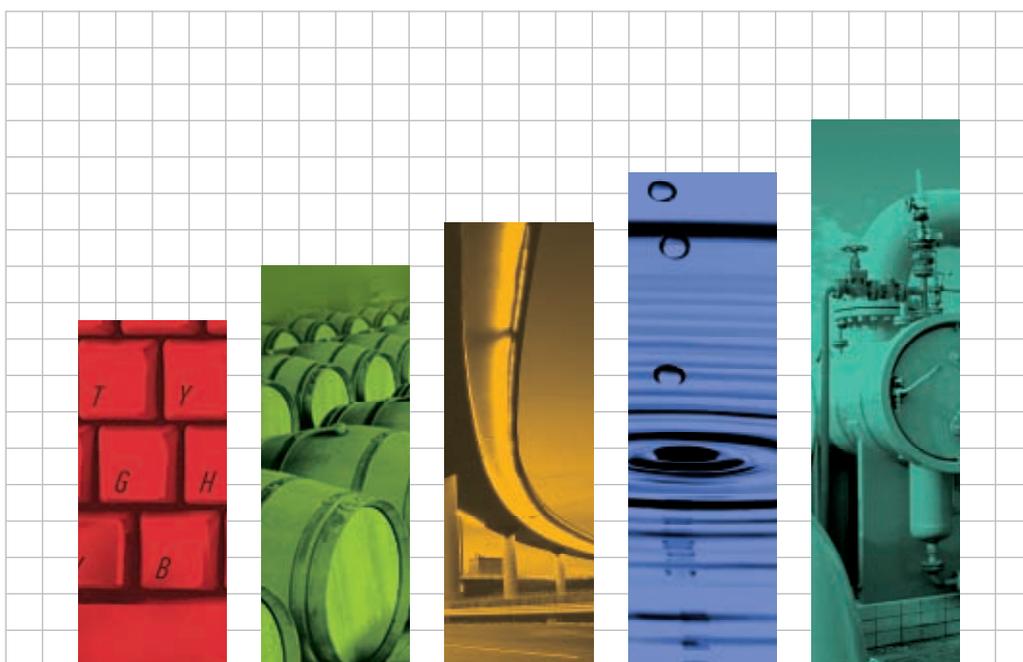


BEIJING ENTERPRISES HOLDINGS LIMITED

Stock Code 392



北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

INTERIM REPORT 2008

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CORPORATE INFORMATION

GENERAL INFORMATION:

Registered Office

Room 4301, 43/F., Central Plaza,
18 Harbour Road,
Wanchai, Hong Kong
Tel: (852) 2915 2898
Fax: (852) 2857 5084

Website

<http://www.behl.com.hk>

Stock Code

392

Company Secretary

Mr. Tam Chun Fai CPA CFA

Share Registrars

Tricor Tengis Limited
26/F, Tesbury Centre,
28 Queen's Road East,
Hong Kong

DIRECTORS:

Executive Directors

Mr. Yi Xi Qun (*Chairman*)
Mr. Zhang Hong Hai (*Vice Chairman
and Chief Executive Officer*)
Mr. Li Fu Cheng (*Vice Chairman*)
Mr. Bai Jin Rong (*Vice Chairman*)
Mr. Zhou Si (*Vice Chairman*)
Mr. Liu Kai (*Vice President*)
Mr. Guo Pu Jin
Mr. E Meng (*Vice President*)
Mr. Lei Zhen Gang
Mr. Jiang Xin Hao (*Vice President*)
Mr. Tam Chun Fai

Independent Non-executive Directors

Mr. Wu Jiesi
Mr. Robert A. Theleen
Mr. Lam Hoi Ham
Mr. Fu Tingmei

CORPORATE INFORMATION

PROFESSIONALS:

Auditors

Ernst & Young

Legal Advisers

as to Hong Kong law:

Johnson Stokes & Master

as to PRC law:

Haiwen & Partners

as to US law:

Sullivan & Crommell

PRINCIPAL BANKERS:

In Hong Kong:

Bank of China (Hong Kong) Limited

Bank of Communications, Hong Kong Branch

China Construction Bank, Hong Kong Branch

Mizuho Corporate Bank Ltd., Hong Kong Branch

Rabobank, Hong Kong Branch

In Mainland China:

Agricultural Bank of China

Bank of China

China Construction Bank

Guangdong Development Bank

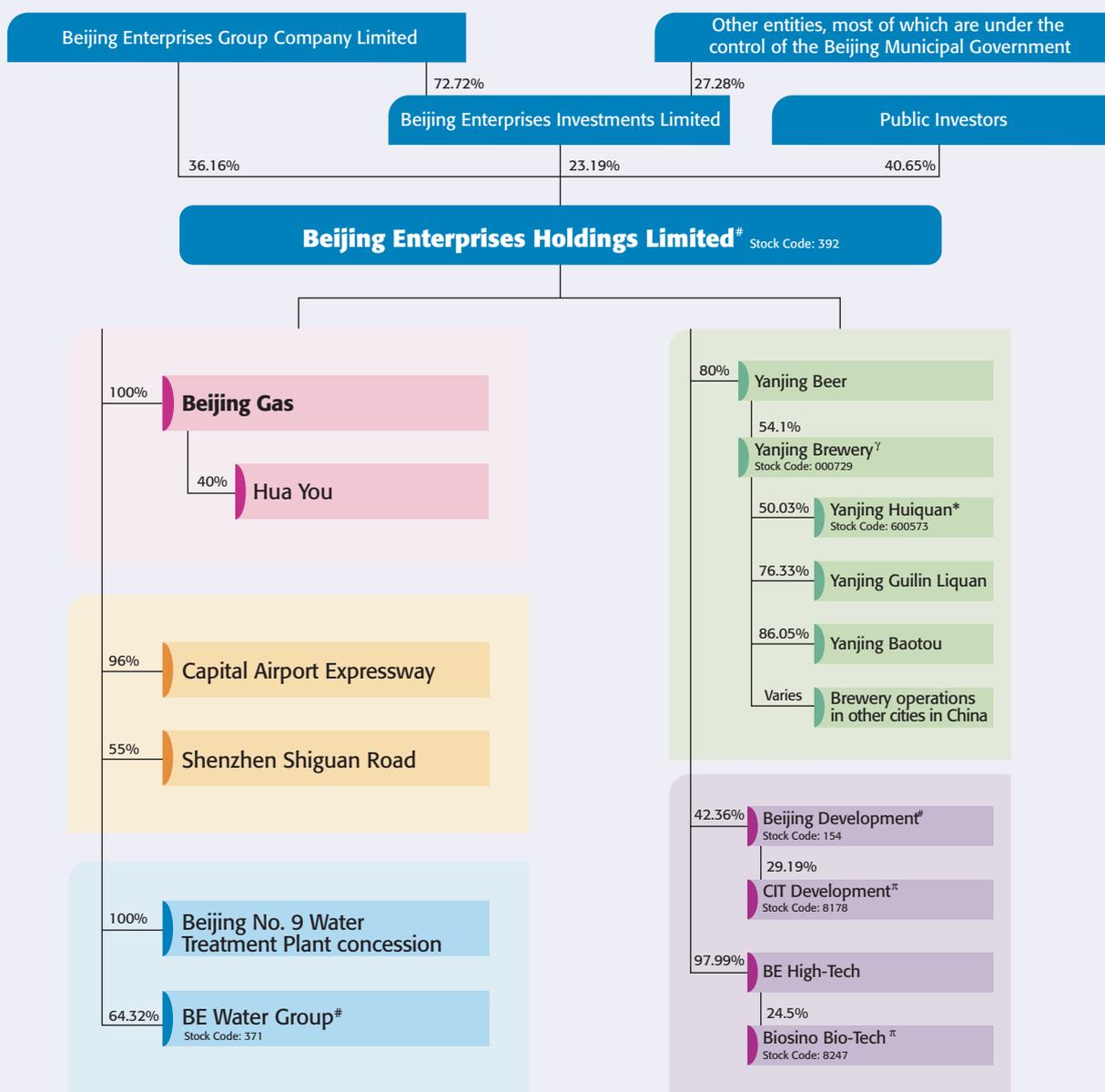
The Industrial and Commercial Bank of China

ADR Depository Bank:

The Bank of New York

CORPORATE STRUCTURE

AS AT 17 SEPTEMBER 2008



* Listed on The Shanghai Stock Exchange

γ Listed on The Shenzhen Stock Exchange

Listed on The Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

π Listed on The Growth Enterprise Market of the Stock Exchange

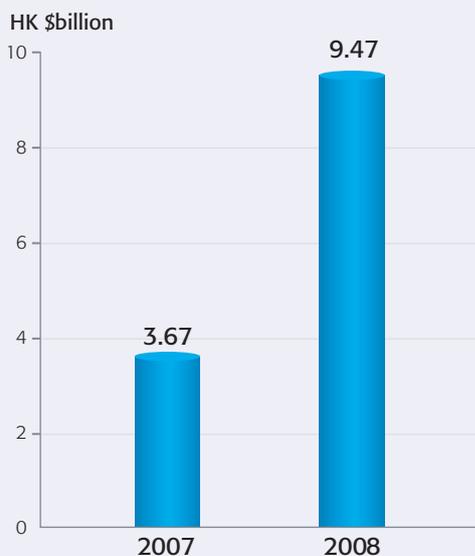
SUMMARY

FINANCIAL HIGHLIGHTS (UNAUDITED)

