω	Hong Kong	HK$2,227,563,951	1.16	49.23	Solid waste treatment business
EEW Holding GmbH ("EEW")	Germany	EUR76,996,700	–	100	Solid waste treatment business
EEW Energy from Waste Göppingen GmbH	Germany	EUR1,050,000	–	100	Solid waste treatment business
EEW Energy from Waste Saarbrücken GmbH	Germany	EUR20,452,000	–	100	Solid waste treatment business
EEW Energy from Waste Helmstedt GmbH	Germany	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.*

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

Other than as explained below regarding the impact of HKAS 7, the adoption of the above revised standards has had no significant financial effect on the consolidated financial statements.

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. Disclosure of the changes in liabilities arising from financing activities is provided in note 46 to the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[4]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

1 *Effective for annual periods beginning on or after 1 January 2018*
2 *Effective for annual periods beginning on or after 1 January 2019*
3 *No mandatory effective date yet determined but available for adoption*
4 *Effective for annual periods beginning on or after 1 January 2021*

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 an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will 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 will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

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

(b) *(Continued)*

Classification and measurement

Certain equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 23, these securities qualified for designation as measured at fair value through other comprehensive income under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Gains and losses recorded in other comprehensive income for equity investments cannot be recycled to profit or loss when the investments are derecognised.

Upon initial recognition of HKFRS 9, the difference between the previous carrying amount and the fair value relating to these securities would be adjusted to investments revaluation reserve as at 1 January 2018.

Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. While historical credit losses are immaterial, the adoption of an expected credit loss model may result in earlier recognition of credit losses on the Group's trade, loans and other receivables.

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

(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 adoption now.

(d) HKFRS 15, issued in July 2014, 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. 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.

Based on the business model of the Group as at 31 December 2017, the directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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

(e) HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17.

Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 48 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$865,064,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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

(f) Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

(g) HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

(h) HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

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

Property, plant and equipment and depreciation

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Disposal groups held for sale

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

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

Leases

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

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

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements

Consideration given by the grantor

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

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

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

Construction or upgrade services

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Patents

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

Operating right

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement

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

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

Financial assets at fair value through profit or loss are equity investments held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

(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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Construction contracts

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts for services

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

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

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

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

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

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

Onerous contracts

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to 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 instalments.

Revenue recognition

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

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

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

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

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 these defined benefit plans are determined using the projected unit credit method and are charged to the profit or loss so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. These obligations are measured at the present value of the estimated future cash outflows. Actuarial gains and losses, which are remeasurements arising from defined benefit pension plans, are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

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. Proposed final dividends are disclosed in the notes to the financial statements.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less costs of disposal of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2017 was HK$16,910,280,000 (2016: HK$15,772,276,000), details of which are set out in note 16 to the financial statements. The carrying amount of goodwill included in disposal groups classified as held for sale as at 31 December 2016 was HK$72,824,000, details of which are set out in note 31 to the financial statements.

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

The actual consumption could deviate from those estimates.

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

Associate

The Group regards Beijing Enterprises Water Group Limited ("BE Water", an entity listed on the Hong Kong Stock Exchange with its 43.49% equity interest held by the Group as at 31 December 2017) 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 2017 and BE Water was accounted for as an associate in the Group's consolidated financial statements.

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

The carrying amounts of items of property, plant and equipment and other intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs of disposal and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2017 were HK$51,728,816,000 (2016: HK$43,427,899,000) and HK$6,756,268,000 (2016: HK$6,022,013,000), respectively, details of which are set out in notes 13, 17 and 18 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

(e) the corporate and others segment comprises consultation services, property investment and corporate income and expense items.

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

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2017

	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Water and environmental operations *HK$'000*	Solid waste treatment operation *HK$'000*	Corporate and others *HK$'000*	Inter-segment elimination *HK$'000*	Consolidated *HK$'000*
Segment revenue	39,891,172	11,414,301	–	6,202,552	–	–	57,508,025
Cost of sales	(35,355,518)	(8,161,920)	–	(4,627,704)	–	–	(48,145,142)
Gross profit	4,535,654	3,252,381	–	1,574,848	–	–	9,362,883
Profit/(loss) from operating activities	2,497,943	257,871	–	1,133,313	(114,738)	–	3,774,389
Finance costs	(118,737)	(23,558)	–	(212,822)	(1,241,417)	–	(1,596,534)
Share of profits and losses of:							
Joint ventures	25,917	–	–	692	–	–	26,609
Associates	4,141,348	25,414	1,616,592	44,590	–	–	5,827,944
Profit/(loss) before tax	6,546,471	259,727	1,616,592	965,773	(1,356,155)	–	8,032,408
Income tax	(365,757)	(177,603)	–	(288,011)	(13,760)	–	(845,131)
Profit/(loss) for the year	6,180,714	82,124	1,616,592	677,762	(1,369,915)	–	7,187,277
Segment profit/(loss) attributable to shareholders of the Company	6,141,048	17,525	1,616,592	464,883	(1,359,670)	–	6,880,378
Segment assets	96,596,006	22,244,581	9,500,514	35,914,563	15,502,155	(8,208,801)	171,549,018
Segment liabilities	29,959,651	7,254,862	–	17,120,199	46,250,102	(8,208,801)	92,376,013
Other segment information:							
Reversal of provision for onerous contracts and major overhauls	–	–	–	189,543	–	–	189,543
Interest income	98,757	19,866	–	105,789	52,080	–	276,492
Depreciation	1,399,196	949,143	–	674,454	19,236	–	3,042,029
Amortisation of operating concessions	–	–	–	109,168	–	–	109,168
Amortisation of other intangible assets	38,134	–	–	267,316	–	–	305,450
Impairment/(reversal of impairment) against segment assets, net*	(1,025)	4,807	–	252,761	–	–	256,543
Investments in joint ventures	300,931	–	–	37,332	6,587	–	344,850
Investments in associates	37,231,533	299,232	9,447,574	75,628	928,778	–	47,982,745
Capital expenditure**	5,984,961	818,849	–	1,804,125	72,697	–	8,680,632

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/(loss)	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

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

(b) Non-current assets

	2017 ***HK$'000***	2016 *HK$'000*
Mainland China	**90,049,795**	75,253,522
Germany	**10,866,417**	9,837,156
Russia	**8,483,998**	–
Elsewhere	**219,034**	139,526
	109,619,244	85,230,204

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

Information about major customers

During each of the years ended 31 December 2017 and 2016, 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:

	Notes	**2017 HK$'000**	2016 HK$'000
Revenue			
Piped gas operation		**39,891,172**	39,378,983
Brewery operation		**11,414,301**	11,589,905
Solid waste treatment operation		**6,202,552**	4,929,259
Corporate and others		**–**	60,687
		57,508,025	55,958,834
Other income			
Bank interest income		**276,492**	221,733
Rental income		**50,165**	61,050
Government grants*		**151,029**	200,236
Transfer of assets from customers	*13*	**66,355**	63,719
Investment income from an available-for-sale investment		**120,444**	–
Compensation income for disposal of an investment property		**86,818**	–
Others		**517,962**	726,943
		1,269,265	1,273,681
Gains, net			
Gain on disposal of items of property, plant and equipment, net		**204,183**	–
Gain on disposal of subsidiaries	*45*	**14,389**	350,209
		218,572	350,209
Other income and gains, net		**1,487,837**	1,623,890

* *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 that must be utilised for business development of the Company's subsidiaries.*

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2017 HK$'000	2016 HK$'000
Cost of inventories sold****		**46,860,596**	45,412,928
Cost of services provided		**1,120,979**	938,109
Depreciation	13	**3,042,029**	2,929,052
Amortisation of prepaid land premiums	15	**45,992**	56,609
Amortisation of operating concessions*	17	**109,168**	95,501
Amortisation of other intangible assets**	18	**305,450**	244,507
Research and development expenditure***		**72,345**	87,004
Loss on disposal of items of property, plant and equipment, net		**–**	7,941
Loss on disposal of prepaid land premiums		**–**	6,906
Minimum lease payments under operating leases		**262,553**	240,756
Auditor's remuneration		**13,200**	12,708
Employee benefit expense (including directors' remuneration – note 8):			
Salaries, allowances and benefits in kind		**5,792,672**	5,380,080
Net pension scheme contributions		**684,314**	660,552
Net benefit expense of defined benefit plans**	37(a)	**202,116**	185,529
		6,679,102	6,226,161
Less: Amount capitalised in construction in progress/operating concessions		**(28,633)**	–
		6,650,469	6,226,161
Foreign exchange difference, net		**19,066**	44,683
Impairment of items of property, plant and equipment***	13	**244,220**	5,214
Fair value loss on derivative component of convertible bond receivables***	22	**–**	37,546
Impairment of operating concession***	17	**–**	81,535
Provision for impairment of trade and bills receivables, net	26(d)	**11,860**	32,089
Impairment of other receivables, net***	27(b)	**463**	20,293
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**37,771**	33,553
Reversal of provision for onerous contracts and major overhauls*	38	**(189,543)**	(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$243,942,000 (2016: HK$198,450,000) that is included in "Cost of sales".*