For the six months ended 30 June

	2008 HK\$'000	2007 HK\$'000 (restated)	Change %
Revenue	9,472,185	3,673,237	157.9
Gross profit	2,289,126	1,238,612	84.8
Profit from operating activities	1,549,061	967,016	60.2
Profit for the period	1,519,435	863,058	76.1
Profit attributable to shareholders of the Company	1,273,378	657,433	93.7
Interim dividend	HK20 cents	HK10 cents	100
Special dividend	–	HK10 cents	–
Earnings per share – Basic	HK112 cents	HK105 cents	6.7

Revenue
for the six months ended 30 June 2008



Profit attributable to shareholders of the Company
for the six months ended 30 June 2008



SUMMARY

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Beijing Enterprises Holdings Limited (the "Company") is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008 and the unaudited condensed consolidated balance sheet of the Group as at 30 June 2008 with the restated comparative figures in 2007. The consolidated revenue of the Group was HK\$9.47 billion for the first half of 2008, increased by 157.9% comparing to corresponding period of last year. Profit attributable to the shareholders of the Company was HK\$1.27 billion, jumped 93.7% compared to 2007 and again a record high since the listing of the Company in 1997.

Net profit after taxation contributed by each business segment attributable to shareholders of the Company during the period was as follows:

	Net profit After Taxation HK'000	Proportion %
Natural Gas	847,182	66.5
Toll Roads	126,564	10.0
Consumer Products	123,492	9.7
Water concession	94,530	7.4
Others	<u>81,610</u>	<u>6.4</u>

INTERIM DIVIDEND

The Board has resolved to declare an interim cash dividend for the six months ended 30 June 2008 of HK20 cents per share (2007: interim and special dividends of HK10 cents each per share), which will be payable on or about 28 October 2008 to shareholders whose names appear on the Register of Members of the Company on 8 October 2008.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Friday, 3 October 2008 to Wednesday, 8 October 2008, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify for the interim 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 26th Floor, Tesbury Center, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 2 October 2008.

BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS

Basis of Presentation

The results and financial position of toll roads and water concession have been presented in accordance with HK(IFRIC)-Int12. Accordingly, the comparative figures in 2007 have been restated in accordance with the requirements of the relevant accounting standards. For details, please refer to "Notes To Condensed Consolidated Financial Statements - 2. Effect of Changes in Accounting Policies".

Business Review

1. Infrastructure and Utilities

Natural Gas Business

The natural gas distribution business in Beijing recorded a revenue of HK\$5.08 billion and net profit attributable to the Group of HK\$405 million in the first half of 2008. Gas sales volume was approximately 2.49 billion cubic meters against estimated 2 billion cubic meters in corresponding period of last year. The results of Beijing Gas Group Company Limited ("Beijing Gas") was consolidated since 1 July 2007 and therefore no publicised comparative figures are available for corresponding period of last year. The pipeline system with a total length of approximately 7,800 kilometers in Beijing city is capable of supplying daily maximum volume of 40 million cubic meters of natural gas to approximately 3.5 million of subscribers during the winter season.

The transmission volume of Huayou Company Limited ("Huayou"), a jointly-controlled entity of Beijing Gas, for the first half of 2008 was approximately 5.85 billion cubic meters compared against an estimated volume of 3.93 billion in the corresponding period of last year. Beijing Gas shared a net profit after taxation of HK\$442 million, based on the 40% equity stake in Huayou, in the first half of 2008.

	For the six months ended 30 June 2008	
	Sales Volume	Ratio
	<i>million cubic meter</i>	
Heating	1,451	58.3%
Residential	350	14.1%
Commercial and Industrial Users	306	12.3%
Electricity Supply	251	10.1%
Cooling	23	0.9%
Others	106	4.3%
Total	<u>2,487</u>	<u>100.0%</u>

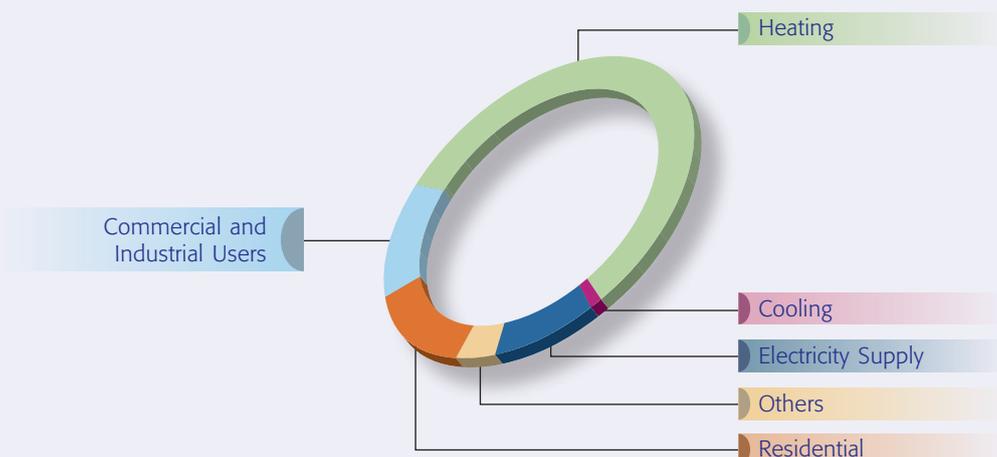
BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

I. Infrastructure and Utilities (Continued)

Natural Gas Business (Continued)



Toll Roads

The traffic volume going through the Tianzhu toll gate of Capital Airport Expressway declined by 13.1% to 23.15 million vehicles in the first half of 2008 mainly due to diversion of traffic to the South Extension Line connecting to the Terminal three of Beijing Capital International Airport. South Extension Line and its toll gate are operated by Beijing Highway Development Company Limited which is a 4% minority shareholder of the Capital Airport Expressway.

The revenue of Capital Airport Expressway decreased by 9.5% accordingly to HK\$225 million in the first half of 2008. Attributable profit to the Group also declined by 12.7% to approximately HK\$120 million comparing to corresponding period in last year.

The traffic volume of Shenzhen Shiguan Road edged down by 1.5% to 4.66 million vehicles in the first half of the year. The attributable profit to the Group was HK\$6.43 million for the six months ended 30 June 2008, 16.9% lower than corresponding period in last year.

Water Business

The attributable profit of Beijing No.9 water treatment concession to the Group in the first half of 2008 was approximately HK\$94 million, 3.6% higher than the restated comparative figure of last year.

The newly acquired Beijing Enterprises Water Group Limited ("BE Water Group") (stock code: 371) recorded moderate results of attributable profit of HK\$2.3 million to the Group since the acquisition completed in March 2008. The Group is now operating more than approximately 1.5 million metric tons of daily water purification and sewage processing capacity in mainland China. We expect to continue investments in quality water projects through BE Water Group in the future.

BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

II. *Consumer Products*

Beer Operations

The overall sales volume of beer products sold under the brandname of Yanjing and associated brands increased by approximately 6.2% to 2.06 million thousand litres. Revenue increased by 24.9% to HK\$4.12 billion, mainly due to upward revision of product prices and continuous appreciation of Renminbi exchange rate. Profit attributable to the Group increased by 39.6% to approximately HK\$123 million mainly due to higher growth in premium products, effective costs control measure, appreciation of the Renminbi exchange rate and receipts of certain government grants.

Financial Review

I. *Analysis of Financial Results*

Revenue

The revenue of the Group in the first half of 2008 was approximately HK\$9.47 billion, jumped 157.9% compared with the restated HK\$3.67 billion in 2007. This was mainly driven by the consolidation of Beijing Gas' revenue of HK\$5.08 billion in the first half of 2008. Yanjing Beer's revenue also grew healthily by 24.9% to HK\$4.12 billion. Other business contributed an aggregate of not more than 2.9% of the total revenue.

Cost of sales

Cost of sales jumped 195% to HK\$7.18 billion, mainly due to consolidation of the results of natural gas distribution business in Beijing since 1 July 2007. The cost of sales for gas distribution business included purchase cost of natural gas as well as depreciation of pipeline network.

Gross profit margin

Overall gross profit margin was 24.2% compared to 33.7% (as restated) in corresponding period of 2007. The decline in profit margin was due to consolidation of the gas distribution business since 1 July 2007. Natural gas distribution business had average gross margin of approximately 16.8% which is lower than the higher margin brewery business, toll road and water business due to different direct cost structure.

BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

I. *Analysis of Financial Results (Continued)*

Other income

Other income comprised of, inter alia, total interest income amounted to HK\$188 million; gain on disposal of interests in subsidiaries amounted to HK\$65.3 million; receipts of tax refund and government grants amounted to HK\$98 million; sale proceeds from scrap materials and raw materials amounted to HK\$42 million and exchange gain, etc.

Selling and distribution costs

Selling and distribution costs of the Group in first half of 2008 increased by 41.4% to HK\$557 million mainly due to consolidation of natural gas distribution business since 1 July 2007. The proportion of selling and distribution costs for gas distribution business was lower than that of brewery business due to much higher advertising expenses for consumer products business.

Administrative expenses

Administrative expenses of the Group in the first half of 2008 was HK\$587 million, increased by 80.1% comparing to the corresponding period in last year. The increase was mainly due to consolidation of the natural gas distribution business since 1 July 2007.

Finance costs

Finance costs of the Group in the first half of 2008 was HK\$183 million, increased by 185.5% comparing to HK\$64.2 million in corresponding period of 2007. The significant increase was mainly due to drawdown of a syndicated loan amounting to HK\$2.1 billion which was used to complete the acquisition of Beijing Gas and consolidation of Beijing Gas' bank loans.

Share of profits and losses of jointly-controlled entities

This substantially represents the 40% share of the profit after taxation of Huayou Company Limited since 1 July 2007. Huayou is 40% owned by Beijing Gas and 60% owned by PetroChina Limited. The primary business of Huayou is engaged in natural gas transmission which supplies to city gas operators along the two long pipelines with an approximate total length of 2,200 kilometers pipelines.

BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

I. *Analysis of Financial Results (Continued)*

Share of results of associates

The Group's share of net losses of associates amounted to HK\$6.13 million in the first half of 2008.

Tax

Effective income tax rate increased substantially to approximately 21% mainly due to consolidation of Beijing Gas which accrued its income tax liability at the standard rate of 25% for Mainland enterprises. Also, the net exceptional gains derived from deemed disposal of shares in Beijing Development (Hong Kong) Limited together with some property revaluation gain recorded in the headquarter in the corresponding period of last year were of capital nature and not subject to tax.

II. *Financial Position of the Group*

Cash and bank borrowings

As at 30 June 2008, cash and bank deposits held by the Group amounted to HK\$7.89 billion. At the period end date, the Group had a strong net working capital of HK\$4.04 billion. The Group maintains sufficient banking facilities for its working capital requirement and has sufficient cash resources to finance its capital expenditures in the foreseeable future.

The Group's bank and other borrowings amounted to HK\$6.29 billion as at 30 June 2008, which mainly comprised five year syndicated loans amounting to HK\$2.1 billion and other bank loans HK\$4.19 billion carried in the PRC subsidiaries. Around 33.4% of the bank loans were denominated in Hong Kong dollars with the rest in Renminbi. The Group was in a net cash position of HK\$1.6 billion as at 30 June 2008. The gearing ratio (defined as total bank and other borrowings over equity attributable to shareholders of the Group) was 21.8% (as at 31 December 2007: 22%).

BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

II. *Financial Position of the Group (Continued)*

Liquidity and capital resources

Upon completion of the acquisition of Beijing Gas in July 2007, the downstream gas distribution business has been contributing to the operating cash flow of the Group and significantly increased its liquidity.

During the period under review, there was no significant movements in the issued capital of the Company. As at the end of June 2008, the issued capital of the Company was 1,138,004,000 shares and shareholders equity grew to HK\$28.8 billion. Total equity was HK\$33.88 billion comparing to HK\$31.58 billion as at the end of 2007. With solid capital base and very strong balance sheets, the Group was not affected by the ongoing global credit crunch.

Given the primarily cash nature business of gas distribution, toll roads, brewery and water concession, the Group is benefiting from very strong recurring cash flow and is well positioned to capture investment opportunities in the future.

III. *Risk Management*

The Group's major financial instruments include equity investments, borrowings, trade receivables, trade payables, other receivables, other payables and bank balances and cash. The management adopts and applies the following policies to manage and monitor financial risks:–

1. Provision for diminution is made according to Group's accounting policy or where a permanent impairment in value has taken place or there is evidence of reduction in recoverability of the cash flows.
2. Review market trends on interest rates and exchange rates movements, assess potential financial impact on the Group's operation and financial position. Effective hedging instruments can be used to level off dramatic market movements should a need arises.
3. The Group's cash and bank deposits should be placed with financial institutions with strong credit rating and good reputation.

BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects

I. Infrastructure and Utilities

Natural Gas Business

Beijing Gas is on target to achieve its gas sales volume growth this year. The Group expects steady long term growth in natural gas consumption in Beijing as a result of continuing switch to piped gas service and aggressive population growth plan of Beijing city. Beijing Gas will continue to invest in the pipeline infrastructure to sustain the increasing demand for natural gas consumption in the future.

In the transmission business, Huayou has been meeting very high demand growth in the last couple of years mainly due to many coal to natural gas conversion projects in the region. Huayou is investing its earnings in both the volume expansion and pipeline extension projects. Upon completion of these projects by 2009 to 2010, the transmission capacity is expected to increase further to annual maximum of 19 billion cubic meters and the extension long pipelines will be able to serve the entire Bohai rim region.

Toll Roads

Beijing Municipal Committee of Communication ("BMCC") is still considering the Group's investment proposal on Airport South Link Expressway and North Link Expressway projects. As these two expressways had very high costs of construction, the Group may not proceed should the valuation proves to be too high risk to earn a reasonable return for the shareholders.

Water Business

The Group has successfully built the listed platform, BE Water Group (stock code: 371), as the major vehicle for investing in regional water projects in Mainland China. BE Water Group has completed the acquisition of Z.K.C Environmental Group Co., Ltd. which immediately contributed more than one million metric tons of daily sewage processing capacity to the Group. Looking forward, BE Water Group will continue to pursue investment opportunities in water projects with a mission to accomplish more than 5 million metric tons of daily processing capacity in few years' time.

BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects (Continued)

II. *Consumer Products*

Beer Business

Yanjing Brewery has just received the official approval from China Securities Regulatory Committee for its new shares placement plan in the A share market. Yanjing is awaiting opportunity to execute the fund raising plan to finance its regional expansion plan and building of malt production base in Inner Mongolia and Xinjiang. Bearing any unforeseen circumstances in the near future, Yanjing still has sufficient internal resources and banking facilities to execute the expansion plan.

Employees

At 30 June 2008, the Group had 34,400 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.

By order of the Board

Yi Xi Qun

Chairman

Hong Kong, 17 September 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June	
		2008 Unaudited HK\$'000	2007 Unaudited HK\$'000 (Restated)
REVENUE	3	9,472,185	3,673,237
Cost of sales		<u>(7,183,059)</u>	<u>(2,434,625)</u>
Gross profit		2,289,126	1,238,612
Other income and gains, net	4	500,295	482,000
Selling and distribution costs		(557,202)	(393,957)
Administrative expenses		(586,884)	(325,869)
Other operating expenses, net		<u>(96,274)</u>	<u>(33,770)</u>
PROFIT FROM OPERATING ACTIVITIES	5	1,549,061	967,016
Finance costs	6	(183,324)	(64,221)
Share of profits and losses of:			
Jointly-controlled entities		441,741	–
Associates		<u>(6,132)</u>	<u>66,491</u>
PROFIT BEFORE TAX		1,801,346	969,286
TAX	7	<u>(281,911)</u>	<u>(106,228)</u>
PROFIT FOR THE PERIOD		<u>1,519,435</u>	<u>863,058</u>

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June	
		2008 Unaudited HK\$'000	2007 Unaudited HK\$'000 (Restated)
ATTRIBUTABLE TO:			
Shareholders of the Company		1,273,378	657,433
Minority interests		246,057	205,625
		<u>1,519,435</u>	<u>863,058</u>
DIVIDENDS			
Interim	8	227,600	103,839
Special		–	103,839
		<u>227,600</u>	<u>207,678</u>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
	9		
Basic		<u>HK\$1.12</u>	<u>HK\$1.05</u>
Diluted		<u>HK\$1.12</u>	<u>HK\$1.04</u>