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

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

7. FINANCE COSTS

	Note	2017 HK$'000	2016 HK$'000
Interest on bank loans and other loans		**605,550**	612,047
Interest on guaranteed bonds, notes and senior notes		**999,450**	878,329
Total interest expenses		**1,605,000**	1,490,376
Increase in discounted amounts of provision for major overhauls arising from the passage of time	*38*	**1,470**	1,959
Total finance costs		**1,606,470**	1,492,335
Less: Interest included in construction in progress		**(9,936)**	–
		1,596,534	1,492,335

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:

	2017 HK$'000	2016 HK$'000
Fees	**2,543**	2,869
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**15,351**	16,245
Pension scheme contributions	**29**	29
	15,380	16,274
	17,923	19,143

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

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

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

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

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

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 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
Dr. Yu Sun Say	261	–	–	261
Mr. Ma She*	–	–	–	–
Mr. Shi Hanmin*	–	–	–	–
	1,305	–	–	1,305
Total directors' remuneration	2,869	16,245	29	19,143

Mr. Shi Hanmin waived to receive any remuneration from the Company for the year ended 31 December 2016. 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.*

9. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees of the Group during each of the years ended 31 December 2017 and 2016 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

	2017	2016
	HK$'000	*HK$'000*
Current:		
Mainland China	**668,787**	829,380
Hong Kong	**12,679**	9,088
Germany	**305,404**	313,868
Deferred *(note 40)*	**(141,739)**	(294,613)
Total tax expense for the year	**845,131**	857,723

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 (2016: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries established in Mainland China enjoy PRC corporate income tax exemptions and reductions.

10. INCOME TAX *(Continued)*

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

2017

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

10. INCOME TAX *(Continued)*

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

The share of tax attributable to joint ventures and associates amounting to HK$5,068,000 (2016: HK$8,252,000) and HK$1,547,116,000 (2016: HK$1,601,453,000), respectively, is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Interim – HK$0.30 (2016: HK$0.30) per ordinary share	**378,616**	378,646
Proposed final – HK$0.68 (2016: HK$0.65) per ordinary share	**858,196**	820,400
	1,236,812	1,199,046

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of ordinary shares of 1,262,094,090 (2016: 1,266,544,776) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

13. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and buildings *HK$'000*	Leasehold improve-ments *HK$'000*	Gas pipelines *HK$'000*	Gas meters and other plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000* *(note)*	Total *HK$'000*
Year ended 31 December 2017									
At 1 January 2017:									
Cost		14,836,202	294,999	18,140,502	30,835,060	1,294,320	778,133	4,986,197	71,165,413
Accumulated depreciation and impairment		(3,861,693)	(22,536)	(4,750,142)	(17,532,936)	(827,869)	(480,797)	(261,541)	(27,737,514)
Net carrying amount		10,974,509	272,463	13,390,360	13,302,124	466,451	297,336	4,724,656	43,427,899
Net carrying amount:									
At 1 January 2017		10,974,509	272,463	13,390,360	13,302,124	466,451	297,336	4,724,656	43,427,899
Additions		399,898	–	77,357	1,005,778	35,711	74,306	6,608,536	8,201,586
Transfer of assets from customers	*5*	–	–	31,765	34,590	–	–	–	66,355
Transfer from construction in progress		431,465	–	1,895,051	1,057,264	26,159	12,759	(3,422,698)	–
Depreciation provided during the year	*6*	(483,518)	(3,422)	(782,276)	(1,592,861)	(114,613)	(65,339)	–	(3,042,029)
Impairment during the year recognised in profit or loss	*6*	–	–	–	–	–	–	(244,220)	(244,220)
Disposals		(148,448)	(81,899)	(21,807)	(165,231)	(4,816)	(4,988)	(35)	(427,224)
Exchange realignment		878,661	28,293	985,029	1,375,816	29,624	21,629	427,397	3,746,449
At 31 December 2017		12,052,567	215,435	15,575,479	15,017,480	438,516	335,703	8,093,636	51,728,816
At 31 December 2017:									
Cost		16,381,071	441,119	21,459,288	35,472,172	1,362,807	861,742	8,373,073	84,351,272
Accumulated depreciation and impairment		(4,328,504)	(225,684)	(5,883,809)	(20,454,692)	(924,291)	(526,039)	(279,437)	(32,622,456)
Net carrying amount		12,052,567	215,435	15,575,479	15,017,480	438,516	335,703	8,093,636	51,728,816

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

Note: During the year ended 31 December 2017, an impairment of HK$244,220,000 *(note 6)* was recognised against a carrying amount before impairment of HK$908,739,000 relating to a construction in progress of solid waste treatment operation. The recoverable amount of HK$664,519,000 was determined based on fair value less cost of disposal.

The impairment was determined by reference to valuations performed by an independent professionally qualified valuer using market approach, by referencing to the investment costs of waste-to-energy plants located in the PRC. The fair value measurement is categorised within Level 3 of the fair value hierarchy.

Fair value hierarchy disclosure

Below is a summary of the valuation techniques used and the key inputs to the valuation of the construction in progress:

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

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

	Notes	Land and buildings HK$'000 (note)	Leasehold improve-ments HK$'000	Gas pipelines HK$'000	Gas meters and other plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'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	44	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

Note: At 31 December 2016, land of the Group situated in Germany with a net carrying amount of HK$106,312,000 was pledged to secure bank loans granted to the Group *(note 35(c)(ii))*.

14. INVESTMENT PROPERTIES

	2017	2016
	HK$'000	*HK$'000*
Carrying amount at 1 January	**1,133,290**	1,194,258
Demolishment	**(42,805)**	–
Exchange realignment	**93,802**	(60,968)
Carrying amount at 31 December	**1,184,287**	1,133,290

Notes:

(a) The investment properties are leased to third parties under operating leases, further details are included in note 48(a) to the financial statements.

(b) At 31 December 2017, the investment properties were revalued based on valuations performed by Cushman & Wakefield, independent professionally qualified valuers, using the investment method and direct comparison method. No fair value gain is recognised on the Group's investment properties during the year ended 31 December 2017 (2016: Nil) as the carrying amount approximates to the fair value.

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

Fair value hierarchy disclosure

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

	Fair value measurement using significant unobservable inputs (Level 3)	
	2017	2016
	HK$'000	*HK$'000*
Recurring fair value measurement for:		
Office buildings	**1,184,287**	1,133,290

14. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

Fair value hierarchy disclosure *(Continued)*

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

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: 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 director of the Company, for all investment properties that are measured at fair value, the current use of the properties is their highest and best use.

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

	Valuation techniques*	**Significant unobservable inputs**	**Range or weighted average**	
			2017	2016
Office buildings	Investment method and direct comparison method	Estimated rental value per square meter and per month (HK$)	**79 to 396**	79 to 389
		Capitalisation rate	**7% to 8%**	8% to 8.5%
		Price per square meter (HK$)	**10,419 to 57,107**	8,909 to 49,302

* *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 meter in isolation would result in a significant higher/(lower) fair value of the investment properties. Significant increases/(decreases) in the capitalisation rate in isolation would result in a significant lower/(higher) fair value of the investment properties.

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

15. PREPAID LAND PREMIUMS

	Note	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January		**1,566,277**	1,933,254
Additions		**82,413**	25,713
Disposal		**(31,695)**	(219,855)
Amortisation provided during the year	*6*	**(45,992)**	(56,609)
Exchange realignment		**90,022**	(116,226)
Carrying amount at 31 December		**1,661,025**	1,566,277
Portion classified as current assets		**(38,747)**	(36,371)
Non-current portion		**1,622,278**	1,529,906

16. GOODWILL

	Note	2017 HK$'000	2016 HK$'000
Cost and net carrying amount:			
At 1 January		**15,772,276**	8,927,959
Acquisition of subsidiaries	*44*	**–**	7,213,937
Exchange realignment		**1,138,004**	(369,620)
At 31 December		**16,910,280**	15,772,276

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	**2017** **HK$'000**	2016 HK$'000
Piped gas operation	*(i)*	**7,004,854**	6,998,880
Brewery operation	*(ii)*	**481,128**	449,053
Solid waste treatment operation	*(iii)*	**9,355,016**	8,256,812
Others		**69,282**	67,531
		16,910,280	15,772,276

Notes:

(i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by, independent professionally qualified valuer, on a value in use calculation using cash flow projections which are based on financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections is 10.9% (2016: 10.6%), 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 2.5% (2016: 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 based on the fair value less costs of disposal basis by reference to the market value of the shares of Yanjing Brewery held by the Group (as categorised within Level 1 of the fair value hierarchy) as at 31 December 2017.

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

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

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

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Notes: *(Continued)*

(iii) *(Continued)*

The financial forecast of EEW Group adopted the assumptions that the scale of the operations remains constant perpetually and the operation can generate cash flows perpetually from the relating solid waste treatment projects. The discount rate applied to the cash flow projections is 7.4% (2016: 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 2% (2016: 3%) is used for the perpetual period.

The financial forecast of GSWM adopted the assumptions that the scale of the operations remains constant perpetually and the operation can generate cash flows perpetually from the relating solid waste treatment projects. The discount rate applied to the cash flow projections is 10.8% (2016: 10.2%), 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% (2016: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the director of the Company, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2017 (2016: Nil).

Key assumptions used in value in use calculation

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

Piped gas operation

(i) Budgeted turnover

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

(ii) Budgeted gross margins

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

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in value in use calculation (Continued)

Piped gas operation *(Continued)*

(iii) Discount rates

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

(iv) Business environment

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

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

Solid waste treatment operation

(i) Budgeted turnover

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

(ii) Budgeted gross margins

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

(iii) Discount rates

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

(iv) Business environment

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

17. SERVICE CONCESSION ARRANGEMENTS

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

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Operating concessions

	Note	**2017** **HK$'000** (note (a))	2016 HK$'000 (note (a))
At 1 January:			
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
Net carrying amount:			
At 1 January		**2,666,050**	2,250,526
Additions		**412,693**	722,140
Amortisation provided during the year	6	**(109,168)**	(95,501)
Impairment	6	**–**	(81,535)
Exchange realignment		**149,066**	(129,580)
At 31 December		**3,118,641**	2,666,050
At 31 December:			
Cost		**4,929,419**	4,299,346
Accumulated amortisation and impairment		**(1,810,778)**	(1,633,296)
Net carrying amount		**3,118,641**	2,666,050

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2017	2016
	HK$'000	*HK$'000*
Receivables under service concession arrangements attributable to solid waste treatment operation *(notes (a) and (b))*	**1,980,812**	1,669,102
Portion classified as current assets	**(85,492)**	(70,673)
Non-current portion	**1,895,320**	1,598,429

Notes:

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

At 31 December 2017, the Group had 9 (2016: 9) service concession arrangements on solid waste treatment with certain governmental authorities in Mainland China.

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

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 were pledged to secure certain bank loans granted to the Group *(note 35(c)(i))*.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Notes: (Continued)

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

An ageing 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:

	2017	2016
	HK$'000	*HK$'000*
Billed:		
Within one year	–	21,969
Unbilled	**1,980,812**	1,647,133
	1,980,812	1,669,102
Portion classified as current assets	**(85,492)**	(70,673)
Non-current portion	**1,895,320**	1,598,429

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

	2017	2016
	HK$'000	*HK$'000*
Less than one year past due	–	21,969

18. OTHER INTANGIBLE ASSETS

	Note	Patents HK$'000	Operating rights HK$'000	Computer software HK$'000	Customer contracts HK$'000	Total HK$'000
Year ended 31 December 2017						
At 1 January 2017:						
Cost		49,866	66,050	389,193	3,251,535	3,756,644
Accumulated amortisation		(1,259)	(6,965)	(204,173)	(188,284)	(400,681)
Net carrying amount		48,607	59,085	185,020	3,063,251	3,355,963
Net carrying amount:						
At 1 January 2017		48,607	59,085	185,020	3,063,251	3,355,963
Additions		–	–	66,353	–	66,353
Amortisation provided during the year	*6*	(2,094)	(3,444)	(55,970)	(243,942)	(305,450)
Exchange realignment		1,230	4,138	34,463	480,930	520,761
At 31 December 2017		47,743	59,779	229,866	3,300,239	3,637,627
At 31 December 2017:						
Cost		51,051	70,768	509,973	3,776,452	4,408,244
Accumulated amortisation		(3,308)	(10,989)	(280,107)	(476,213)	(770,617)
Net carrying amount		47,743	59,779	229,866	3,300,239	3,637,627

18. OTHER INTANGIBLE ASSETS *(Continued)*

	Notes	Patents HK$'000	Operating rights HK$'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	*44*	–	–	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 realignment		(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

19. INTERESTS IN JOINT VENTURES

	Note	2017 HK$'000	2016 HK$'000
Investments in joint ventures, included in non-current assets:			
Share of net assets		**344,850**	345,942
Due from joint ventures, included in current assets	*27*	**93,333**	179,916
Interests in joint ventures		**438,183**	525,858

20. INTERESTS IN ASSOCIATES

	Notes	2017 HK$'000	2016 HK$'000
Investments in associates, included in non-current assets:			
Share of net assets	*(b)*	**38,519,301**	24,528,386
Investment deposits		**–**	204,916
Goodwill on acquisition	*(b), (c)*	**9,463,444**	8,037,852
		47,982,745	32,771,154
Due from associates, included in current assets	*27*	**516,305**	2,219,846
Interests in associates		**48,499,050**	34,991,000

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	Particulars of issued shares held	Percentage of		
			Ownership interest attributable to the Group	Voting power	Profit sharing
中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas")	PRC	Issued capital	40	40	40
BE Water[π]	Bermuda	Ordinary shares	43.49	43.49	43.49
China Gas Holdings Limited ("China Gas")[Ω]	Bermuda	Ordinary shares	24.91	24.91	24.91
PJSC Verkhnechonskneftegaz ("VCNG")	Russian Federation	Ordinary shares	20	20	20

[π] *BE Water is a listed company on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of BE Water held by the Group as at 31 December 2017, based on the quoted market price, amounted to approximately HK$23,137,426,000 (2016: HK$19,733,601,000).*

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

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 36,154,000 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.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

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

Ω *China Gas is a listed company on the Main Board of the Hong Kong Stock Exchange. The market value of the shares of China Gas held by the Group as at 31 December 2017, based on its then quoted market price, amounted to approximately HK$26,733,524,000 (2016: HK$11,771,135,000).*

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

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.

(b) Material associates disclosures

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

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

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

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

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

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

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) Material associates disclosures *(Continued)*

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

	PetroChina Beijing Gas		BE Water		China Gas*		VCNG	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current assets	**3,427,594**	3,370,266	**23,538,908**	21,974,889	**20,036,752**	13,245,609	**6,834,197**	–
Non-current assets	**47,145,877**	36,288,129	**76,922,164**	59,072,381	**49,825,408**	42,283,127	**44,030,884**	–
Current liabilities	**(4,984,391)**	(11,504,512)	**(27,693,378)**	(20,614,591)	**(26,607,717)**	(21,024,203)	**(5,131,708)**	–
Non-current liabilities	**(13,690,476)**	(760,471)	**(39,726,371)**	(33,665,339)	**(16,093,359)**	(13,261,840)	**(6,429,383)**	–
Net assets	**31,898,604**	27,393,412	**33,041,323**	26,767,340	**27,161,084**	21,242,693	**39,303,990**	–
Less: Non-controlling interests	**(8,278)**	(8,548)	**(12,256,600)**	(10,266,198)	**(3,756,866)**	(3,216,298)	**–**	–
Net assets attributable to shareholders of the associates	**31,890,326**	27,384,864	**20,784,723**	16,501,142	**23,404,218**	18,026,395	**39,303,990**	–
Reconciliation to the Group's investments in the associates								
Proportion of the Group's ownership	**40%**	40%	**43.49%**	43.77%	**24.91%**	22.95%	**20%**	–
Group's share of net assets of the associates, excluding goodwill recognised by the Group	**12,756,131**	10,953,946	**9,039,276**	7,222,550	**5,830,013**	4,136,716	**7,860,798**	–
Goodwill on acquisition recognised by the Group	**–**	–	**443,586**	443,586	**8,040,362**	7,341,288	**623,200#**	–
Other reconciling items	**–**	–	**(35,288)**	(35,288)	**–**	–	**–**	–
Carrying amount of the investments	**12,756,131**	10,953,946	**9,447,574**	7,630,848	**13,870,375**	11,478,004	**8,483,998**	–
Other disclosures								
Revenues	**12,324,401**	13,304,730	**21,192,372**	17,354,833	**39,687,799**	28,169,177	**9,449,908**	–
Profit for the year	**5,705,591**	6,979,458	**4,440,545**	3,672,982	**6,457,391**	3,146,126	**2,380,883**	–
Profit for the year attributable to shareholders of the associates	**5,704,765**	6,978,362	**3,717,227**	3,227,013	**5,851,150**	2,660,777	**2,105,362**	–
Other comprehensive income/(loss) for the year	**–**	–	**2,303,847**	(2,665,141)	**171,945**	(1,007,701)	**–**	–
Other comprehensive income/(loss) for the year attributable to shareholders of the associates	**–**	–	**1,652,624**	(2,009,564)	**141,888**	(736,722)	**–**	–
Share of the associates' profit for the year	**2,281,906**	2,791,345	**1,616,592**	1,412,463	**1,389,106**	588,405	**421,072**	–
Share of the associates' other comprehensive income/(loss) for the year	**–**	–	**718,726**	(879,586)	**35,344**	(169,604)	**10,903**	–
Dividend received/receivable by the Group	**4,827,247**	2,314,856	**535,411**	420,671	**303,866**	219,908	**480,470**	–