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

	<i>Notes</i>	30 June 2008 Unaudited HK\$'000	31 December 2007 Unaudited HK\$'000 (Restated)
ASSETS			
Non-current assets:			
Property, plant and equipment		17,339,623	15,811,579
Investment properties		122,463	334,262
Prepaid land premiums		1,050,344	837,507
Goodwill		6,888,105	6,898,734
Other intangible assets		1,441,554	1,453,219
Interests in jointly-controlled entities		3,552,776	3,302,725
Interests in associates		879,737	881,268
Available-for-sale investments		308,194	290,424
Prepayments, deposits and other receivables		1,719,426	1,793,565
Deferred tax assets		445,301	391,168
		<u>33,747,523</u>	<u>31,994,451</u>
Total non-current assets			
Current assets:			
Prepaid land premiums		22,894	18,832
Inventories		2,841,524	2,342,259
Amounts due from customers for contract work		439	178
Trade and bills receivables	10	976,021	817,323
Prepayments, deposits and other receivables		1,758,712	1,583,590
Financial assets at fair value through profit or loss		48,582	39,250
Taxes recoverable		17,052	35,196
Restricted cash and pledged deposits		61,940	131,800
Cash and cash equivalents		7,824,555	8,072,484
		<u>13,551,719</u>	<u>13,040,912</u>
Total current assets			
		<u>47,299,242</u>	<u>45,035,363</u>
TOTAL ASSETS			

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

	<i>Notes</i>	30 June 2008 Unaudited HK\$'000	31 December 2007 Unaudited HK\$'000 (Restated)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company:			
Issued capital	11	113,800	113,894
Reserves		28,475,101	26,338,628
Proposed dividends		<u>227,600</u>	<u>455,576</u>
		28,816,501	26,908,098
Minority interests		<u>5,064,906</u>	<u>4,675,736</u>
TOTAL EQUITY		<u>33,881,407</u>	<u>31,583,834</u>
Non-current liabilities:			
Bank and other borrowings		3,164,986	3,282,325
Convertible bonds	12	162,878	–
Defined benefits plans		248,781	223,772
Other long term liabilities		138,820	136,690
Deferred tax liabilities		<u>190,094</u>	<u>175,518</u>
Total non-current liabilities		<u>3,905,559</u>	<u>3,818,305</u>
Current liabilities:			
Trade and bills payables	13	1,422,517	1,737,563
Amounts due to customers for contract work		37,338	20,468
Other payables and accruals		4,330,801	4,375,808
Taxes payable		599,776	858,110
Bank and other borrowings		<u>3,121,844</u>	<u>2,641,275</u>
Total current liabilities		<u>9,512,276</u>	<u>9,633,224</u>
TOTAL LIABILITIES		<u>13,417,835</u>	<u>13,451,529</u>
TOTAL EQUITY AND LIABILITIES		<u>47,299,242</u>	<u>45,035,363</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to shareholders of the Company												
	Issued capital Unaudited HK\$'000	Share premium account Unaudited HK\$'000	Capital reserve Unaudited HK\$'000	Share option reserve Unaudited HK\$'000	Property revaluation reserve Unaudited HK\$'000	Exchange fluctuation reserve Unaudited HK\$'000	PRC reserve funds Unaudited HK\$'000	Capital redemption reserve Unaudited HK\$'000	Retained profits Unaudited HK\$'000	Proposed dividend Unaudited HK\$'000	Total Unaudited HK\$'000	Minority interests Unaudited HK\$'000	Total equity Unaudited HK\$'000
At 1 January 2008, as previously reported	113,894	20,721,710	413,367	4,007	12,332	1,286,606	1,006,361	-	2,733,626	455,576	26,747,479	4,689,457	31,436,936
Adjustments for changes in accounting policies (Note 2)	-	-	-	-	-	14,875	-	-	145,744	-	160,619	(13,721)	146,898
At 1 January 2008, as restated	113,894	20,721,710*	413,367*	4,007*	12,332*	1,301,481*	1,006,361*	-	2,879,370*	455,576	26,908,098	4,675,736	31,583,834
Income for the period recognised directly in equity	-	-	-	-	-	1,088,061	-	-	-	-	1,088,061	269,587	1,357,648
- Exchange realignment	-	-	-	-	-	-	-	-	1,273,378	-	1,273,378	246,057	1,519,435
Profit for the period	-	-	-	-	-	1,088,061	-	-	1,273,378	-	2,361,439	515,644	2,877,083
Total income and expense for the period	-	-	-	-	-	1,088,061	-	-	1,273,378	-	2,361,439	515,644	2,877,083
Acquisition of minority interests	-	-	-	-	-	-	-	-	2,184	-	2,184	(6,796)	(4,612)
Disposal of subsidiaries	-	-	19,023	-	-	(18,310)	(11,762)	-	11,049	-	-	(84,429)	(84,429)
Deemed disposal of interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	7,891	7,891
Conversion of convertible bond of a subsidiary	-	-	(1,037)	-	-	-	-	-	-	-	(1,037)	-	(1,037)
Issue of convertible bonds by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	15,388	15,388
Share repurchase	(94)	-	-	-	-	-	-	94	(23,562)	-	(23,562)	-	(23,562)
Share of reserves of associates	-	-	19,368	-	-	-	540	-	-	-	19,908	-	19,908
Acquisition of subsidiaries	-	-	5,047	-	-	-	-	-	-	-	5,047	119,288	124,335
Final 2007 dividend declared	-	-	-	-	-	-	-	-	(455,576)	(455,576)	-	-	(455,576)
Interim 2008 dividend	-	-	-	-	-	-	-	-	(227,600)	227,600	-	-	-
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	(177,816)	(177,816)
Transfer to reserves	-	-	-	-	-	-	178,403	-	(178,403)	-	-	-	-
At 30 June 2008	<u>113,800</u>	<u>20,721,710*</u>	<u>455,768*</u>	<u>4,007*</u>	<u>12,332*</u>	<u>2,371,232*</u>	<u>1,173,542*</u>	<u>94*</u>	<u>3,736,416*</u>	<u>227,600</u>	<u>28,816,501</u>	<u>5,064,906</u>	<u>33,881,407</u>
At 1 January 2007, as previously reported	62,250	4,839,497	215,246	21,279	7,593	417,183	704,186	-	2,478,971	124,500	8,870,705	4,189,100	13,059,805
Adjustments for changes in accounting policies (Note 2)	-	-	-	-	-	5,509	-	-	113,798	-	119,307	(12,658)	106,649
At 1 January 2007, as restated	62,250	4,839,497	215,246	21,279	7,593	422,692	704,186	-	2,592,769	124,500	8,990,012	4,176,442	13,166,454
Income for the period recognised directly in equity	-	-	-	-	-	185,722	-	-	-	-	185,722	86,134	271,856
- Exchange realignment	-	-	-	-	-	-	-	-	657,433	-	657,433	205,625	863,058
Profit for the period	-	-	-	-	-	185,722	-	-	657,433	-	843,155	291,759	1,134,914
Total income and expense for the period	-	-	-	-	-	185,722	-	-	657,433	-	843,155	291,759	1,134,914
Acquisition of minority interests	-	-	-	-	-	-	-	-	-	-	-	(13,170)	(13,170)
Deemed disposal of interest in an associate	-	-	4,705	-	(2,067)	-	(1,671)	-	-	-	967	-	967
Acquisition of interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	9,432	9,432
Issue of shares	41,538	12,242,597	-	(15,763)	-	-	-	-	-	-	12,268,372	-	12,268,372
Issue of share options	-	-	-	4,271	-	-	-	-	-	-	4,271	-	4,271
Final 2006 dividend declared	-	-	-	-	-	-	-	-	(124,500)	(124,500)	-	-	(124,500)
Interim 2007 dividend	-	-	-	-	-	-	-	-	(103,839)	103,839	-	-	-
Interim 2007 special dividend	-	-	-	-	-	-	-	-	(103,839)	103,839	-	-	-
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	(145,533)	(145,533)
Transfer to reserves	-	-	7,459	-	-	-	54,886	-	(62,345)	-	-	-	-
At 30 June 2007, as restated	<u>103,788</u>	<u>17,082,094</u>	<u>227,410</u>	<u>9,787</u>	<u>5,526</u>	<u>608,414</u>	<u>757,401</u>	<u>-</u>	<u>2,980,179</u>	<u>207,678</u>	<u>21,982,277</u>	<u>4,318,930</u>	<u>26,301,207</u>

* These reserve accounts comprise the consolidated reserves of HK\$28,475,101,000 and HK\$26,338,628,000 in the consolidated balance sheet as at 30 June 2008 and 31 December 2007, respectively.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	For the six months ended 30 June	
	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000
Net cash inflow from operating activities	1,331,997	1,660,322
Net cash outflow from investing activities	(949,889)	(1,943,279)
Net cash inflow/(outflow) from financing activities	(603,516)	1,709,243
Increase/(decrease) in cash and cash equivalents	(221,408)	1,426,286
Cash and cash equivalents at beginning of period	8,042,569	2,706,682
Cash and cash equivalents at end of period	<u>7,821,161</u>	<u>4,132,968</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	5,841,897	3,833,664
Cash equivalents	87,368	58,025
Time deposits	1,957,230	327,737
	7,886,495	4,219,426
Less: Pledged deposits	(61,940)	(84,745)
Time deposits with maturity of more than three months when acquired	(3,394)	(1,713)
	<u>7,821,161</u>	<u>4,132,968</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements for the six months ended 30 June 2008 are prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The accounting policies and basis of preparation adopted in the preparation of these interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2007 except for the changes in accounting policies made thereafter in adopting the new and revised Hong Kong Financial Reporting Standard ("HKFRS") issued by the HKICPA which became effective for the Company's financial year ending 31 December 2008. Details of the change in the accounting policies are set out in note 2 below.