* *The financial period end of the financial statements of China Gas for which the equity accounting method was used for the year ended 31 December 2017 are as of 30 September 2017 or for the twelve months ended 30 September 2017 which is not coterminous with that of the Company's financial year end date. The statutory financial year-end date of China Gas is 31 March. The financial statements for the twelve months ended 30 September 2017 are the latest financial statements of China Gas available for equity accounting by the Group.*

\# *Up to the date of approval of these financial statements, the Group had not completed the fair value measurement of the identifiable net assets of VCNG and the initial accounting for the acquisition was incomplete. The goodwill on acquisition recognised by the Group represented the provision amount estimated by the directors of the Company.*

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:

	2017	2016
	HK$'000	*HK$'000*
Share of the associates' profit and total comprehensive income for the year	**119,268**	151,060
Share of net assets of the associates, excluding goodwill recognised by the Group	**3,068,371**	2,250,462
Goodwill on acquisition recognised by the Group	**356,296**	252,978

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

	2017	2016
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**8,037,852**	7,689,822
Acquisition of associates or additional interests in associates	**1,425,479**	348,143
Exchange realignment	**113**	(113)
At 31 December	**9,463,444**	8,037,852

21. RECEIVABLES UNDER FINANCE LEASE

One of the Group's solid waste treatment plants in Germany is leased out under a finance lease which has a remaining lease term of 6.5 years (2016: 7.5 years).

	Minimum lease payment		Present value of minimum lease payment	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance lease receivables comprise:				
Within one year	**160,871**	140,665	**154,859**	135,477
In the second year	**149,053**	139,925	**133,587**	125,616
In the third to fifth years, inclusive	**447,158**	388,937	**349,112**	303,653
After five years	**639,649**	686,011	**408,706**	419,415
Total minimum finance lease receivables	**1,396,731**	1,355,538	**1,046,264**	984,161
Less: Unearned finance income	**(350,467)**	(371,377)		
Total net finance lease receivables	**1,046,264**	984,161		
Portion classified as current assets	**(90,421)**	(135,477)		
Non-current portion	**955,843**	848,684		

22. DEBT AND DERIVATIVE COMPONENTS OF CONVERTIBLE BONDS RECEIVABLES

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

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

On 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 2017.

As at 31 December 2017, the carrying amount of the debt component of convertible bonds receivables amounted to HK$98,682,000 (2016: HK$83,107,000).

The fair value of the derivative component of convertible bonds as at 31 December 2017 amounting to HK$40,376,000 (2016: HK$40,376,000) and was determined by the directors of the Company with reference to the valuation performed by independent qualified valuers.

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

23. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000	2016 HK$'000
Listed equity investments, at fair value	**3,595,322**	517,753
Unlisted equity investments, at cost	**2,848,121**	2,665,140
Impairment	**(11,358)**	(11,358)
	6,432,085	3,171,535

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

	2017 HK$'000	2016 HK$'000
Raw materials	**4,217,354**	4,061,085
Work in progress	**711,731**	480,664
Finished goods	**365,395**	411,200
	5,294,480	4,952,949

25. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	2017	2016
	HK$'000	*HK$'000*
Amounts due from contract customers:		
Non-current portion	**10,608**	9,943
Current portion	**29,021**	23,335
	39,629	33,278
Amounts due to contract customers	**(653,635)**	(322,684)
	(614,006)	(289,406)
Contract costs incurred plus recognised profits less recognised losses to date	**406,159**	538,512
Less: Progress billings received and receivable	**(1,020,165)**	(827,918)
	(614,006)	(289,406)

26. TRADE AND BILLS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade and bills receivables	**4,206,986**	3,872,752
Impairment *(note (d))*	**(193,923)**	(195,595)
	4,013,063	3,677,157

Notes:

(a) Included in the Group's trade and bills receivables as at 31 December 2017 was an aggregate amount of HK$36,338,000 (2016: HK$57,857,000) and HK$54,636,000 (2016: HK$168,702,000) due from certain fellow subsidiaries and a joint venture of the Group arising from transactions carried out in the ordinary course of business of the Group, respectively. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the Group to its major customers.

(b) As at 31 December 2017, trade receivables amounted to HK$81,840,000 (2016: HK$100,110,000) were pledged to secure certain bank loans *(note 35(c)(iii))*.

(c) The various group companies have different credit policies, depending on the requirements of their markets and the businesses in which they operate. Ageing 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 ageing 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:

	2017 HK$'000	2016 HK$'000
Billed:		
Within one year	**2,915,255**	2,435,956
One to two years	**55,954**	54,286
Two to three years	**21,596**	30,323
Over three years	**57,382**	39,584
	3,050,187	2,560,149
Unbilled	**962,876**	1,117,008
	4,013,063	3,677,157

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	2017 HK$'000	2016 HK$'000
At 1 January		**195,595**	177,294
Provision for impairment, net	6	**11,860**	32,089
Amount written off as uncollectible		**(27,444)**	(464)
Exchange realignment		**13,912**	(13,324)
At 31 December		**193,923**	195,595

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$239,073,000 (2016: HK$242,560,000). 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 ageing 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:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	**2,649,945**	2,223,117
Less than one year past due	**220,160**	124,733
More than one year past due	**134,932**	165,334
	3,005,037	2,513,184

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	2017 HK$'000	2016 HK$'000
Prepayments	*(a)(ii)*	**843,833**	2,876,044
Deposits and other debtors	*(a)(i), (iv)*	**1,839,051**	2,082,471
Due from associates	*20, (a)(iii)*	**516,305**	2,219,846
Due from holding companies	*28*	**1,620,744**	292,186
Due from fellow subsidiaries	*28*	**167,354**	165,064
Due from joint ventures	*19, 28*	**93,333**	179,916
Due from related parties	*28*	**143,927**	46,546
		5,224,547	7,862,073
Impairment	*(b)*	**(147,948)**	(138,952)
		5,076,599	7,723,121
Portion classified as current assets		**(4,185,818)**	(4,781,741)
Non-current portion		**890,781**	2,941,380

Notes:

(a) The Group's prepayments, deposits and other receivables as at 31 December 2017 and 2016 include, inter alia, the following:

(i) certain deposits of HK$194,425,000 (2016: HK$171,761,000) 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 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 a prepayment for acquisition of available-for-sale investment as at 31 December 2016 and was transferred to available-for-sale investments upon the completion of subscription of shares during the current year;

(iii) dividend of HK$480 million receivable from VCNG as at 31 December 2017 and dividend of HK$2.2 billion receivable from Petrochina Beijing Gas as at 31 December 2016, and the amounts were settled in February 2018 and January 2017, respectively; and

(iv) a deposit of EUR23 million (equivalent to approximately HK$217 million) (2016: EUR27 million (equivalent to approximately HK$220 million)) was paid to a bank for securing certain bank facilities granted. Such deposit will be refunded upon the expiry of the banking facilities *(note 35(c)(iv))*.

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

Notes: (Continued)

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

	2017 HK$'000	2016 HK$'000
At 1 January	**138,952**	126,496
Impairment losses recognised *(note 6)*	**463**	20,293
Exchange realignment	**8,533**	(7,837)
At 31 December	**147,948**	138,952

The above provision for impairment of other debtors of the Group represented the provision for individually impaired other debtors with an aggregate carrying amount of HK$152,959,000 (2016: HK$142,614,000).

(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$93,333,000) (2016: RMB78,400,000 (equivalent to HK$87,111,000)) due from a joint venture, which is unsecured, bears interest at 4.35% per annum and is repayable within one year. Interest income of RMB2,729,000 (equivalent to HK$3,173,000) (2016: RMB2,430,000 (equivalent to HK$2,700,000)) 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, 41 and 42 to the financial statements, respectively.

29. RESTRICTED CASH AND PLEDGED DEPOSITS

	Notes	**2017** **HK$'000**	2016 *HK$'000*
Restricted cash	*(a)*	**28,526**	30,932
Pledged deposits	*(b)*	**14,785**	25,615
Restricted cash and pledged deposits		**43,311**	56,547

Notes:

(a) Restricted cash of the Group mainly represented the proceeds of a government surcharge of HK$28,526,000 (2016: HK$26,624,000) collected prior to 2003 by Beijing Gas, a wholly-owned subsidiary indirectly held the Company, from piped gas customers on behalf of 北京市發展和改革委員會 (the Beijing Municipal Commission of Development and Reform) (the "BMCDR"). The proceeds held on behalf of the BMCDR, which are deposited in a specific bank account of the Group, together with any interest earned therefrom, are repayable to the BMCDR *(note 42(a))*.

(b) Bank balances of HK$14,785,000 (2016: HK$25,615,000) as at 31 December 2017 were pledged to secure certain bank loans *(note 35(c)(v))* granted to the Group.

30. CASH AND CASH EQUIVALENTS

	2017 HK$'000	2016 HK$'000
Cash and bank balances:		
Placed in banks	**8,367,506**	9,110,546
Placed in a financial institution *(note 50(a)(ix))*	**660,309**	2,196,315
Time deposits:		
Placed in banks	**6,667,674**	3,248,156
Placed in a financial institution *(note 50(a)(ix))*	**2,189,431**	1,473,082
	17,884,920	16,028,099
Less: Restricted cash and pledged deposits *(note 29)*	**(43,311)**	(56,547)
Cash and cash equivalents	**17,841,609**	15,971,552

Notes:

(a) At 31 December 2017, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$12.4 billion (2016: HK$10.8 billion). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

31. 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:

	2017	2016		
	Jingtang	Beijing Gas Development	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note (c))	*(note (a))*	*(note (b))*	
Assets				
Property, plant and equipment	**–**	727,006	–	727,006
Prepaid land premium	**–**	–	–	–
Goodwill	**–**	72,824	–	72,824
Other intangible assets	**–**	24,773	–	24,773
Investments in associates	**1,149,968**	458,678	1,888,889	2,347,567
Deferred tax assets	**–**	3,392	–	3,392
Inventories	**–**	38,176	–	38,176
Trade and bills receivables	**–**	50,518	–	50,518
Prepayments, deposits and other receivables	**–**	47,054	–	47,054
Other tax recoverable	**–**	33,945	–	33,945
Cash and bank balances	**–**	225,230	–	225,230
Assets of disposal groups classified as held for sale	**1,149,968**	1,681,596	1,888,889	3,570,485
Liabilities				
Bank and other borrowings	**–**	(144,444)	–	(144,444)
Amounts due to contract customers	**–**	–	–	–
Trade and bills payables	**–**	(60,718)	–	(60,718)
Other payables and accruals	**–**	(5,384)	–	(5,384)
Receipts in advance	**–**	(106,678)	–	(106,678)
Income tax payables	**–**	(522)	–	(522)
Liabilities directly associated with the assets of disposal groups classified as held for sale	**–**	(317,746)	–	(317,746)
Net assets of disposal groups held for sale	**1,149,968**	1,363,850	1,888,889	3,252,739

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

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

Beijing Gas Development was classified as a disposal group held for sale since 2015 until the completion of the transaction on 16 February 2017 *(note 45)*. A total of 110,823,011 shares of China Gas were then allotted and issued as consideration to the Group.

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

Keqi Gas was classified as disposal group held for sale since 2015. The equity transfer procedure was completed in April 2017.

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

On 3 November 2017, the Group and Blue Sky, an associate of the Group, entered into a non-legally binding memorandum of understanding, pursuant to which the Group intends to sell and Blue Sky intends to acquire the entire equity interest of Jingtang. The consideration for the acquisition is expected to be no more than RMB1,008 million (equivalent to approximately HK$1,200 million), which would be satisfied by Blue Sky allotting and issuing 2,407,708,800 ordinary shares to the Group. The transaction has not been completed as at the date of approval of these financial statements.

32. SHARE CAPITAL

Shares

	2017	2016
	HK$'000	*HK$'000*
Issued and fully paid:		
1,262,053,268 (2016: 1,262,153,268) 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 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 and 1 January 2017		1,262,153,268	30,401,883
Shares repurchased and cancelled	*(c)*	(100,000)	–
At 31 December 2017		1,262,053,268	30,401,883

32. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

Notes:

(a) As at 1 January 2016, 1,000,000 ordinary shares were held by the Company through share repurchase in 2015 and the related consideration of HK$46,623,000 was debited to the "treasury shares" account.

During the year ended 31 December 2016, these 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 was reclassified from treasury shares account and charged to retained profits of the Company. As at 31 December 2016, the Company no longer held 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 that year and the total amount paid for the repurchase of these shares of HK$705,052,000 had been charged to retained profits of the Company.

(c) During the year ended 31 December 2017, the Company repurchased a total of 100,000 ordinary shares of the Company on the Hong Kong Stock Exchange at a purchase price of HK$37.20 per share and the total consideration amounted to approximately HK$3,720,000 (and transaction cost of HK$13,000), which was paid wholly out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. All the repurchased shares were cancelled by the Company during the year and the total amount paid for the repurchase of these shares of HK$3,733,000 has been charged to retained profits of the Company.

33. SHARE OPTION SCHEME

The Company's share option scheme effective on 17 October 2005 lapsed on 17 October 2015. The Company currently does not have any effective share option scheme. All share options granted under the scheme in prior years were either exercised or forfeited in prior years. No share options were granted during the years ended 31 December 2017 and 2016.

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 2017 were distributable in the form of cash dividends.

35. BANK AND OTHER BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank loans:		
Secured	**915,890**	748,405
Unsecured	**26,400,709**	25,858,887
	27,316,599	26,607,292
Other loans:		
Unsecured	**1,760,004**	4,687,851
Total bank and other borrowings	**29,076,603**	31,295,143
Analysed into:		
Bank loans repayable:		
Within one year	**5,565,637**	14,623,418
In the second year	**1,115,554**	569,395
In the third to fifth years, inclusive	**19,274,451**	11,004,352
Beyond five years	**1,360,957**	410,127
	27,316,599	26,607,292
Other loans repayable:		
Within one year	**826,102**	3,795,140
In the second year	**194,409**	168,162
In the third to fifth years, inclusive	**413,654**	394,760
Beyond five years	**325,839**	329,789
	1,760,004	4,687,851
Total bank and other borrowings	**29,076,603**	31,295,143
Portion classified as current liabilities	**(6,391,739)**	(18,418,558)
Non-current portion	**22,684,864**	12,876,585

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:

	2017	2016
	HK$'000	*HK$'000*
HK$	**15,132,574**	13,462,265
RMB	**3,509,049**	3,568,518
US$	**2,382,539**	163,973
EUR	**8,052,441**	14,100,387
	29,076,603	31,295,143

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

(i) amortised cost of an interest-free loan of HK$138,006,000 (2016: HK$128,806,000) granted by a non-controlling equity holder of a subsidiary;

(ii) an aggregate amount of HK$300 million (2016: HK$3,370 million) and RMB1,016 million (equivalent to HK$1,209 million) (2016: RMB919 million (equivalent to HK$1,021 million)) due to an associate, which bears interest at rates ranging from HIBOR plus 1.05% to 5.32% per annum. Interest expenses of HK$71,398,000 (2016: HK$29,549,000) were recognised in profit or loss during the year in respect of the loans *(note 50(a)(ix))*; and

(iii) certain bank and other loans, with an aggregate carrying amount of HK$121,873,000 (2016: HK$168,348,000), that principally came from three overseas governments, the Asian Development Bank and 北京市財政局 (the Finance Bureau of Beijing) to finance certain of the Group's pipeline construction projects. Except for an interest-free loan of HK$7,964,000 (2016: HK$8,412,000), 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) mortgage over a solid waste treatment operation concession right for a net carrying amount of HK$421,111,000 as at 31 December 2017, which is under the management of the Group pursuant to the relevant service concession agreement entered into with the grantor *(note 17(a))*; 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 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))*;

(ii) a mortgage over land of the Group with a net carrying amount of HK$106,312,000 as at 31 December 2016 *(note 13)*;

(iii) the assignment of the Group's trade receivables with an aggregate amount of HK$81,840,000 (2016: HK$100,110,000) *(note 26(b))*;

(iv) a deposit of EUR23 million (equivalent to approximately HK$217 million) (2016: EUR27 million (equivalent to approximately HK$220 million)) paid to a bank as at 31 December 2016 *(note 27(a)(iv))*; and

(v) the Group's bank balances of HK$14,785,000 (2016: HK$25,615,000) as at 31 December 2017 *(note 29(b))*.

(d) At 31 December 2017, the bank loans of the Group included a five-year HK$4 billion term loan, a five-year HK$3 billion term loan, a five-year HK$1.94 billion term loan, a five-year HK$4 billion term loan, a one-year EUR430 million loan, a five-year US$290 million syndicated loan and a five-year HK$4 billion term loan with the related facilities obtained by the Group in 2015, 2016, 2016, 2016, 2016, 2017 and 2017, respectively, which bear annual interest at HIBOR+1.15%, HIBOR+0.68%, HIBOR+1.06%, HIBOR+0.88%, EURIBOR+0.7%, LIBOR+0.825% and HIBOR+0.62%, respectively, and are fully payable on 27 November 2020, 22 November 2021, 7 December 2021, 24 June 2021, 19 April 2018, 15 May 2022 and 17 July 2022, respectively.

The loan agreements in respect of the loans outstanding as at 31 December 2017 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 director of the Company, none of the above default events took place during the year and as at the date of approval of these financial statements.