2. EFFECT OF CHANGES IN ACCOUNTING POLICIES

The following sets out further information on the change in the accounting policies for the annual accounting period beginning on 1 January 2008 which have been reflected in the condensed interim consolidated financial statement. HK(IFRIC)-Int 12 *Service Concession Arrangements* is relevant to the condensed interim consolidated financial statements and all relevant changes in accounting policies have been made in accordance with the provisions of the standard.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. So far, the Group has concluded that the adoption of HK(IFRIC)-Int 12 has resulted in changes in accounting policies for the Group's expressway and related structures and three operating concessions of the Group in respect of certain of the Group's operations under public-to-private service concession arrangements.

The above changes have been adopted retrospectively from the earliest period presented and comparative amounts have been restated and the effect on the condensed interim consolidated financial statements is summarised as follows:

	Effect of adopting HK(IFRIC)-Int 12 <i>Service Concession Arrangements</i> Increase/(decrease) (Unaudited) HK\$'000
(a) Effect on the condensed consolidated balance sheet	
At 1 January 2008	
<u>Assets</u>	
Property, plant and equipment	(1,249,378)
Other intangible assets	7,978
Prepayments, deposits and other receivables	1,816,544
Deferred tax assets	84,354
Trade and bills receivables	(303,116)
	<u>356,382</u>
<u>Equity and liabilities</u>	
Reserves	160,619
Minority interests	(13,721)
Deferred tax liabilities	126,164
Other payables and accruals	83,320
	<u>356,382</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. EFFECT OF CHANGES IN ACCOUNTING POLICIES (continued)

	Effect of adopting HK(IFRIC)-Int 12 <i>Service Concession Arrangements</i> Increase/(decrease) (Unaudited) HK\$'000
	<u>HK\$'000</u>
(a) Effect on the condensed consolidated balance sheet (continued)	
At 30 June 2008	
<u>Assets</u>	
Property, plant and equipment	(1,331,056)
Other intangible assets	26,060
Prepayments, deposits and other receivables	1,739,984
Deferred tax assets	94,013
Trade and bills receivables	(162,027)
	<u>366,974</u>
<u>Equity and liabilities</u>	
Reserves	174,796
Minority interests	(14,995)
Deferred tax liabilities	138,173
Other payables and accruals	69,000
	<u>366,974</u>
(b) Effect on condensed consolidated income statement	
Six months ended 30 June 2007	
Revenue	(266,754)
Cost of sales	166,008
Other income and gains, net	110,824
Finance costs	(4,228)
Tax	13,967
Minority interests	(72)
	<u>19,745</u>
Six months ended 30 June 2008	
Revenue	(228,343)
Cost of sales	111,438
Other income and gains, net	121,260
Finance costs	(217)
Tax	89
Minority interests	462
	<u>4,689</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SEGMENT INFORMATION

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 business 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 business segments. The following tables present revenue and results for the Group's business segments.

For the six months ended 30 June 2008

	Piped gas operation Unaudited HK\$'000	Brewery operation Unaudited HK\$'000	Expressway and toll road operations Unaudited HK\$'000	Corporate and others Unaudited HK\$'000	Consolidated Unaudited HK\$'000
Segment revenue:					
Sales to external customers	5,077,756	4,123,912	267,793	2,724	9,472,185
Other income and gains, net	37,053	132,180	7,114	19,993	196,340
Total	<u>5,114,809</u>	<u>4,256,092</u>	<u>274,907</u>	<u>22,717</u>	<u>9,668,525</u>
Segment results	<u>583,828</u>	<u>514,958</u>	<u>161,760</u>	<u>(15,440)</u>	1,245,106
Unallocated income and gains, net					<u>303,955</u>
Profit from operating activities					1,549,061
Finance costs					(183,324)
Share of profits and losses of:					
Jointly-controlled entities	441,741	-	-	-	441,741
Associates	-	(794)	661	(5,999)	<u>(6,132)</u>
Profit before tax					1,801,346
Tax					<u>(281,911)</u>
Profit for the period					<u>1,519,435</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SEGMENT INFORMATION (continued)

For the six months ended 30 June 2007

	Piped gas operation Unaudited HK\$'000	Brewery operation Unaudited HK\$'000	Expressway and toll road operations Unaudited HK\$'000 (Restated)	Corporate and others Unaudited HK\$'000 (Restated)	Consolidated Unaudited HK\$'000 (Restated)
Segment revenue:					
Sales to external customers	–	3,308,576	288,810	75,851	3,673,237
Other income and gains, net	–	42,723	4,398	58,464	105,585
Total	<u>–</u>	<u>3,351,299</u>	<u>293,208</u>	<u>134,315</u>	<u>3,778,822</u>
Segment results	<u>–</u>	<u>371,983</u>	<u>218,842</u>	<u>(224)</u>	590,601
Unallocated income and gains, net					<u>376,415</u>
Profit from operating activities					967,016
Finance costs					(64,221)
Share of profits and losses of:					
Associates	–	(350)	–	66,841	<u>66,491</u>
Profit before tax					969,286
Tax					<u>(106,228)</u>
Profit for the period					<u><u>863,058</u></u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. OTHER INCOME AND GAINS, NET

	For the six months ended 30 June	
	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000 (Restated)
Other income		
Bank interest income	60,803	21,765
Imputed interest income	127,405	113,325
Investment income	4,476	–
Corporate income tax and value-added tax refund	–	7,915
Others	214,040	229,978
	<u>406,724</u>	<u>372,983</u>
Gains, net		
Gain on disposal of interests in subsidiaries	65,304	–
Gain on deemed disposal of interests in an associate	2,581	61,368
Gain on disposal of available-for-sale investments	8,690	–
Others	16,996	47,649
	<u>93,571</u>	<u>109,017</u>
	<u><u>500,295</u></u>	<u><u>482,000</u></u>

5. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000 (Restated)
Depreciation	615,591	272,394
Amortisation of intangible assets	42,674	39,540
Reversal of impairment of property, plant and equipment	–	(28,657)
Reversal of impairment of other receivables	–	(44,510)
	<u><u>–</u></u>	<u><u>(44,510)</u></u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCE COSTS

	For the six months ended 30 June	
	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000 (Restated)
Interest on bank loans and other loans wholly repayable within five years	170,971	50,778
Imputed interest on convertible bonds (note 12)	3,483	–
Interest on other loans	8,870	13,443
	183,324	64,221

7. TAX

	For the six months ended 30 June	
	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000 (Restated)
Current – the People's Republic of China (the "PRC")		
Hong Kong	160	–
Mainland China	265,126	105,252
Deferred	16,625	976
	281,911	106,228
Total tax charge for the period		

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong profits tax had been made during the 6 months ended 30 June 2007 as the Group did not generate any assessable profits arising in Hong Kong during that period. The income tax provision in respect of operations in Mainland China is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations in Mainland China, certain of the Company's subsidiaries enjoy income tax exemptions and reductions.

8. DIVIDENDS

On 17 September 2008 the Board declared an interim cash dividend of HK20 cents per share (2007: interim and special dividends of HK10 cents each per share), totalling HK\$227,600,000 (2007: HK\$207,678,000).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts for the period is based on the unaudited profit attributable to shareholders of the Company for the period, and the weighted average number of 1,138,919,385 (2007: 627,971,602) ordinary shares in issue during the period.

There was no dilutive event in respect of earnings per share amounts for the periods ended 30 June 2008 and 2007.

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited
Number of ordinary shares:		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,138,919,385	627,971,602
Effect of dilution of share options – weighted average number of ordinary shares	614,114	1,995,287
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<u>1,139,533,499</u>	<u>629,966,889</u>

10. TRADE AND BILLS RECEIVABLES

The various group companies have different credit policies, depending on the requirements of their markets and the businesses which they operate. Aged analyses of trade and bills receivables are prepared and closely monitored in order to minimise any credit risk associated with receivables. The carrying amounts of the trade and bills receivables approximate to their fair values.

An aged analysis of the Group's trade and bills receivables as at the balance sheet date, based on the invoice date and net of impairment, is as follows:

	30 June 2008 Unaudited HK\$'000	31 December 2007 Unaudited HK\$'000 (Restated)
Within one year	853,466	732,923
One to two years	87,051	34,907
Two to three years	17,035	17,612
Over three years	18,469	31,881
	<u>976,021</u>	<u>817,323</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. SHARE CAPITAL

	30 June 2008 Unaudited HK\$'000	31 December 2007 Unaudited HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.1 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
1,138,004,000 (2007: 1,138,940,000) ordinary shares of HK\$0.1 each	<u>113,800</u>	<u>113,894</u>

During the period, the Company purchased certain of its shares on Stock Exchange and these shares were subsequently cancelled by the Company.