36. GUARANTEED BONDS, NOTES AND SENIOR NOTES

	Notes	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	2017 HK$'000	2016 HK$'000
2011 First Senior Notes	(a)	US$600	5%	2021	4,629,822	4,589,062
2011 Second Senior Notes	(a)	US$400	6.375%	2041	3,086,548	3,059,375
2012 Senior Notes	(a)	US$800	4.5%	2022	6,195,520	6,141,126
2015 EUR Bonds	(b)	EUR500	1.435%	2020	4,655,270	4,040,754
2015 US Bonds	(c)	US$200	4.99%	2040	1,516,410	1,503,633
2017 EUR Bonds	(d)	EUR800	1.3%	2022	7,457,470	–
2017 Guaranteed Notes	(e)	US$500	2.75%	2022	3,869,465	–
					31,410,505	19,333,950

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.

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

Notes: (Continued)

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

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

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

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

37. DEFINED BENEFIT PLANS

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

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

	Supplemental post-retirement medical reimbursement plan HK$'000	Supplemental post-retirement allowance and beneficiary benefit plans HK$'000	Internal retirement benefit plan HK$'000	Total HK$'000
Year ended 31 December 2017				
Current service cost	**55,000**	**4,621**	**68,781**	**128,402**
Past service cost	**18,365**	**1,653**	**–**	**20,018**
Interest cost	**35,769**	**6,752**	**11,175**	**53,696**
Net benefit expense	**109,134**	**13,026**	**79,956**	**202,116**
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

37. DEFINED BENEFIT PLANS *(Continued)*

(b) Present value of the defined benefit obligations

2017

	Supplemental post-retirement medical reimbursement plan *HK$'000*	Supplemental post-retirement allowance and beneficiary benefit plans *HK$'000*	Internal retirement benefit plan *HK$'000*	Total *HK$'000*
At 1 January 2017	913,532	174,519	558,987	1,647,038
Net benefit expenses recognised in profit or loss	109,134	13,026	79,956	202,116
Benefits paid	(6,398)	(7,453)	(17,891)	(31,742)
Actuarial losses/(gains) on obligations, recognised in other comprehensive income	(112,174)	(15,850)	12,876	(115,148)
Exchange realignment	65,027	12,221	87,181	164,429
At 31 December 2017	969,121	176,463	721,109	1,866,693
Portion classified as current liabilities included in other payables and accruals *(note 42)*				(14,660)
Non-current portion				1,852,033

37. DEFINED BENEFIT PLANS *(Continued)*

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

2016

	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 2016	663,150	172,288	2,266	837,704
Acquisition of subsidiary *(note 44)*	–	–	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 42)*				(13,093)
Non-current portion				1,633,945

(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 2017 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:

	2017	2016
Beijing Gas Group		
Discount rate	**4.50%**	3.75%
Healthcare cost inflation rate	**8.00%**	8.00%
EEW Group		
Discount rate	**1.70%**	1.80%

37. DEFINED BENEFIT PLANS *(Continued)*

(c) Principal assumptions *(Continued)*

A quantitative sensitivity analysis for significant assumptions as at 31 December 2017 and 2016 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				
2017				
Discount rate	**0.25**	**(61,582)**	**0.25**	**67,379**
Healthcare cost inflation rate	**1.00**	**267,044**	**1.00**	**(190,468)**
2016				
Discount rate	0.25	(74,191)	0.25	81,499
Healthcare cost inflation rate	1.00	320,713	1.00	(225,669)
EEW Group				
2017				
Discount rate	**0.25**	**(49,783)**	**0.25**	**49,658**
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 2017, the expected contribution to be made within the next 12 months out of the defined benefit obligations was HK$14,660,000 (2016: HK$13,093,000).

38. PROVISION FOR ONEROUS CONTRACTS AND MAJOR OVERHAULS

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

Obligation under onerous contracts arises from the solid waste treatment services contract entered for the solid waste treatment operation in Germany. Management considers the unavoidable costs of meeting the obligation under such contracts exceed the economic benefits expected to be recovered under such contracts.

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

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

	Major overhauls *HK$'000*	Onerous contracts *HK$'000*	Total *HK$'000*
At 1 January 2016	28,363	–	28,363
Acquisition of subsidiaries *(note 44)*	127,647	476,928	604,575
Additional provision	25,770	–	25,770
Increase in a discounted amount arising from the passage of time	1,959	–	1,959
Reversal of provision *(note 6)*	–	(121,978)	(121,978)
Exchange realignment	(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
At 1 January 2017	173,188	334,150	507,338
Additional provision	5,178	–	5,178
Increase in a discounted amount arising from the passage of time	1,470	–	1,470
Reversal of provision *(note 6)*	(16,139)	(173,404)	(189,543)
Exchange realignment	22,912	38,788	61,700
At 31 December 2017	186,609	199,534	386,143
Portion classified as current liabilities	–	(53,156)	(53,156)
Non-current portion	186,609	146,378	332,987

39. OTHER NON-CURRENT LIABILITIES

	Note	2017 HK$'000	2016 HK$'000
Other liabilities – non-current portion	*42*	**230,691**	323,278
Deferred income		**1,320,289**	699,358
		1,550,980	1,022,636

40. DEFERRED TAX

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

	2017 HK$'000	2016 HK$'000
Deferred tax assets	**1,293,072**	1,176,529
Deferred tax liabilities	**(2,594,476)**	(2,081,420)
	(1,301,404)	(904,891)

40. DEFERRED TAX *(Continued)*

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

		Attributable to											
	Notes	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Depreciation allowances in excess of related depreciation *HK$'000*	Other temporary differences related to property, plant and equipment *HK$'000*	Transfer of assets from customers *HK$'000*	Fair value adjustments on available-for-sale investments *HK$'000*	Impairment provision and accrued expenses *HK$'000*	Provision for bonus and defined benefit plans *HK$'000*	Provision for major overhauls and onerous contracts *HK$'000*	Revaluation of investment properties and operating concession *HK$'000*	Losses available for offsetting future taxable profits *HK$'000* *(note (a))*	Withholding tax *HK$'000* *(note (b))*	Net deferred tax assets/ (liabilities) *HK$'000*
At 1 January 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	*44*	(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)

		Attributable to											
	Note	**Fair value adjustments arising from acquisition of subsidiaries** ***HK$'000***	**Depreciation allowances in excess of related depreciation** ***HK$'000***	**Other temporary differences related to property, plant and equipment** ***HK$'000***	**Transfer of assets from customers** ***HK$'000***	**Fair value adjustments on available-for-sale investments** ***HK$'000***	**Impairment provision and accrued expenses** ***HK$'000***	**Provision for bonus and defined benefit plans** ***HK$'000***	**Provision for major overhauls and onerous contracts** ***HK$'000***	**Revaluation of investment properties and operating concession** ***HK$'000***	**Losses available for offsetting future taxable profits** ***HK$'000*** *(note (a))*	**Withholding tax** ***HK$'000*** *(note (b))*	**Net deferred tax assets/ (liabilities)** ***HK$'000***
At 1 January 2017		**(1,155,236)**	**(2,181)**	**(576,355)**	**(98,946)**	**(13,140)**	**592,965**	**442,820**	**151,424**	**(147,776)**	**23,559**	**(122,025)**	**(904,891)**
Deferred tax credited/(charged) to profit or loss during the year	*10*	**96,637**	**(164)**	**2,042**	**(4,386)**	**–**	**81,085**	**56,039**	**(89,514)**	**–**	**–**	**–**	**141,739**
Deferred tax charged to other comprehensive income during the year		**–**	**–**	**–**	**–**	**(214,084)**	**–**	**(28,135)**	**–**	**–**	**–**	**–**	**(242,219)**
Exchange realignment		**(286,042)**	**(499)**	**(120,268)**	**(7,172)**	**(5,097)**	**71,049**	**45,152**	**15,723**	**(10,556)**	**1,677**	**–**	**(296,033)**
At 31 December 2017		**(1,344,641)**	**(2,844)**	**(694,581)**	**(110,504)**	**(232,321)**	**745,099**	**515,876**	**77,633**	**(158,332)**	**25,236**	**(122,025)**	**(1,301,404)**

40. DEFERRED TAX *(Continued)*

Notes:

(a) At 31 December 2017, deferred tax assets have not been recognised in respect of unused tax losses of HK$4,028,406,000 (2016: losses of HK$3,806,009,000) 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$4,006,766,000 (2016: HK$3,784,637,000) 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 rates applicable to dividend declared by subsidiaries in Germany and Luxembourg, and an associate in Russia are 26.375%, 15%, and 20%, respectively. The tax rates may be reduced under the tax treaties entered into between the countries in which the Group operates.

Deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China, Germany and Luxembourg. In the opinion of the Company's directors, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries, joint ventures and associates in Mainland China, Germany and Luxembourg for which deferred tax liabilities have not been recognised totalled approximately HK$19,280,476,000 (2016: HK$15,561,019,000) as at 31 December 2017.

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

41. TRADE AND BILLS PAYABLES

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

	2017	2016
	HK$'000	*HK$'000*
Billed:		
Within one year	**2,560,399**	2,801,186
One to two years	**141,279**	64,644
Two to three years	**14,636**	11,122
Over three years	**24,189**	29,961
	2,740,503	2,906,913
Unbilled	**1,381,471**	1,022,284
	4,121,974	3,929,197

41. TRADE AND BILLS PAYABLES *(Continued)*

Included in the Group's trade and bills payables as at 31 December 2017 are amounts of HK$52,577,000 (2016: HK$28,458,000) due to fellow subsidiaries, which arose from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related parties to their major customers.

42. OTHER PAYABLES AND ACCRUALS

	Notes	2017 HK$'000	2016 HK$'000
Accruals		**1,243,278**	964,985
Defined benefit plans – current portion	*37(b)*	**14,660**	13,093
Other liabilities		**8,458,412**	7,043,399
Due to holding companies	*28*	**2,632,842**	1,555,143
Due to related parties	*28*	**298,738**	247,315
		12,647,930	9,823,935
Portion classified as current liabilities		**(12,417,239)**	(9,500,657)
Non-current portion	*39*	**230,691**	323,278

The Group's other liabilities as at 31 December 2017 included, inter alia, the following:

(a) an amount of HK$28,526,000 (2016: HK$26,624,000) 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$115,879,000 (2016: HK$104,528,000) 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.

43. 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:

	2017	2016
	HK$'000	*HK$'000*
Profit for the year allocated to non-controlling interests	**64,599**	217,692
Dividends paid to non-controlling interests of the Yanjing Investment Group	**138,507**	250,844
Accumulated balances of non-controlling interests at the reporting dates	**8,813,113**	8,296,764

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

	2017	2016
	HK$'000	*HK$'000*
Revenue	**11,414,301**	11,589,905
Total expenses	**(11,332,177)**	(11,307,347)
Profit for the year	**82,124**	282,558
Total comprehensive income/(loss) for the year	**598,063**	(232,564)
Current assets	**7,698,677**	7,078,482
Non-current assets	**14,545,904**	13,865,175
Current liabilities	**(7,009,026)**	(6,670,221)
Non-current liabilities	**(245,836)**	(229,156)
Net cash flows from operating activities	**1,419,851**	1,260,048
Net cash flows used in investing activities	**(395,078)**	(905,094)
Net cash flows used in financing activities	**(635,327)**	(402,526)
Net increase/(decrease) in cash and cash equivalents	**389,446**	(47,572)

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

44. 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)*
Net assets acquired:		
Property, plant and equipment	*13*	7,307,214
Other intangible assets	*18*	3,458,272
Interests in associates		33,558
Deferred tax assets	*40*	717,906
Inventories		203,429
Receivables under finance lease		1,031,469
Trade and bills receivables		630,556
Prepayments, deposits and other receivables		547,646
Income tax recoverable		85,579
Restricted cash and pledged deposits		27,734
Cash and cash equivalents		445,141
Bank and other borrowings		(3,921,575)
Other non-current liabilities		(264,566)
Deferred tax liabilities	*40*	(2,328,670)
Trade and bills payables		(154,440)
Defined benefits plans	*37*	(541,961)
Provision for onerous contracts and major overhauls	*38*	(604,575)
Income tax payables		(322,678)
Other payables and accruals		(259,816)
Total identifiable net assets at fair value		6,090,223
Non-controlling interests		(750,845)
		5,339,378
Goodwill on acquisition	*16*	7,213,937
Consideration transferred		12,553,315

44. BUSINESS COMBINATIONS *(Continued)*

	2016 *HK$'000* *(note)*
Satisfied by:	
Cash	12,553,315
Revenue for the year of the acquired businesses since acquisition	3,791,197
Profit for the year of the acquired businesses since acquisition	233,285

The Group has elected to measure the non-controlling interests in the subsidiaries acquired at the non-controlling interests' proportionate share of the identifiable net assets of the subsidiaries acquired.

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

	2016 *HK$'000* *(note)*
Cash and cash equivalents acquired	445,141
Cash consideration	(12,553,315)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(12,108,174)

Had the above business combination taken place at the beginning of the year, the Group's profit for the year ended 31 December 2016 would have been HK$6,718,273,000 and the Group's revenue would have been HK$56,670,516,000 in that year.

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

45. DISPOSAL OF SUBSIDIARIES

	Note	**2017** **HK$'000** (note (a))	2016 HK$'000 (note (b))
Net assets disposed:			
Property, plant and equipment		**752,075**	27,043
Prepaid land premium		**–**	10,662
Goodwill		**75,335**	579,171
Interests in joint ventures		**–**	88,206
Interests in associates		**475,825**	733,747
Deferred tax assets		**3,509**	–
Other intangible assets		**25,628**	313,090
Available-for-sale investments		**–**	2,667
Amount due from contract customers		**–**	514
Inventories		**39,493**	8,508
Trade and bills receivables		**52,260**	110,751
Prepayments, deposits and other receivables		**48,675**	418,035
Pledged deposits		**–**	12,134
Other tax recoverable		**35,116**	–
Cash and cash equivalents		**232,997**	174,062
Bank and other borrowings		**(149,425)**	(33,623)
Trade and bills payables		**(62,812)**	(131,464)
Other payables and accruals		**(5,569)**	(288,453)
Receipts in advance		**(110,357)**	–
Income tax payables		**(540)**	(1,326)
Non-controlling interests		**(30,230)**	(11,767)
Total net assets disposed of		**1,381,980**	2,011,957
Transaction costs paid		**–**	757
Exchange fluctuation reserve		**(15,530)**	58,619
Gain on disposal of subsidiaries	5	**14,389**	350,209
Consideration transferred		**1,380,839**	2,421,542
Satisfied by:			
Cash		**–**	2,421,542
Additional interest in an associate		**1,380,839**	–

45. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

	2017	2016
	HK$'000	*HK$'000*
Cash consideration	**–**	2,421,542
Cash and bank balances disposed of	**(232,997)**	(174,062)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**(232,997)**	2,247,480

Notes:

(a) The disposal of Beijing Gas Development was completed on 16 February 2017, further details of which are set out in note 31(a) to the financial statements.

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

(i) 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.

(ii) 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 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.

46. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

Apart from the transactions as detailed in notes 20 and 45 to the financial statements, the Group had no other major non-cash transactions of investing and financing activities during the years ended 31 December 2017 and 2016.

(b) Changes in liabilities arising from financing activities

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

47. CONTINGENT LIABILITIES

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

48. 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:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**41,334**	7,498
In the second to fifth years, inclusive	**40,999**	7,178
	82,333	14,676

(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:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**94,877**	152,549
In the second to fifth years, inclusive	**173,784**	137,348
After five years	**596,403**	499,014
	865,064	788,911

49. CAPITAL COMMITMENTS

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

	2017	2016
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Buildings	**6,358**	72,203
Gas pipelines and plant and machinery	**2,506,178**	1,022,481
New service concession arrangements	**642,699**	283,930
Acquisition of an associate	**–**	8,525,000
	3,155,235	9,903,614

50. 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*	**2017** **HK$'000**	2016 *HK$'000*
Non-controlling equity holders of subsidiaries and their associates:				
Yanjing Beer Group and its associates	Purchase of bottle labels[γ]	(i)	**37,524**	38,288
	Purchase of bottle caps[γ]	(i)	**19,288**	18,827
	Canning service fees paid[γ]	(ii)	**12,438**	10,676
	Comprehensive support service fees paid[γ]	(iii)	**18,076**	18,076
	Land rent expenses[γ]	(iv)	**2,150**	2,150
	Trademark licensing fees paid[γ]	(v)	**60,516**	66,788
	Less: refund for advertising subsidies[γ]	(v)	**(5,998)**	(6,252)
Fellow subsidiaries:				
Beiran Enterprises and its subsidiaries	Sale of gas[#]	(vi)	**152,729**	70,287
	Engineering service income[#]	(vii)	**31,094**	10,805
	Comprehensive service income[#]	(vii)	**8,795**	8,014
	Sale of goods[#]	(x)	**98,281**	58,260
	Engineering service expenses[#]	(vii)	**162,441**	90,744
	Comprehensive service expenses[#]	(vii)	**32,998**	44,537
	Building rental expenses[#]	(viii)	**107,539**	87,062
	Building rental income[#]	(viii)	**437**	448
	Purchase of goods[#]	(viii)	**118,935**	123,435
Associate:				
Beijing Enterprises Group Finance Co. Ltd.	Interest expense	(ix)	**71,398**	29,549
	Interest income[#]	(ix)	**23,446**	21,081

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.*

50. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes:

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

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

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

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

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

(iv) The land rent expenses were charged at a mutually-agreed amount of RMB1,849,000 (equivalent to HK$2,150,000) (2016: RMB1,849,000 (equivalent to HK$2,150,000)) per annum.