12. CONVERTIBLE BONDS

On 27 July 2007 and 31 March 2008, Beijing Enterprises Water Group Limited ("BE Water Group", a non-wholly owned subsidiary acquired by the Group during the period) issued certain convertible bonds with aggregate principal amount of HK\$200 million to a shareholder of BE Water Group, pursuant to a convertible bond subscription agreement dated 12 April 2007. The convertible bonds do not bear any interest and will mature at the third anniversary of their respective issue dates. The conversion price was set as HK\$0.40 per share of BE Water Group and the outstanding principal amount of the convertible bonds, if not converted, will be repaid on their respective maturity dates at 100% of the outstanding amount.

13. TRADE AND BILLS PAYABLES

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

	30 June 2008 Unaudited HK\$'000	31 December 2007 Unaudited HK\$'000
Within one year	1,005,428	1,334,249
One to two years	403,154	392,436
Two to three years	5,102	3,947
Over three years	<u>8,833</u>	<u>6,931</u>
	<u>1,422,517</u>	<u>1,737,563</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. BUSINESS COMBINATION

On 21 January 2008, the Company and its subsidiary Beijing Enterprises Environmental Construction Limited ("BE Environmental") acquired a 74.8% interest in BE Water Group and its subsidiaries by entering into a subscription agreement with BE Water Group, under which BE Environmental agreed to subscribe for 247,000,000 new shares at a price of HK\$0.40 per new share.

The fair value of the identifiable assets and liabilities of BE Water Group and its subsidiaries acquired during the period as at the date of the completion of the acquisition has no significant difference from the carrying amounts and is listed as follows:

	Unaudited HK\$'000
Net assets acquired:	
Property, plant and equipment	72
Prepayments, deposits and other receivables	12,217
Financial assets at fair value through profit or loss	27,471
Trade and bills receivables	5,657
Cash and cash equivalents	175,858
Other payables and accruals	(335)
Convertible bonds	(85,955)
Minority interests	(34,016)
	<u>100,969</u>
Excess over the cost of business combination recognised in the income statement	<u>(1,244)</u>
	<u><u>99,725</u></u>
Satisfied by :	
Subscription of new issue shares	98,800
Cost associated with the acquisition	925
	<u><u>99,725</u></u>

For the period ended 30 June 2008, profit contributed by BE Water Group, was insignificant to the Group since the completion of acquisition. The effect to the Group's revenue and profit for the period ended 30 June 2008 was insignificant had the above acquisition taken place at the beginning of the period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. DISPOSAL OF SUBSIDIARIES

The Group had the following disposal during the period:

	Unaudited HK\$'000
Net assets disposed of:	
Property, plant and equipment	88,059
Investment properties	11,000
Prepaid land premiums	12,137
Other intangible assets	49,679
Interests in jointly-controlled entities	4,679
Inventories	76,202
Trade and bills receivables	23,125
Prepayments, deposits and other receivables	58,527
Pledged deposits	779
Cash and bank balances	91,037
Trade and bills payables	(21,377)
Other payables and accruals	(91,296)
Taxes payable	(5,109)
Other long term liabilities	(11,752)
Deferred tax liabilities	(424)
Minority interests	(84,429)
	<u>200,837</u>
Gain on disposal of subsidiaries	<u>65,304</u>
	<u><u>266,141</u></u>
Satisfied by:	
Cash	<u><u>266,141</u></u>

An analysis of the outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	Unaudited HK\$'000
Cash and bank balances disposed of	(91,037)
Cash consideration	266,141
Offset against current accounts with the immediate holding company*	<u>(254,729)</u>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u><u>(79,625)</u></u>

* The amount is satisfied by offsetting the Group's current accounts with Beijing Enterprises Group (BVI) Limited, the immediate holding company of the Company.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. DISPOSAL OF SUBSIDIARIES (continued)

Pursuant to a sale and purchase agreement dated 7 April 2008 entered into between the Company and BE Group BVI, the Company agreed to sell all of its 100% equity interest in Everbest Islands Limited (a company which holds a 75% equity interest in Beijing Long Qing Xia Tourism Development Co., Ltd.), 51% equity interest in each of Beijing Shun Xing Wine Co., Ltd. and Beijing Feng Shou Winery Co., Ltd. with effective from 1 January 2008 to Beijing Enterprises Group (BVI) Company Limited, the immediate holding company, at a total consideration of HK\$243,729,000. Upon the completion of the transactions, these companies ceased to be subsidiaries of the Company and the Company does not engage in any tourism service business and wine production.

Pursuant to a sale and purchase agreement dated 9 May 2008 entered into between the Company and Beijing Holdings Limited ("BHL"), a fellow subsidiary, the Company agreed to sell all of its 100% equity interest in Helken Industries Limited ("Helken") with effective from 1 January to BHL at a consideration of HK\$11,000,000. Helken's sole asset is an investment property which is held to earn rental income.

Pursuant to a sale and purchase agreement dated 27 May 2008, BE Water Group disposed of its entire equity interest in Shanghai Classic Limited to an independent third party, for a cash consideration of HK\$11,412,000. Shanghai Classic Limited is an investment holding company and holds entire equity interest in Shanghai Jian Kai International Trading Company Limited which is a trading company in Shanghai with no operation.

16. CONTINGENT LIABILITIES

	30 June 2008 Unaudited HK\$'000	31 December 2007 Unaudited HK\$'000
Guarantees given for banking facilities granted to a company which has been deconsolidated in 2006	226,244	213,675
Guarantee given in respect of a specific performance of an infrastructure project to be undertaken by a jointly-controlled entity	93,575	93,594
	319,819	307,269

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. CAPITAL COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	30 June 2008 Unaudited HK\$'000	31 December 2007 Unaudited HK\$'000
Contracted, but not provided for:		
Buildings	91,424	231,527
Gas pipelines	263,477	233,357
Plant and machinery	36,523	322,177
Acquisition of a subsidiary (<i>note 19</i>)	1,370,665	–
Capital contribution to a jointly-controlled entity and an associate	2,134,344	–
	<u>3,896,433</u>	<u>787,061</u>
Authorised, but not contracted for:		
Capital contribution to a jointly-controlled entity	<u>1,012,629</u>	<u>591,346</u>

In addition, the Group's share of a jointly-controlled entity's own capital commitments, which are not included in the above, is as follows:

	30 June 2008 Unaudited HK\$'000	31 December 2007 Unaudited HK\$'000
Contracted, but not provided for	<u>198,673</u>	<u>252,908</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. RELATED PARTY DISCLOSURES

In addition to the transactions detailed elsewhere in these financial statements, the Group entered into the following material transactions with related parties during the period:

Name of related party	Nature of transaction	Notes	For the six months ended 30 June	
			2008	2007
			Unaudited HK\$'000	Unaudited HK\$'000
<i>Fellow subsidiaries:</i>				
北京北燃實業有限公司 (Beijing Beiran Enterprises Company Limited) and its subsidiaries	Sale of piped natural gas	(a)	86,001	–
	Service contract income	(b)	4,815	–
	Sale of raw materials	(c)	18,581	–
	Purchase of raw materials	(d)	99,466	–
	Repair and maintenance expenses	(c)	4,350	–
北京京泰國際貿易有限公司 (Beijing Jing Tai International Company Limited)	Purchase of construction materials	(d)	48,556	–
<i>Jointly-controlled entity:</i>				
Huayou Company	Natural gas transmission fee expenses	(a)	1,226,765	–
<i>Joint venture partners of subsidiaries and their associates:</i>				
Beijing Yanjing Beer Group Company ("Yanjing Beer Group") and its associates	Purchase of bottle labels	(e)	51,419	39,133
	Purchase of bottle caps	(e)	38,432	34,370
	Import of raw materials	(f)	59,849	56,637
	Sales of beer	(g)	5,750	4,182
	Canning service fees paid	(h)	14,420	11,780
	Comprehensive support service fees paid	(i)	8,589	7,883
	Land rent expenses	(j)	1,022	938
	Trademark licensing fees paid	(k)	19,523	15,090
	Less: Refund for advertising subsidies	(k)	(2,934)	(2,433)
<i>Other-related party:</i>				
China Communications Construction Company Limited and its associates	Construction costs, maintenance service costs and dismantling costs for an expressway	(l)	–	5,682

In the opinion of the directors, the above transactions were entered into by the Group in the normal course of its business.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. RELATED PARTY DISCLOSURES (continued)

Notes:

- (a) The selling price of piped natural gas and the natural gas transmission fee were prescribed by the PRC Government.
- (b) 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.
- (c) The selling prices of raw materials and the repair and maintenance expenses paid were determined on a cost-plus basis.
- (d) The purchase prices of raw material and construction materials were determined by reference to the then prevailing market rates.
- (e) 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 for the preceding year.
- (f) The import of certain raw materials for the Group's brewery operations were procured by Yanjing Beer Group from overseas suppliers on behalf of Yanjing Brewery and its subsidiaries as the Group's brewery operations do not have the licence to import commodities from overseas suppliers. The purchase prices for the raw materials were charged at rates equal to the costs incurred by Yanjing Beer Group.
- (g) The selling prices of the beer were determined by reference to the then prevailing market rates.
- (h) 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.
- (i) The comprehensive support service fees paid included the following:
 - fee for security and canteen services which was 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, were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.
- (j) The land rent expenses were charged at a mutually agreed amount of RMB1,849,000 per annum.
- (k) The trademark licensing fees paid were for the use of "Yanjing" trademark and were determined based on 1% of the annual sales of beer and mineral water products made by Yanjing Brewery and RMB0.008 per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Beer Group would refund 20% of the trademark licensing fees received from Yanjing Brewery to be used by Yanjing Brewery to develop and promote the "Yanjing" trademark.
- (l) The construction costs, maintenance service costs and dismantling costs for an expressway were determined by reference to the then prevailing market rates.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. RELATED PARTY DISCLOSURES (continued)

Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000
Short term employee benefits	7,602	5,907
Pension scheme contributions	6	6
Total compensation paid to key management personnel	<u>7,608</u>	<u>5,913</u>

19. EVENT AFTER THE BALANCE SHEET DATE

Acquisition of Gainstar Limited

On 3 June 2008, BE Water Group, Good Strategy Group Limited (the "Purchaser", an indirect wholly-owned subsidiary of BE Water Group), Besto Holdings Limited ("Besto"), Tenson Investment Limited ("Tenson") and Newton Finance Holdings Limited ("Newton"), (collectively, the "Vendors") and the Warrantors (including Besto, Tenson, Newton, Terisa Yutinnie Liang, Hu Xiaoyong, Zhou Min, Hou Feng and Ngai Hiu Tung) entered into an acquisition agreement (the "Acquisition Agreement"). Pursuant to the Acquisition Agreement: (a) the Vendors agreed to sell and the Purchaser agreed to purchase the entire issued share capital (the "Gainstar Sale Shares") of Gainstar Limited ("Gainstar") at a consideration of HK\$975,557,782 (the "Gainstar Consideration"); and (b) Tenson agreed to use its best endeavours to procure the sale to the Purchaser, and the Purchaser agreed to procure Gainstar to purchase the entire issued share capital (the "Monico Sale Shares") of Monico Investments Limited (the "Monico") at a consideration of HK\$395,107,218 (the "Monico Consideration").

The Gainstar Consideration will be satisfied at the completion of the sale and purchase of the Gainstar Sale Shares (the "First Completion") by: (i) the allotment and issue of 559,787,908 new shares at HK\$0.69 per share, credited as fully paid, by BE Water Group to the Vendors or their respective nominees; and (ii) the issue of convertible bonds in the principal amounts of HK\$589,304,125 (the "Gainstar Convertible Bonds") by BE Water Group to the Vendors or their respective nominees. The Monico Consideration will be satisfied at the completion of the sale and purchase of the Monico Sale Shares (the "Second Completion") by: (i) the allotment and issue of 226,683,106 new shares at HK\$0.69 per share, credited as fully paid, by BE Water Group to the Tenson or its nominees; and (ii) the issue of convertible bonds in the principal amounts of HK\$238,695,875 (the "Monico Convertible Bonds") by BE Water Group to Tenson or its nominees. The Gainstar Convertible Bonds and the Monico Convertible Bonds are convertible into shares of BE Water Group at a conversion price of HK\$0.69 per share and will be matured on the date falling on the fifth anniversary of the date of issue by BE Water Group.

As at 30 June 2008, Gainstar held all the issued share capital of China Field Development Limited ("China Field"), which in turn held a 62.94% equity interest in 中科成環保集團有限公司 (Z.K.C Environmental Group Co., Ltd.), ("ZKC", a Sino-foreign joint venture established in the PRC). As at 30 June 2008, Monico held approximately 25.49% equity interest in ZKC. Gainstar and Monico are investment holding companies. As at 30 June 2008, Gainstar held all the issued share capital of Monico, which in turn directly held an approximately 25.49% equity interest in ZKC. Gainstar therefore, indirectly holds approximately 88.43% equity interests in ZKC. ZKC, through its subsidiaries, is principally engaged in waste water treatment in China. Accordingly, Gainstar, Monico and ZKC and its subsidiaries (collectively, the "Gainstar Group") will become subsidiaries of BE Water Group and their results will be consolidated into the Group's financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. EVENT AFTER THE BALANCE SHEET DATE (continued)

Acquisition of Gainstar Limited (continued)

The abovementioned transactions were approved by the shareholders of BE Water Group in a special general meeting held on 15 July 2008. Subsequently, the First Completion took place on 24 July 2008 and Gainstar became a wholly-owned subsidiary of BE Water Group. As at the date of this financial statements, the Second Completion has not yet taken place. The Group is in the progress of making an assessment of the amounts for each class of the Gainstar Group's assets, liabilities and contingent liabilities to be recognised at the acquisition date, their respective carrying amounts immediately before the acquisition and whether a goodwill or an excess over the cost of business combination was resulted from the acquisition. However, the Group is not yet in a position to disclose any of the above information in these financial statements.

20. COMPARATIVE AMOUNTS

As further explained in note 2, due to the adoption of HK(IFRIC)-Int 12 during the current period, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated. In addition, certain comparative amounts have been restated to conform to the current period presentation.

DISCLOSEABLE INFORMATION

DIRECTORS

The directors of the Company during the period were:

Executive directors:

Mr. Yi Xi Qun (*Chairman*)

Mr. Zhang Hong Hai (*Vice Chairman and Chief Executive Officer*)

Mr. Li Fu Cheng (*Vice Chairman*)

Mr. Bai Jin Rong (*Vice Chairman*)

Mr. Zhou Si (*Vice Chairman*)

Mr. Liu Kai (*Vice President*)

Mr. Guo Pu Jin

Mr. E Meng (*Vice President*)

Mr. Lei Zhen Gang

Mr. Jiang Xin Hao (*Vice President*)

Mr. Tam Chun Fai

Independent non-executive directors:

Mr. Lau Hon Chuen, Ambrose (resigned on 3 March 2008)

Dr. Lee Tung Hai, Leo (resigned on 3 March 2008)

Mr. Wang Xian Zhang (resigned on 3 March 2008)

Mr. Wu Jiesi

Mr. Robert A. Theleen

Mr. Lam Hoi Ham (appointed on 3 March 2008)

Note: Mr. Fu Tingmei was appointed as Independent Non-executive Director of the Company on 1 July 2008.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Zhang Hong Hai, Liu Kai and E Meng has a service contract with the Company for a term of three years commencing on 3 December 2006, 16 January 2007 and 17 June 2008, respectively, with respective unexpired periods of approximately, 17 months, 18 months and 36 months as at 30 June 2008.

As of 30 June 2008, no director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DISCLOSEABLE INFORMATION

DIRECTORS' INTERESTS IN CONTRACTS

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

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

At 30 June 2008, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

(a) Long positions in ordinary shares of the Company

<u>Name of directors</u>	<u>Number of ordinary shares held</u>	<u>Percentage of the Company's issued share capital</u>
Mr. Yi Xi Qun	100,000 *	0.0088%
Mr. Li Fu Cheng	12,000 *	0.0011%
Mr. Bai Jin Rong	46,000 *	0.0040%
Mr. Liu Kai	6,000 *	0.0005%
Mr. E Meng	50,000 *	0.0044%
Mr. Jiang Xin Hao	60,000 *	0.0053%
Mr. Tam Chun Fai	10,000 *	0.0009%

* All interests are directly beneficially owned by the directors.

(b) Long positions in underlying shares of the Company

The interests of the directors and chief executive in the share options of the Company are separately disclosed in the section "Share option schemes" below.

DISCLOSEABLE INFORMATION

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

(c) Long positions in ordinary shares of associated corporations

<u>Name of directors</u>	<u>Name of associated corporations</u>	<u>Number of ordinary shares held</u>	<u>Percentage of associated corporations' issued share capital</u>
Mr. Zhang Hong Hai	Beijing Development (Hong Kong) Limited ("Beijing Development") [@]	4,000,000 [#]	0.5821%
Mr. Li Fu Cheng	Beijing Yanjing Brewery Company Limited [@]	38,898 [#]	0.0035%
Mr. E Meng	Beijing Development [@]	601,000 [#]	0.0875%

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

[#] All interests are directly beneficially owned by the director

(d) Long positions in underlying shares of an associated corporation

<u>Name of director</u>	<u>Name of associated corporation</u>	<u>Number of options</u>
Mr. Zhang Hong Hai	Beijing Development [@]	6,800,000 ⁽ⁱ⁾
	China Information Technology Development Limited ("CIT Development") [@]	20,000,000 ⁽ⁱⁱⁱ⁾
Mr. E Meng	Beijing Development [@]	4,500,000 ⁽ⁱ⁾ 1,500,000 ⁽ⁱⁱ⁾
	CIT Development [@]	8,100,000 ^(iv)

DISCLOSEABLE INFORMATION

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

(d) Long positions in underlying shares of an associated corporation (Continued)

- (i) *These share options were granted on 30 October 2007 at an exercise price of HK\$4.03* per ordinary share of Beijing Development. The share options may be exercised in two equal portions. The first portion is exercisable at any time commencing on 1 May 2008, and the other portion is exercisable from 1 May 2009 and, if not otherwise exercised, will lapse on 17 June 2011. The vesting periods of each of the portion is from the date of grant to the respective commencement dates of the exercise periods. Subject to the approval of the remuneration committee of Beijing Development, directors of Beijing Development are entitled to exercise all the share options within three months from the date of termination of their employment with Beijing Development.*
- (ii) *These share options were granted on 4 February 2008 at an exercise price of HK\$3.17* per ordinary share of Beijing Development. The closing price of Beijing Development's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK\$3.10. The share options may be exercisable at any time commencing on 1 May 2008 and, if not otherwise exercised, will lapse on 17 June 2011. The vesting period is from the date of grant to the commencement date of the exercise period.*
- (iii) *These options were granted on 11 February 2008 at an exercise price of HK\$0.53* per share. The options may be exercised at any time commencing on 11 August 2008 and, if not exercised, will lapse on 10 February 2013.*
- (iv) *These options were granted on 13 September 2007 at an exercise price of HK\$0.79* per share. The options may be exercised at any time commencing on 13 March 2008 and, if not otherwise exercise, will lapse on 12 September 2012. The exercise of the option is subject to an annual cap of 25% of the share options granted. Subject to the approval of the Share Option Committee and the Remuneration Committee, executive directors and independent non-executive directors are entitled to exercise all the share options within three months from the date of termination of their employment.*

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

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues or other similar changes in the share capital of Beijing Development and CIT Development.

Save as disclosed above, as at 30 June 2008, none of the directors or chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEMES

The Company

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

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

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

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

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

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEMES (Continued)

The Company (Continued)

The following set out the movements in the share options granted under the Scheme during the period ended 30 June 2008:

Name or category of participant	Number of share options			At 30 June 2008
	At 1 January 2008	Granted during the period	Exercised during the period	
Directors:				
Mr. Yi Xi Qun	250,000	–	–	250,000
Mr. Bai Jin Rong	90,000	–	–	90,000
Mr. Zhou Si	300,000	–	–	300,000
Mr. Guo Pu Jin	60,000	–	–	60,000
Mr. Lei Zhen Gang	150,000	–	–	150,000
Mr. Jiang Xin Hao	110,000	–	–	110,000
	<u>960,000</u>	<u>–</u>	<u>–</u>	<u>960,000</u>
Other employees:				
In aggregate	<u>50,000</u>	<u>–</u>	<u>–</u>	<u>50,000</u>
	<u><u>1,010,000</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>1,010,000</u></u>

Notes: These share options were granted on 19 July 2006 at an exercise price of HK\$12.55 per ordinary share of the Company. The exercise price was determined based on the average closing price of the previous five trading days before the date of grant. The cash consideration paid by each director and employee for the share options granted was HK\$1 per grant of share options. The share options are exercisable at any time six months after date of grant. All share options, if not otherwise exercised, will lapse on 19 July 2011.

Each grant of the share options to executive directors has complied with the requirements of Rule 17.04 of the Listing Rules and was approved by the Independent non-executive directors of the Company to whom share options have not been granted.

No share options were exercised, lapsed or cancelled during the six months ended 30 June 2008.

At 30 June 2008, the Company had 1,010,000 share options outstanding under the Scheme, which represented approximately 0.09% of the shares of the Company in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 1,010,000 additional ordinary shares of the Company and additional share capital of HK\$101,000 and share premium of HK\$12,574,500 (before any issue expenses).

DISCLOSEABLE INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR CONVERTIBLE BONDS

Apart from the foregoing and save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares and underlying shares" and "Share option schemes", at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

At 30 June 2008, 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:

Name	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Others	Total	
Modern Orient Limited	100,050,000	–	100,050,000	8.79%
Beijing Enterprises Investments Limited ("BEIL")	163,751,109	100,050,000 ^(a)	263,801,109	23.18%
Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI")	411,250,000	263,801,109 ^(b)	675,051,109	59.32%
Beijing Enterprises Group Company Limited ("BE Group")	–	675,051,109 ^(c)	675,051,109	59.32%
Deutsche Bank Aktiengesellschaft	61,232,981	71,680,671 ^(d)	132,913,652	11.68%

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 indirectly 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.
- (d) The interest disclosed includes 1,424,000 shares held as an investment manager, 5,256,671 shares held as security interest in the shares and 65,000,000 shares held as a trustee.

DISCLOSEABLE INFORMATION

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			Percentage of the Company's issued share capital
	Directly beneficially owned	Others	Total	
BEIL	4,801,109	–	4,801,109	0.42%
BE Group BVI	–	4,801,109 ^(a)	4,801,109	0.42%
BE Group	–	4,801,109 ^(b)	4,801,109	0.42%
Deutsche Bank Aktiengesellschaft	1,058,000	2,841,000 ^(c)	3,899,000	0.34%

Notes:

- (a) The interest disclosed includes the shares owned by BEIL. BE Group BVI, the holding company of BEIL, is deemed to be interested in the shares owned by BEIL.
- (b) The interest disclosed includes the shares held by BE Group BVI as detailed in note (a). 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 and BEIL.
- (c) Person having a security interest in the shares.

Save as disclosed above, as at 30 June 2008, 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 short position in the shares or underlying shares of the Company that was required to be recorded 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 period are set out in note 18 under the section of "Notes to Condensed Consolidated 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; (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; and (iv) within the prescribed limits as set out in the waiver letters in respect of connected transactions granted by the Stock Exchange to the Company.

DISCLOSEABLE INFORMATION

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2008, the Company repurchased a total of 936,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited and these shares were subsequently cancelled by the Company. Details of the repurchases of such ordinary shares are as follows:

Month	Number of shares repurchased	Price per share		Total price paid HK\$'000
		Highest HK\$	Lowest HK\$	
June 2008	936,000	25.6227	25.0077	HK\$23,562

The purchased shares were cancelled upon repurchase and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the purchase of the shares of approximately HK\$23,468,000 has been charged to the retained profits of the Company. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

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

Save as disclosed herein, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year.

CORPORATE GOVERNANCE

The Company is committed to ensuring high standard of corporate governance and transparency as the Directors believe it would increase efficiencies in the overall operations of the Group such that the Group could become more competitive in markets, enhancing shareholders' value in consequence. During the period under review, the Group has adopted various corporate governance practices to ensure an effective internal control system and the proper delegation of authority.

AUDIT COMMITTEE

At 30 June 2008, the Audit Committee comprised three independent non-executive directors, namely, Mr. Wu Jiesi, Mr. Lam Hoi Ham (Chairman of Audit Committee) and Mr. Robert A. Theleen (who was subsequently replaced by Mr. Fu Tingmei on 1 July 2008). The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting process and internal controls of the Company. The Audit Committee of the Company has already reviewed the unaudited interim results for the six months ended 30 June 2008 and considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

REMUNERATION COMMITTEE

The Company established its remuneration committee (the "Remuneration Committee") in 2005 with a majority of members being independent non-executive directors. As 30 June 2008, the Remuneration Committee comprised vice president of the Company, Mr. Liu Kai, and two independent non-executive directors, namely, Mr. Wu Jiesi (Chairman of the Remuneration Committee) and Mr. Lam Hoi Ham.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure in relation to the remuneration of Directors and senior management and reviewing the specific remuneration packages of all executive directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to building and maintaining high standards of corporate governance practices. Save the deviation as disclosed below, the Company has complied with the code provisions (the "Code Provisions") contained in Appendix 14 "Code on Corporate Governance Practices" of the Listing Rules throughout the six months ended 30 June 2008.

The non-executive directors (all are independent non-executive directors) of the Company are not appointed with specific terms, which deviates from the requirement of Code Provision A.4.1. However, in view of the fact that the non-executive directors are subject to retirement by rotation in accordance with the Company's Articles of Association, the Company considers that there are sufficient measures to ensure that the corporate governance standard of the Company is not less exacting than that of the Code Provisions.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SHARE DEALING

All Directors have confirmed, following specific enquiry by the Company, that they complied with the required standards set out in the Model Code for Directors' Share Dealing as set out in Appendix 10 to the Listing Rules throughout the review period.