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

50. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Notes: (Continued)

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

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 2017. 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.

On 19 October 2017, the Company and BE Group Finance entered into the Supplementary Agreement (the "Supplementary Agreement") whereby the annual cap shall be replaced by the revised annual cap during the remaining term of the Deposit Agreement. The revised daily aggregate of deposits placed by the Group with BE Group Finance (including any interest accrued thereon) during the remaining term of the Deposit Agreement from 19 October 2017 to 31 December 2019 will not exceed HK$2,900 million.

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

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

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

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

50. RELATED PARTY DISCLOSURES *(Continued)*

(b) Outstanding balances with related parties

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

(ii) Details of the Group's balances with joint ventures, associates, holding companies and fellow subsidiaries are disclosed in notes 19, 20, 26(a), 27, 28, 35(b)(ii) and 41 to the financial statements, respectively.

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the year, the Group has transactions with Other SOEs including, but not limited to, the sale of piped natural gas, bank deposits and borrowings, and utilities consumptions. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the 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

	2017	2016
	HK$'000	*HK$'000*
Short term employee benefits	**25,949**	25,958
Pension scheme contributions	**29**	29
Total compensation paid to key management personnel	**25,978**	25,987

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

51. FINANCIAL INSTRUMENTS BY CATEGORY

Other than derivative financial instruments and certain equity investments being classified as available-for-sale investments, as disclosed in notes 22 and 23 to the financial statements, all financial assets and liabilities of the Group as at 31 December 2017 and 2016 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

52. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

As disclosed in note 23 to the financial statements, listed equity investments of the Group 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, notes and senior notes was HK$33,492,814,000 (2016: HK$20,922,771,000) and determined as Level 1. The fair value of the Group's guaranteed bonds, notes and senior notes are based on price quotations from financial institutions at the reporting date.

As disclosed in note 22 to 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 director of the Company, since their carrying amounts are not significantly different from their respective fair values, no disclosure of the fair values of these financial instruments is made.

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other loans, the guaranteed bonds, notes and senior notes and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as 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, notes and senior notes, cash and short term deposits are stated at amortised cost and not revalued. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

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

Interest rate risk *(Continued)*

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments as at the end of the reporting period that are exposed to interest rate risk:

	Total	Effective interest rate
	HK$'000	*%*
At 31 December 2017		
Floating rate:		
Restricted cash and pledged deposits	**43,311**	**0.35**
Cash and cash equivalents	**8,984,504**	**0.35**
Interest-bearing bank and other borrowings	**(27,097,266)**	**1.94**
Fixed rate:		
Cash and cash equivalents	**8,857,105**	**1.12**
Interest-bearing bank and other borrowings	**(1,833,366)**	**3.37**
Guaranteed bonds, notes and senior notes	**(31,410,505)**	**3.35**
At 31 December 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, notes and senior notes	(19,333,950)	4.37

At 31 December 2017, 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$116,563,000 (2016: HK$70,004,000).

53. 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 2016.

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

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

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

Credit risk

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

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, notes and senior notes. In addition, banking facilities have been put in place for contingency purposes.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of short term loans to cover expected cash demands, subject to approval by the management of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

53. 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 2017

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

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, notes 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

53. 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 52 to the financial statements. In the opinion of the directors, the Group's exposure to fair value risk in respect of its financial instruments is minimal.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

Depending on the market conditions and funding arrangements, if at any time, repurchase of the Company's shares will lead to an enhancement of the net asset value per share and/or earnings per share of the Group, the directors will authorise such transactions.

The Group monitors capital using a net gearing ratio, which is net borrowing divided by the total equity. Net borrowing includes total bank and other borrowings, guaranteed bonds, notes and senior notes (as shown in the consolidated statement of financial position) less cash and bank balances and time deposits (including restricted cash and pledged deposits). The net gearing ratios as at the end of the reporting periods are as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Guaranteed bonds, notes and senior notes	**31,410,505**	19,333,950
Total bank and other borrowings	**29,076,603**	31,295,143
Less: Cash and bank balances and time deposits	**(17,884,920)**	(16,028,099)
Net borrowing	**42,602,188**	34,600,994
Total equity	**79,173,005**	68,038,926
Gearing ratio	**53.8%**	50.9%

54. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 31 December 2017 amounted to HK$1,452,559,000 (2016: net current liabilities of HK$5,423,898,000) and HK$139,598,850,000 (2016: HK$105,448,565,000), respectively.

55. COMPARATIVE AMOUNTS

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

56. 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:

	2017	2016
	HK$'000	*HK$'000*
ASSETS		
Non-current assets:		
Property, plant and equipment	**1,439**	1,375
Investment properties	**56,914**	56,914
Investments in subsidiaries	**67,955,554**	60,648,920
Investments in associates	**332,687**	106,128
Available-for-sale investments	**1,256,081**	1,256,381
Total non-current assets	**69,602,675**	62,069,718
Current assets:		
Trade and bills receivables	**1,012**	977
Prepayments, deposits and other receivables	**101,151**	191,329
Cash and cash equivalents	**1,794,890**	2,492,280
Total current assets	**1,897,053**	2,684,586
TOTAL ASSETS	**71,499,728**	64,754,304

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

	2017	2016
	HK$'000	*HK$'000*
EQUITY AND LIABILITIES		
Equity:		
Share capital	**30,401,883**	30,401,883
Reserves *(note)*	**1,033,291**	1,183,286
TOTAL EQUITY	**31,435,174**	31,585,169
Non-current liabilities:		
Bank and other borrowings	**14,832,571**	10,092,265
Due to subsidiaries	**–**	17,801,657
Total non-current liabilities	**14,832,571**	27,893,922
Current liabilities:		
Other payables and accruals	**1,786,847**	1,819,841
Income tax payable	**85,372**	85,372
Bank and other borrowings	**300,000**	3,370,000
Due to subsidiaries	**23,059,764**	–
Total current liabilities	**25,231,983**	5,275,213
TOTAL LIABILITIES	**40,064,554**	33,169,135
TOTAL EQUITY AND LIABILITIES	**71,499,728**	64,754,304

Hou Zibo
Director

Tam Chun Fai
Director

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

Note:

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

	Treasury shares HK$'000	Capital reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2016	(46,623)	13,220	(22,773)	17,561	1,071,497	1,032,882
Profit for the year and total comprehensive income for the year	–	–	–	–	2,067,955	2,067,955
Final 2015 dividend declared	–	–	–	–	(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 and 1 January 2017	–	13,220	(22,773)	17,561	1,175,278	1,183,286
Profit for the year and total comprehensive income for the year	–	–	–	–	1,052,754	1,052,754
Final 2016 dividend declared	–	–	–	–	(820,400)	(820,400)
Interim 2017 dividend	–	–	–	–	(378,616)	(378,616)
Shares repurchased and cancelled	–	–	–	–	(3,733)	(3,733)
At 31 December 2017	–	13,220	(22,773)	17,561	1,025,283	1,033,291

57. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2018.

FIVE YEAR FINANCIAL SUMMARY

31 December 2017

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 2016, is set out below:

RESULTS

	Year ended 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	42,360,528	47,935,795	60,149,945	55,958,834	**57,508,025**
Operating profit	2,563,977	2,158,562	1,929,945	2,547,072	**2,177,855**
Share of profits and losses of:					
Joint ventures	(5,847)	4,827	(183)	6,623	**26,609**
Associates	2,742,612	3,807,092	4,708,112	4,943,273	**5,827,944**
Profit before tax	5,300,742	5,970,481	6,637,874	7,496,968	**8,032,408**
Income tax	(545,287)	(564,834)	(681,961)	(857,723)	**(845,131)**
Profit for the year	4,755,455	5,405,647	5,955,913	6,639,245	**7,187,277**
ATTRIBUTABLE TO:					
Shareholders of the Company	4,183,878	4,831,678	5,667,378	6,235,883	**6,880,378**
Non-controlling interests	571,577	573,969	288,535	403,362	**306,899**
	4,755,455	5,405,647	5,955,913	6,639,245	**7,187,277**

FIVE YEAR FINANCIAL SUMMARY

31 December 2017

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	109,621,824	124,173,816	124,766,040	144,708,761	**171,549,018**
Total liabilities	(45,553,745)	(56,077,836)	(56,113,870)	(76,669,835)	**(92,376,013)**
NET ASSETS	64,068,079	68,095,980	68,652,170	68,038,926	**79,173,005**
Equity attributable to shareholders of the Company	54,021,238	57,176,356	58,187,267	57,321,208	**67,568,050**
Non-controlling interests	10,046,841	10,919,624	10,464,903	10,717,718	**11,604,955**
TOTAL EQUITY	64,068,079	68,095,980	68,652,170	68,038,926	**79,173,005**

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED