2008

Stock Code:392

Beijing Enterprises Holdings Limited Annual Report

CONTENTS

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 Xiqun *(Chairman)*
Mr. Zhang Honghai *(Vice Chairman and Chief Executive Officer)*
Mr. Li Fucheng *(Vice Chairman)*
Mr. Bai Jinrong *(Vice Chairman)*
Mr. Zhou Si *(Vice Chairman)*
Mr. E Meng *(Executive Vice President)*
Mr. Liu Kai *(Vice President)*
Mr. Guo Pujin
Mr. Lei Zhengang
Mr. Jiang Xinhao *(Vice President)*
Mr. Tam Chun Fai *(Chief Financial Officer and Company Secretary)*

Independent Non-executive Directors

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

PROFESSIONALS:

Auditors

Ernst & Young

Legal Advisers

as to Hong Kong law:
DLA Piper
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

In Mainland China:

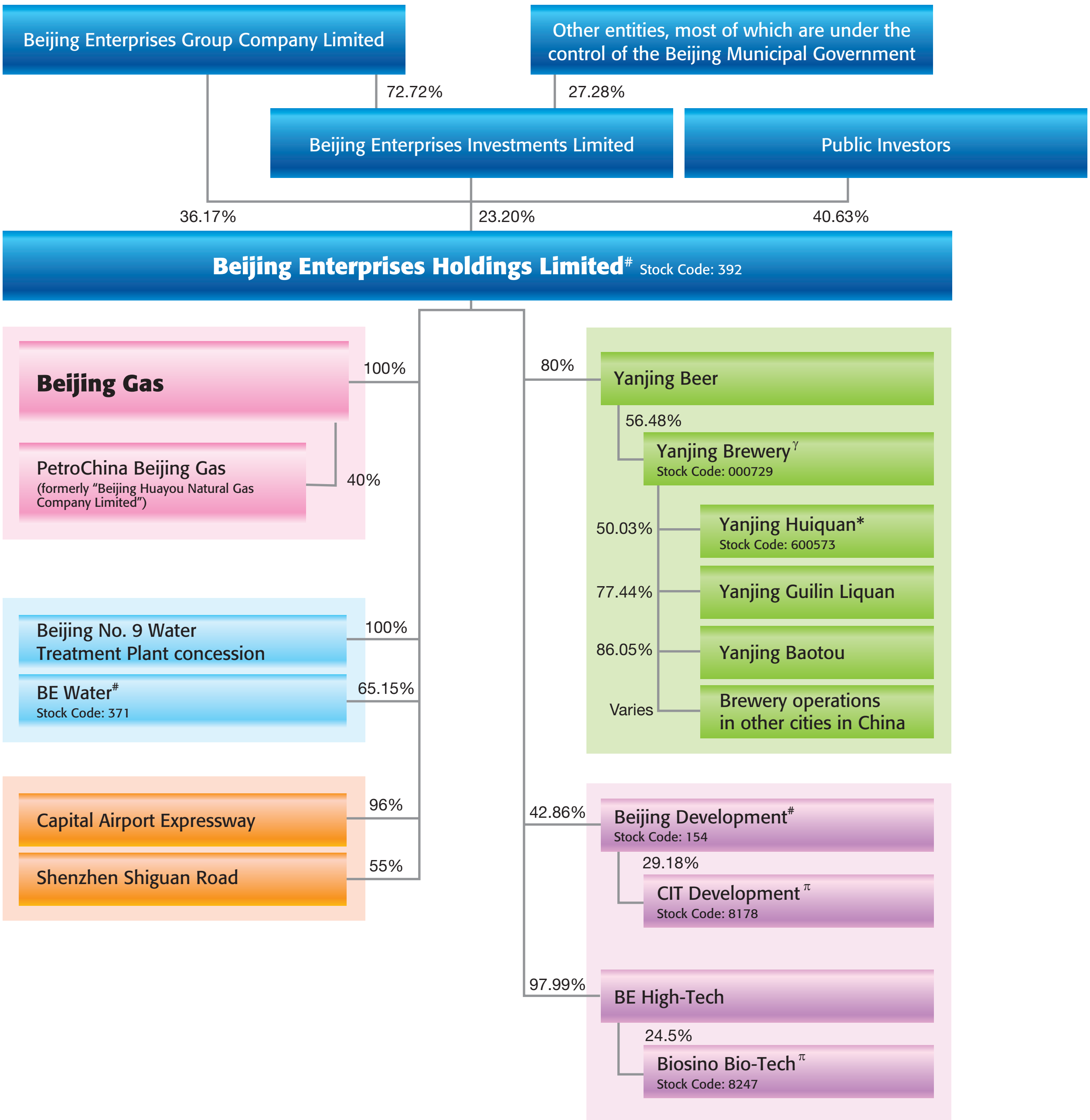
Agricultural Bank of China
Bank of China
China Construction Bank
Guangdong Development Bank
The Industrial and Commercial Bank of China

ADR Depository Bank:

The Bank of New York

CORPORATE STRUCTURE

AS AT 30 MARCH 2009



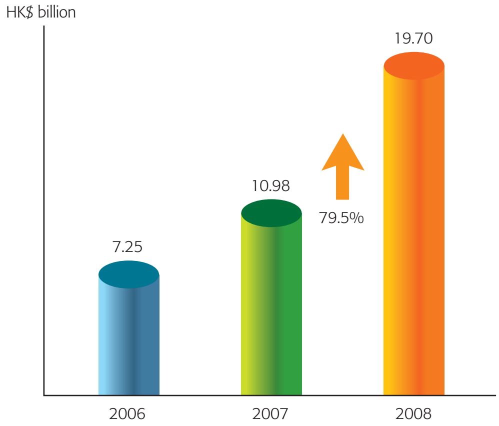
* *Listed on The Shanghai Stock Exchange*

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*

Revenue from continuing operations for the year amounted to approximately HK$19.7 billion, representing an increase of 79.5% over last year.



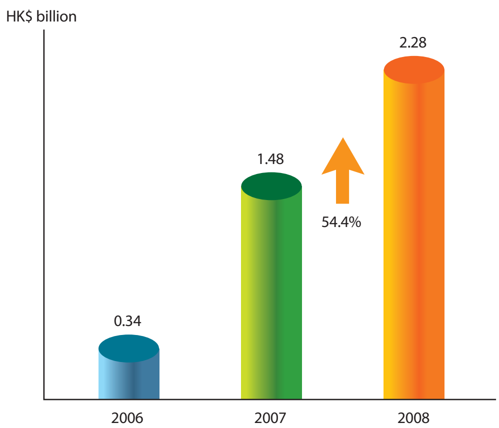
Revenue

Profit attributable to shareholders of the Company amounted to approximately HK$2.28 billion, representing an increase of 54.4% over last year.

Basic earnings per share amounted to HK$2.01.

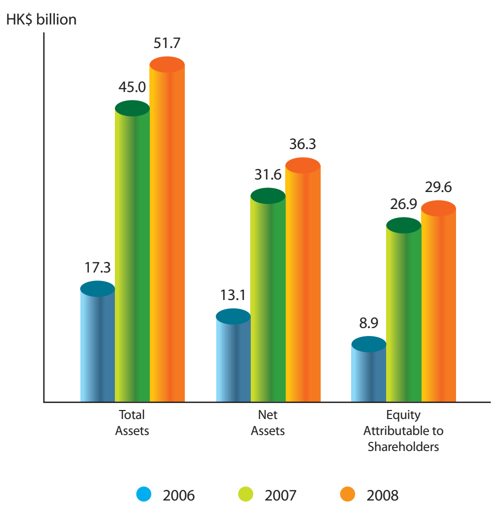
A final dividend of HK40 cents per share is proposed for 2008.

A final special dividend of HK5 cents per share is proposed for 2008.



Profit Attributable to Shareholders of the Company

	2008 year end HK$billion	2007 year end HK$billion	2006 year end HK$billion
Total assets	51.7	45.0	17.3
Net assets	36.3	31.6	13.1
Equity attributable to shareholders	29.6	26.9	8.9



Since the beginning of 2008, the financial crisis triggered by the US subprime mortgage meltdown has led to a deep correction to the world economy, and the Chinese economy has entered a downward range of this round of economic cycle as well. It is obvious that enterprises are exposed to greater risks in their operations and under mounting pressure to achieve a growth in profit.

In view of the major downturn in the macro economy, the Group has allocated a reasonable amount of resources and capitalized on opportunities to boost principal business expansion in the light of the development characteristics of the industry, while striving to unleash its potential and increase its efficiency and taking aggressive measures against risks. We not only have maintained a strong growth in our operating results but also have devised a new development pattern for our principal business.

The Group reported operating revenue of HK$19.7 billion for 2008, representing an increase of HK$8.73 billion from last year, up 79.5%; profit attributable to the shareholders of the Company was HK$2.28 billion, representing an increase of HK$800 million from last year, up 54.4%; and basic earnings per share were HK$2.01, representing an increase of 16.9% from last year. The Board has recommended the payment of a final dividend of HK$40 cents per share and a final special dividend of HK$5 cents per share, bringing the total dividends to HK$45 cents per share.

The achievements from the Group's implementation of the strategic transformation program in 2007 have been fully reflected by the gas operation which played a very strong driving and supportive role in our overall profitability. In 2008, 75.5% of the operating profit attributable to the shareholders of the Company were all generated by our core business – Beijing Gas Group Company Limited ("Beijing Gas") that helps us build into a truly utilities company.

The Chinese Government and various provinces and municipalities have recently begun to introduce an array of macro economic control initiatives aimed at boosting domestic demand. These initiatives highlight the formulation of a revitalization program for six key industries including the new energy industry. As a Beijing Government-backed utilities company with clean energy, a key industry supported by government's privileged policy, as its core business, we will have access to more development opportunities driven by this round of government-led policy for boosting domestic demand.

After 50 years' development, Beijing Gas has established a well-developed management system and sound operation capacity in various aspects such as pipe network dispatch and operation, customer development and customer service. It is strong in scientific and technological research and development, enabling itself to maintain a leading position among its counterparts in the PRC. Following the gradual implementation of its development strategy of "focusing on the gas operation with an extension to the upstream and downstream operations; expanding domestically from its foothold in Beijing", it has built a unique growth model and competitive edges:

Firstly, the Beijing market, a core development region of Beijing Gas, possesses growth potential that cannot be matched by other cities in the PRC. According to the general town planning, the pace of urbanization in rural areas will quicken further. The current gas penetration rate for residents in suburban counties in Beijing is only 18%. According to the objectives of the general town planning, the gas penetration rate in villages and towns in rural areas should reach 90%, and natural gas consumption in rural areas should reach 2 billion cubic meters. This presents a promising development outlook. To boost the development of the rural gas market, Beijing Gas has devised a "Strategic Plan for Rural Market Development" by planning to make a breakthrough in 10 new satellite cities and 41 key towns to create synergy in the piped gas, compressed natural gas and liquefied gas operations as a total move into the rural market. At present, relevant planning and pipeline construction have all commenced. It is anticipated that the gas consumption in Beijing's rural areas will reach 630 million cubic meters by 2010.

Besides, driven by the clean energy policy, power generation by means of natural gas and gas consumption for heating purpose in Beijing have increased sharply in the recent two years. In 2008, gas consumption by power plants reached 1.01 billion cubic meters, representing an increase of 250% from last year, while seasonal gas consumption for heating purpose amounted to 2.25 billion cubic meters, representing an increase of 15% from last year. Natural gas supply hit a record high again during this year's winter, becoming a major force to drive up sales growth. To further promote the application of clean energy, Beijing plans to complete in 2009 all the modification works on coal-fired boilers with a capacity of over 20 t/h steam in urban city area and continues to step up policy support to gas driven power plants, thus further pushing up natural gas consumption for power generation and heating purpose.

Secondly, Beijing Gas, among a very few urban gas providers in the PRC that has gained an access to the natural gas upstream industrial chain, has established a good cooperation relationship with PetroChina Company Limited ("PetroChina"), which not only helps both parties continue to study the possibility of cooperation in different areas and methods in the future, but also enables Beijing Gas to maintain a dominant position in securing gas sources as a result of global energy shortage. Nos. 1 and 2 Shaanxi-Beijing Gas Pipeline and auxiliary underground gas storage tanks operated and managed by PetroChina Beijing Natural Gas Pipeline Company Limited 中石油北京天然氣管道有限公司, a joint venture with PetroChina, as well as the transmission enhancement project for No. 2 Shaanxi-Beijing Gas Pipeline and the Beijing-Tang-Qin Pipeline (京唐秦管線) project currently under construction will bring the total transmission capacity of the Shaanxi-Beijing Gas Pipeline to 19 billion cubic meters/year. The company has recently decided to participate in the investment and construction of No. 3 Shaanxi-Beijing Gas Pipeline which involves a total investment of more than RMB20 billion and is anticipated to be operational by the second half of 2011, with an annual transmission volume of more than 15 billion cubic meters. As the utilization rate of clean energy begins to further rise in cities in the northern part of China and Bohai Rim area, the transmission volume of Shaanxi-Beijing Gas Pipeline will continue to grow. In addition, we will also aggressively seek and capitalize on investment opportunities arising from coal bed gas, LNG, coal to gas and other coal-based alternative energy sources, such as the Caofeidian LNG Project, a joint venture with PetroChina and Hebei Province, and the coal-based natural gas project with Datang which we will follow up closely.

The water industry is a key business sector that the Group is recently pushing forward. It holds abundant opportunities in the prevailing mega trend where national policies are inclined towards the environmental protection industry. During the period of the 11th Five-Year Plan, the Chinese Government will commit more than RMB1 trillion to water supply, sewage treatment, normal water recycling and other areas. 1,000 sewage treatment plants will be built, bringing centralized sewage processing capacity to around 100 million cubic meters/day. This is a huge potential market. The status and development characteristics of China's water industry suggest that the technological maturity and regional monopoly of the industry have posed controllable operating risks to the industry itself, and less vulnerable to economic fluctuation. This helps enterprises achieve stable returns. The Group's water business holds a broad development outlook and provides plenty of imaginary space for the market and investors.

Beijing Enterprises Water Group Limited ("BE Water") (stock code: 371), a subsidiary of the Group with a solid government background and a dominance in the industry, will become an active player in the water industry in the future. BE Water is closely following up more than ten sewage treatment and water supply projects with a total capacity of over 4 million tonnes/day in a number of provinces and municipalities throughout the PRC. It is anticipated that its business will expand substantially this year and next year.

Yangjing Beer, one of the largest beer enterprises in the PRC with a brand value of more than RMB20 billion, has been maintaining a positive growth momentum all the time for the past many years. Despite a slowdown in overall economic growth and a fall in consumption demand in 2009, Yangjing Beer recorded a steady growth in its production and sales volume in the first quarter of the year, enabling itself to maintain substantial competitive edges in five core regional markets as a result of the combined positive effect brought about by the restructuring of product and brand mix, and the fall in raw materials costs. Yangjing Beer successfully issued new shares in 2008, raising proceeds of more than RMB1.1 billion which will be applied to technological improvement and expansion projects. It is anticipated that the new production capacity will reach 1 million kilolitres per year.

Despite growing competition in the industry during the coming period of time, government's implementation of initiatives to boost domestic demand and stimulate economic growth will fuel the growth in the consumer products market, while the trend of increasing centralization of capital and accelerating consolidation within the industry will also help enterprises to expand continuously. The Group's beer business has the potential for sustainable development.

During the development in 2009, the Group will continue to monitor, assess and get hold of the overall economic trend. On one hand, it will watch closely market risks and uncertainties, and strive to build and enhance the core competitiveness and risk management ability of our businesses to enable itself to weather the economic downturn. On the other hand, it will aggressively capture business opportunities arising from the merger, acquisition and capital operation of the principal business with a prudent and dedicated approach by focusing resources on the gas and water businesses so as to seek a rapid expansion of our principal business to achieve hypernormal development.

Chairman

Hong Kong
30 March 2009

The revenue of the Group was HK$19.7 billion for 2008, increased by 79.5% comparing to last year. Profit attributable to the shareholders of the Company was HK$2.28 billion, jumped 54.4% as compared to 2007 and marked a record high since the listing of the Company in 1997.

Profit attributable to the shareholders of the Company contributed by each business segment during the year are set out as follows:

	Profit attributable to shareholders of the Company *HK'000*	**Proportion** %
Natural gas business	1,481,171	70.5
Sewage and water treatment operation	230,830	11.0
Beer production operation	210,276	10.0
Toll roads operation	178,716	8.5
Profit from major business	2,100,993	100
Other businesses	(140,325)	
Operating profit	1,960,668	
Exceptional items	321,160	
Profit attributable to the shareholders of the Company	2,281,828	

I. BUSINESS REVIEW

Natural Gas Business

The results of the Group for 2008 completely reflect the impact from the acquisition of Beijing Gas Group Company Limited ("Beijing Gas"). In 2008, profit contributed by Beijing Gas to the Group amounted to HK$1.48 billion, representing 75.5% of the operating profit, which helped the Company successfully transformed into a limited diversified conglomerate with public utilities as its principal businesses.

In 2008, Beijing Gas strengthened its development in the natural gas market in Beijing and achieved a remarkable progress in its expansion to the upstream and downstream parts along natural gas value chain. The natural gas market in Beijing has developed into the largest domestic gas market in terms of distribution infrastructure and gas consumption. The total length of the natural gas pipeline reaches 7,758 kilometers with the gas distribution network covering all urban areas in Beijing and rural counties such as Tongzhou, Daxing, Changping, Shunyi, Fangshan and Mentougou. There are a total of 3.6 million subscribers for natural gas, among which the number of public sector subscribers with higher commercial value increased by 2,906 users, hitting a record high in four years.

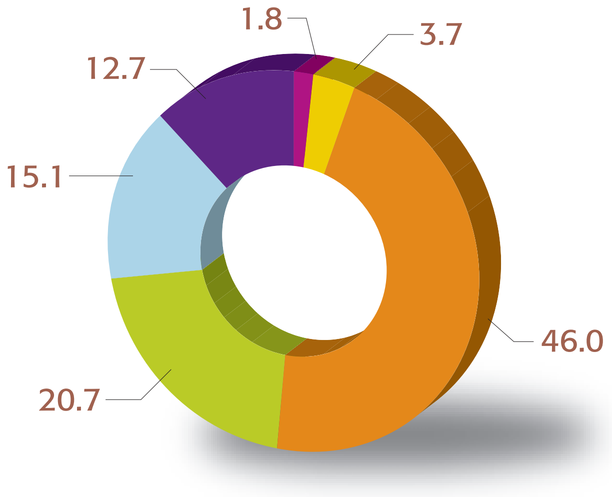
I. BUSINESS REVIEW (continued)

Natural Gas Business (continued)

In order to smooth out the seasonal fluctuations in the consumption of natural gas in Beijing, Beijing Gas extended the application of natural gas into the fields of heat-electricity co-generation, diversified energy and gas cooling. In 2008, the capacity of gas driven steam turbines have achieved 2,934 t/h steam. The commencement of operations of the two natural-gas powered cogeneration plants, namely Taiyang Gong (太陽宮) and Zhengchang Zhuang (鄭常莊) both played an important role in enhancing the sales volume of natural gas and the transmission efficiency of pipelines. The volume of gas sold to cogeneration plants amounted to 1.01 billion cubic metres, driving the growth of gas transmission business substantially.

The sales volume of natural gas in the Beijing market in 2008 reached 4.89 billion cubic metres, representing a year-on-year growth of 32.9%. The revenue of this business segment increased 212% from the second half of 2007 to HK$10.15 billion. The net profit after taxation amounted to HK$568 million, representing a growth of 252.7% as compared with the second half of 2007. The total capital expenditure was approximately HK$1 billion.

	For the 12 months ended 31 December 2008	
	Sales Volume	**Proportion**
	Million cubic meter	
Heating	2,250	46.0%
Electricity supply	1,010	20.7%
Residential users	740	15.1%
Commercial and industrial users	620	12.7%
Cooling	88	1.8%
Others	182	3.7%
Total	4,890	100.0%



46.0% Heating
20.7% Electricity Supply
15.1% Residential
12.7% Commercial & Industrial
1.8% Cooling
3.7% Others

I. BUSINESS REVIEW (continued)

Natural Gas Business (continued)

With respect to the development of the regional markets, Beijing Gas successfully acquired 60% equity interest in Shandong Zhongyuan Gas at a consideration of RMB79.8 million in 2008, and established Beijing Gas Group Shandong Co., Ltd. (北京市燃氣集團山東有限公司). It then obtained the piped gas operation concession in the cities such as Rongcheng and Rushan in Shandong province. Beijing Gas Group Shandong Co., Ltd. has 82,000 subscribers for piped gas and a trunk pipeline network of 311 kilometers long. As it is located in a region with well-developed economy, the long-term gas supply volume will be more than 300 million cubic meters.

In respect of the business of upstream gas transmission, Beijing Gas strengthened its business relationship with PetroChina Company Limited ("PetroChina") in 2008. Through its 40% equity interest in PetroChina Beijing Natural Gas Pipeline Company Limited 中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas") (formerly known as Beijing Huayou Natural Gas Company Limited), Beijing Gas completed No. 2 Shaanxi-Beijing Gas Pipelines project, the Beijing-Tang-Qin Pipeline (京唐秦管線) and Ban 808, 828 underground gas storages project (板808, 828地下儲氣庫群工程) with the total capital expenditure of approximately HK$2.9 billion, which was partially satisfied by retained profits with the remaining portion financed by the shareholders' loan provided by PetroChina. In 2008, the gas transmission volume of PetroChina Beijing Gas reached 12.2 billion cubic meters, representing an increase of 37.7% from 2007. The profit attributable to Beijing Gas based on its shareholding was approximately HK$910 million, increased by 4.1 times from the second half of 2007.

The significant increase in gas transmission volume of PetroChina Beijing Gas was primarily attributable to the increasing number of cities in the northern region of China and the Bohai Bay switching to the use of piped gas as a clean energy, thus boosting the gas transmission volume through the Shaanxi-Beijing Pipeline of Phase I West-East Pipeline Project. In view of the nearly saturated gas transmission capacity of Nos. 1 and 2 Shaanxi-Beijing Gas Pipelines, PetroChina Beijing Gas will accelerate the progress of compression project for No. 2 Shaanxi-Beijing Gas Pipelines, which will further enhance the annual gas transmission capacity to more than 19 billion cubic meters.

I. BUSINESS REVIEW (continued)

Sewage and Water Treatment Operation

In 2008, profit of Beijing No.9 water treatment plant concession attributable to the Group was approximately HK$190 million, representing an increase of 3% as compared with the restated comparative figures of last year.

The Group completed the acquisition of Beijing Enterprises Water Group Limited ("BE Water") (stock code: 371) in March 2008. BE Water commenced the operation of the wastewater treatment business after its acquisition of Z.K.C. Environmental Group Co., Ltd. ("ZKC Group") in August 2008. ZKC Group is a major PRC wastewater treatment operator which enjoys economies of scale. As at 31 December 2008, BE Water had 20 wastewater treatment plants in China with an aggregate daily planned wastewater treatment capacity of 1.48 million tonnes, which includes the existing capacity of 1.12 million tonnes and the capacity of 360,000 tonnes to be contributed by the plants under construction. During the period from 1 August 2008 (the date of acquisition of ZKC Group) to 31 December 2008, the actual wastewater treatment capacity was 114 million tonnes, contributing approximately HK$138 million to the revenue. Contribution of BE Water to profit attributable to the Group amounted to approximately HK$37.92 million.

Beer Production Operation

2008 was a challenging year to the PRC brewery industry. The sales volume of beer was affected by the snowstorm and the Wenchuan earthquake in the first half of the year and the implementation of logistic controls during the Beijing Olympic Games. Despite such adverse conditions, the sales volume of Beijing Yanjing Brewery Co., Ltd 北京燕京啤酒有限公司 ("Yanjing Beer") in 2008 grew by approximately 5% to 4.22 million thousand litres while its revenue for 2008 amounted to HK$8.47 billion, representing an increase of 25.7% over last year. Profit attributable to shareholders of the Company was approximately HK$210 million, increased by 25.1% as compared to last year. The 10-12% rise in price of most beer products at the beginning of the year increased the revenue by HK$530 million. The increase in sales volume of medium and high end beer products after optimization of the product structure also led to the rise in revenue by HK$330 million, which offset the price pressure on raw materials. In addition, the exchange gain resulting from the appreciation of Renminbi also contributed to the increase in profit.

I. BUSINESS REVIEW (continued)

Beer Production Operation (continued)

Beijing Yanjing Brewery Company Limited 北京燕京啤酒股份有限公司 ("Yanjing Brewery") successfully issued 110 million new shares at an issue price of RMB10.2 per share in the fourth quarter in 2008, raising net proceeds of approximately RMB1.11 billion. After the issuance of new shares, the Group effectively held 45.18% equity interest in Yanjing Brewery. The net proceeds were primarily allocated to the implementation of nine new brewery technological improvement and expansion projects. Most of these projects have been completed, bringing a new production capacity of 1 million thousand litres per year. On the other hand, a portion of the proceeds was used in the Inner Mongolia barley advanced processing project (內蒙古大麥深度加工項目), which helped to strengthen the vertical integration of beer production.

The 2008 Olympic Games was held in Beijing and Yanjing Brewery was one of the sponsors for the Games. During the Games, Yanjing Brewery proactively advertised and promoted its brandname, and was well-received by the domestic consumers. The increase in the brand value of Yanjing will be beneficial to its market development in the future.

Toll Roads Operation

Since Terminal Three of the Beijing Capital Airport commenced operations in April 2008, the traffic volume of the Airport Expressway has shrunk. Up to 50,000 vehicles have been diverted to the auxiliary South Link Expressway per day. In addition, given the slowdown of the economic growth and the decline in overall air traffic volume, the current daily traffic volume of the Airport Expressway has reduced to approximately 90,000 vehicles. The total traffic volume amounted to 39.81 million vehicles in 2008, representing an average daily traffic flow of approximately 109,000 vehicles, marking a decline of 28.8% from 2007.

The revenue of the Airport Expressway in 2008 amounted to approximately HK$390 million, representing a year-on-year decrease of 26.2%. Profit attributable to shareholders was approximately HK$160 million, posting a year-on-year decline of 46.3%.

In 2008, the traffic volume of Shenzhen Shiguan Road reached 9.38 million vehicles, down 2.3% from 2007. Profit attributable to shareholders amounted to HK$18.58 million, increased by 3.6% from last year.

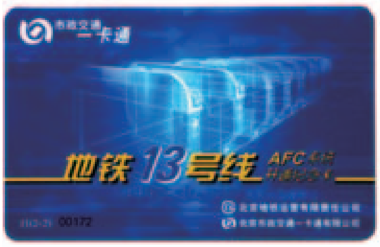
I. BUSINESS REVIEW (continued)

Exceptional Items

In 2008, due to the conversion of the convertible bonds by minority shareholders of BE Water, the Group recorded an exceptional profit from the deemed disposal of interests in subsidiaries of approximately HK$450 million. In addition, the Group gained approximately HK$86.82 million on disposal of Long Qing Xia and Shun Xing Wine, and recorded a profit of HK$46.75 million from the reversal of provision for other receivables. On the other hand, the Group shared a loss of HK$140 million when Beijing Development (Hong Kong) Limited ("Beijing Development") (stock code: 154) made a provision for investment in China Information Technology Development Limited ("CIT Development") (stock code: 8178). The Group also had certain provisions for assets and a one-off expenditure during the Olympic Games amounting to approximately HK$120 million in aggregate. The Group recorded a net exceptional gains of more than HK$320 million after reconciliation of the exceptional items mentioned above.

Other

Beijing Development remained as the platform for information technology business of the Group. The total number of the smart cards issued under the Smart Card Project (市政交通一卡通項目), in which 43% equity interest is owned by Beijing Development, reached 25 million. The Smart Card has become the largest platform for electronic payment in terms of market share in Beijing. Since the commercial terms of the Smart Card has yet to be concluded, Beijing Development continued to record an operating loss.



The exceptional loss suffered by Beijing Development was mainly due to the provision for investment in CIT Development amounting to HK$330 million.

II. PROSPECTS

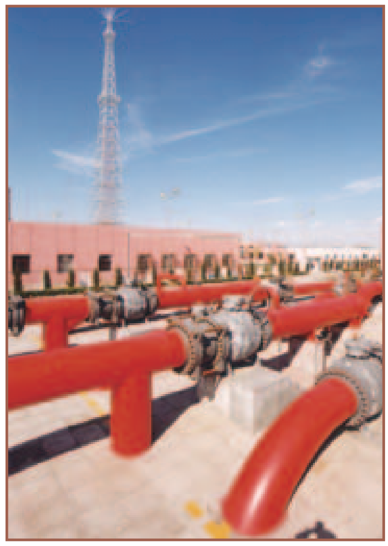
Natural Gas Operation

Beijing Gas will continue to adopt its expansion strategy along the value chain of natural gas business. The gas supply network in Beijing has gradually extended to certain rural counties. Beijing Gas will step up its efforts to expand its gas markets to ten satellite cities located in Waihuan district of Beijing. On the other hand, the Beijing municipal government will continue to implement preferential policies for the environmentally-friendly co-generation power plants, providing support to the long-term demand of co-generation power plants for natural gas. As such, the proportion of natural gas supply to co-generation power plants will continue to increase.

II. PROSPECTS (continued)

Natural Gas Operation (continued)

Regarding the gas transmission operation, as PetroChina Beijing Gas has completed the majority of pipeline extension project in Bohai rim area, more cities in the Bohai Bay economic circle will switch to the use of cleaner natural gas as their energy. The gas transmission capacity will be restricted to certain extent in the short run due to the implementation of compression project for Nos. 1 and 2 Shaanxi-Beijing Pipelines. However, the gas transmission capacity of Nos. 1 and 2 Shaanxi-Beijing Pipelines will be enhanced upon completion of the compression project in 2010.



In addition, PetroChina Beijing Gas has decided to invest in the establishment of No.3 Shaanxi-Beijing Pipeline, the gas transmission capacity of which will reach at least 15 billion cubic meters per year. This project involves a total investment amount of more than RMB20 billion, and is expected to commence its operation in the second half of 2011.

Sewage and Water Treatment Operation

The Group will continue to develop the businesses in wastewater treatment and water supply through BE Water. The operational capacity of BE Water has reached 1.12 million tonnes of water per day. Upon completion of the water plants which are now under construction and those which are under planning, the daily integrated water processing capacity will exceed 1.58 million tonnes of water. Taking into account the projects of Nos. 9 and 10 Water Treatment Plants directly owned by the Group and the water treatment project in Baishamen, Hainan Province, the total operational capacity will exceed 3 million tonnes of water per day in the future. The Group expects that the profit contribution from the water treatment operation will grow steadily.

Beer Production Operation

Most of the nine brewery technological improvement and expansion projects of Yanjing Brewery have been completed. In 2009, there will be an additional annual production capacity of almost 1 million thousand litres, which will provide a great support for the nationwide business expansion. In the short term, the demand for premium beer will be affected by the economic slowdown while the low and medium end markets will continue to grow steadily in the first quarter of 2009. With respect to the costs, the prices of raw materials have undergone substantial adjustment but the inventory of raw materials is still under consumption at present. It is believed that the average cost of raw materials will decline in the second quarter of 2009, which will be beneficial to the growth of gross profit margin. After the Group increases its shareholding in Yanjing Brewery, the revenue and profit contributed by the beer production business will continue to grow.

II. PROSPECTS (continued)

Toll Roads Operation

In view of the modifications of the investment policy on toll roads in the PRC by the Naitonal Development and Reform Commission, there is a tendency that new projects will be carried out in a mode of loan repayment through toll fees, thus restricting the commercial value of the projects. Due to the change in policy, it is difficult to explore new toll road project with high investment value in the foreseeable future. Under the influence of the diversion of traffic volume to the new expressway, the revenue from the existing Airport Expressway and Shenzhen Shiguan Road (深圳石觀路) of the Group will decline and the profit will decrease as well. Although the traffic flow of these two toll roads will eventually stabilise, the proportion of their profit contribution to the total profit of the Group will continue to decline.

III. FINANCIAL REVIEW

Revenue

The revenue of the Group's continuing operations in 2008 was approximately HK$19.7 billion, jumped 79.5% compared with the restated HK$10.98 billion in 2007. This was mainly driven by the consolidation of Beijing Gas' full year revenue of HK$10.15 billion in 2008. Yanjing Beer's revenue also grew healthily by 25.7% to HK$8.47 billion. Other business contributed an aggregate of not more than 6% of the total revenue.

Cost of sales

Cost of sales jumped 94.6% to HK$15.2 billion, mainly due to consolidation of the full year results of natural gas distribution business in Beijing. The cost of sales for gas distribution business included purchase cost of natural gas as well as depreciation of piped line network. Cost of sales of beer operations includes raw materials, direct overhead and absorption of certain indirect overhead.

Gross profit margin

Overall gross profit margin was 22.9% compared to 28.8% in 2007. The decline in profit margin was due to consolidation of the full year results of gas distribution business. Natural gas distribution business had average gross margin of approximately 14.5% which is lower than the higher margin brewery business, toll road and water business due to different direct cost structure. The gross margin of natural gas distribution business in Beijing narrowed in the second half of the year as the ratio of gas sales to co-generation power plant clients, which have lower gas supply bill value, was much higher than first half. The substantial increase of gas consumption volume of co-generation plants led to the increase of gas transmission volume of PetroChina Beijing Gas as well as the higher of profit of a jointly-controlled entity shared by Beijing Gas. Due to the surge in raw materials price, the gross profit margin of the beer production business slightly decreased to 28.3%.

III. FINANCIAL REVIEW (continued)

Other income

Other income mainly comprised of total interest income amounted to HK$120 million; gain on disposal of interests in certain subsidiaries amounted to HK$86.82 million; reversal of provision for receivable amounted to HK46.75 million; receipts of tax refund, government grants and others in aggregate amounted to HK$280 million.

Selling and distribution costs

Selling and distribution costs of the Group's continuing business in 2008 increased by 28.6% to HK$1.14 billion mainly due to consolidation of full year results of natural gas distribution business. The proportion of selling and distribution costs for gas distribution business was lower than that of brewery business due to much higher advertisement expenses for consumer products business.

Administration expenses

Administration expenses of the Group in 2008 was HK$1.46 billion, increased by 63.6% comparing to last year. The increase was mainly due to consolidation of the full year results of natural gas distribution business. The lower than gross margin percentage increase was due to relatively lower proportion of administration costs for gas distribution business comparing to brewery business.

Finance costs

Finance costs of the Group in 2008 was HK$410 million, increased by 67.3% comparing to HK$240 million in 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 PetroChina Beijing Gas. PetroChina Beijing Gas is 40% owned by Beijing Gas and 60% owned by PetroChina. The primary business of PetroChina Beijing Gas is natural gas transmission which supplies to city gas operators along the two long piped lines with an approximate total length of 2,200 kilometers owned by PetroChina Beijing Gas.

Share of results of associated companies

The Group's share of net losses of associates amounted to HK$147 million in 2008.

Tax

After deducting the non-taxable other income of more than HK$800 million, the effective income tax rate is approximately 25.5% as the standard enterprise income tax rate applicable to the two enterprises with the highest profit contribution, namely, Beijing Gas and Yanjing Beer was 25%.

Profit from continuing operation for the year

Based on the foregoing, the profit from continuing operations attributable to the shareholders of the Company for the year ended 31 December 2008 was HK$2.28 billion (2007: HK$1.4 billion).

IV. FINANCIAL POSITION OF THE GROUP

Cash and bank borrowings

As at 31 December 2008, cash and bank deposits held by the Group amounted to HK$6.73 billion. At the period end date, the Group had a strong net working capital of HK$2.98 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$7.07 billion as at 31 December 2008, which mainly comprised of five year syndicated loans amounting to HK$2.1 billion and working capital loans HK$4.97 billion denominated in Renminbi and Hong Kong dollar. Around 33.8% of the bank loans were denominated in Hong Kong dollars with the rest in Renminbi. The Group was in a net bank and other borrowings position of HK$337 million as at 31 December 2008.

Liquidity and Capital Resources

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

During the year under review, there was no significant movements in the issued capital of the Company. As at the end of 2008, the issued capital of the Company has increased to 1,137,001,000 shares and shareholders equity grew to HK$29.63 billion. Total equity was HK$36.31 billion comparing to HK$31.56 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.

EXECUTIVE DIRECTORS

Mr. YI Xiqun, aged 61, is the Chairman of the Company and Beijing Enterprises Group Company Limited. Mr. Yi also serves as the Independent Non-executive Director of China Merchants Bank Co., Ltd. (stock code: 3968) and SOHO China Limited (stock code: 410). He graduated from Beijing Chemical Institute in 1975 and later obtained a postgraduate degree in economics and management engineering from Tsinghua University. From 1986 to 1987, Mr. Yi was in charge of the Beijing Municipal Government Economic Structure Reform Committee and from 1987 to 1991, he served as the Chief Executive Officer of Xicheng District of Beijing. In 1991, Mr. Yi became an assistant to the Mayor of Beijing as well as Director of the Economic and Foreign Trade Commission of Beijing Municipality and the Management Committee of the Beijing Economic and Technology Development Zone. Mr. Yi has in-depth knowledge and a wealth of experience in macroeconomic and microeconomic management. Mr. Yi joined the Group in December 1999.

Mr. ZHANG Honghai, aged 56, is a Vice Chairman and the Chief Executive Officer of the Company. Mr. Zhang also serves as a Director of Beijing Enterprises Group Company Limited, an Executive Director of Beijing Development (Hong Kong) Limited (stock code: 154), the Chairman and Executive Director of China Information Technology Development Limited (stock code: 8178) and Beijing Enterprises Water Group Limited (stock code: 371). Mr. Zhang graduated from Peking University in 1982 and subsequently completed a postgraduate programme at the International Business School of Hunan University and was awarded a master degree and the title of Senior Economist. Mr. Zhang also obtained an EMBA degree from Guanghua School of Management, Peking University. Mr. Zhang has worked for the Beijing Municipal Government for many years. Prior to joining the Company, Mr. Zhang was the director of the Foreign Affairs Office of the People's Government of Beijing Municipality and Hong Kong and Macao Affairs Office of the People's Government of Beijing Municipality. He also served as Vice President of the Beijing Chinese Overseas Friendship Association. Mr. Zhang initially worked as Deputy General Manager and was then promoted to Vice Chairman and General Manager of Beijing International Trust Investment Limited during the period from 1990 to 1998, and has accumulated extensive experience in corporate management. Mr. Zhang joined the Group in December 2003.

Mr. LI Fucheng, aged 54, is a Vice Chairman of the Company. Since 1983, he has held the posts of Deputy Secretary and Secretary of the Yanjing Brewing Factory, and then the Chairman and General Manager of the Yanjing Group. Mr. Li has many years of experience in the brewery industry. Mr. Li joined the Group in April 1997.

Mr. BAI Jinrong, aged 58, is a Vice Chairman of the Company. He is also the Vice Board Chairman and General Manager of Beijing Enterprises Group Company Limited. Mr. Bai graduated from Beijing Normal University in 1985 and had worked as the Deputy Director and Director of the Policy Research Office of Beijing Chemical Industry Group, the Deputy Director of the Beijing Economic Structure Reforms Committee, the Executive Director and Executive Vice President of the Company, the Deputy Director of Beijing Stateowned Assets Supervision and Administration Commission. Mr. Bai has many years of experience in economics, finance and enterprise management. Mr. Bai rejoined the Group in June 2005.

EXECUTIVE DIRECTORS (continued)

Mr. ZHOU Si, aged 52, is a Vice Chairman of the Company. He is also the Director of Beijing Enterprises Group Company Limited and the Chairman of Beijing Gas Group Co., Ltd. Mr. Zhou graduated from Beijing Normal University in 1978 and Tsinghua University in 1998. From 1984 to 2003, he was the Chief Officer of the General Planning Division and subsequently the Head and Deputy Director of the Planning Division of Beijing Municipal Management Commission. He has extensive experience in economics, finance and enterprise management. Mr. Zhou joined the Group in June 2005.

Mr. E Meng, aged 50, is an Executive Director and a Executive Vice President of the Company. Mr. E also serves as the Chief Financial Officer of Beijing Enterprises Group Company Limited, the Chairman of Beijing Development (Hong Kong) Limited (stock code: 154), the Executive Director of Beijing Enterprises Water Group Limited (stock code: 371), and an Independent Non-executive Director of JLF Investment Company Limited (stock code: 472). Mr. E graduated from China Science and Technology University with a master's degree in engineering. 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. Mr. E has extensive experience in economics, finance and enterprise management. Mr. E joined the Group in November 1997.

Mr. LIU Kai, aged 55, is an Executive Director and a Vice President of the Company. Mr. Liu also serves as an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. Liu is responsible for the general management of Beijing Enterprises Holdings Investment Management Co., Ltd. He graduated from the mechanical engineering faculty of Tsinghua University in 1979, and later obtained postgraduate qualification in domestic economics, management and legal professional studies from the State Administration Institute. In 2007, Mr. Liu graduated from the EMBA program of Tsinghua Universtiy. Prior to joining the Company, Mr. Liu served as a Senior Executive of the Beijing Transportation Bureau and the Beijing Transportation Corporation. Mr. Liu has many years of experience in economics and management. Mr. Liu joined the Group in January 2001.

Mr. GUO Pujin, aged 55, is an Executive Director of the Company. He graduated from the political education faculty of Capital Normal University in 1976 and later finished his postgraduate studies at Capital Trade and Economics University. Mr. Guo was previously the Chief Executive Officer of Da Xing District of Beijing and is currently the Chairman of Beijing Capital Expressway Development Co., Ltd.. Mr. Guo has many years of experience in government affairs and corporate management in China. Mr. Guo joined the Group in April 2004.

Mr. LEI Zhengang, aged 55, a PRC senior accountant, is an Executive Director of the Company and also the Director and Vice General Manager of Beijing Enterprises Group Company Limited. Mr. Lei obtained a postgraduate qualification from the Capital University of Economics and Business and has extensive experience of corporate finance and management. Mr. Lei joined the Group in June 2006.

EXECUTIVE DIRECTORS (continued)

Mr. JIANG Xinhao, aged 44, is an Executive Director and Vice President of the Company. Mr. Jiang also serves as the Chief Operational Officer of Beijing Enterprises Group Company Limited and an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, and then in 1992 with a master's degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Vice President of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a Manager of the investment development department of Beijing Holdings Limited and a General Manager of Beijing BHL Investment Center between May 2000 and February 2005. He served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. Mr. Jiang has many years of experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

Mr. TAM Chun Fai Jimmy, aged 46, is the Executive Director, Financial Controller 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WU Jiesi, aged 57, holds a doctorate degree in Economics. Mr. Wu also serves as Executive Director and Vice Chairman of China Aoyuan Property Group Limited (stock code: 3883), Independent Non-executive Director of China Insurance International Holdings Company Limited (stock code: 966) and China Merchants Bank Co., Ltd. (stock code: 3968), and Non-executive Director of China Water Affairs Group Limited (stock code: 855) and Shenzhen Investment Limited (stock code: 604). He conducted post-doctoral research work in theoretical economics at the Nankai University in the PRC and was conferred the professorship qualification by the Nankai University in 2001. During the period from 1984 to 1995, Mr. Wu worked at the Industrial and Commercial Bank of China in a number of positions, including as the President of Shenzhen Branch. From 1995 to 1998, Mr. Wu was Vice Mayor of Shenzhen Municipal Government and from 1998 to 2000 he was the assistant to the Governor of Guangdong province. He was the Chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, the Honorary President of Guangdong Investment Limited and Guangdong Tannery Limited, and the managing director and chief executive officer of Hopson Development Holdings Limited. He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

Mr. Robert A. THELEEN, aged 63, is the Chairman, founder and Co-Chief Executive Officer of China Vest, Ltd., a Shanghai-based Merchant Bank. Mr. Theleen was a pioneer in the private equity investment industry in China where, in 1982, he launched one of the first venture capital funds investing in China. Mr. Theleen is also a Trustee of the Asia Foundation and an active member of the business community in Shanghai where he resides. He was educated at Duquesne University and at the American School of Management in the United States where he obtained his master's degree in business administration in 1970. He is also a member of the Advisory Board of the Hopkins-Nanjing Center in Nanjing, China. Mr. Theleen joined the Group in July 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mr. LAM Hoi Ham, ***JP***, aged 70, 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 serves 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, 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.

Mr. FU Tingmei, aged 42, has over 15 years of experience in law, investment, finance, and business management. He graduated from the University of London with a master's degree and a doctorate degree in law in 1989 and 1993 respectively. Between 1992 and 2003, Mr. Fu executed corporate finance transactions at investment banking firms based in Hong Kong,including serving as a director with Peregrine Capital Limited, and a deputy managing director and subsequently a managing director with BNP Paribas Peregrine Capital Limited. Mr. Fu is currently engaged in investment and operation of private businesses. Mr. Fu is also a part-time member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region, a member of the People's Political Consultative Conference of Jiangxi province and an adviser to AID Partners Capital Limited, a private equity firm based in Hong Kong. Mr. Fu joined the Group in July 2008.

SENIOR MANAGEMENT

Mr. LI Yongcheng, aged 47, is a Vice President of the Company. Mr. Li is a senior engineer, graduated at Wuhan University of Science and Technology with a master's degree in environmental engineering. He obtained a master's degree (EMBA) at Guanghua School of Management of Peking University. He also studied the purification technology of gas in Germany. Mr. Li is currently the vice chairman of the board and general manager of Beijing Gas Group Co., Ltd. He has extensive management experience in piped gas business. Mr. Li joined the Group in August 2007.

Mr. XIAO Xifa, aged 45, is a Vice President of the Company. Mr. Xiao is a senior engineer and a P.R.C. Registered Consulting (Investment) Engineer. Mr. Xiao holds a mater degree in engineering from University of Science and Technology Beijing and a MBA from Tsinghua University. Mr. Xiao was the dean and managing director of Beijing Gas and Heating Engineering Design Institute (Limited Company), the managing director of Beijing United Gas Engineering & Technology Co., Ltd., the manager of asset management department of Beijing Gas Group Company Limited, and the manager of strategic development department of Beijing Enterprises Group Company Limited. Mr. Xiao has many years of experience in project investment consulting, planning, merger and acquisition as well as business management in the industry of gas and heat supply. Mr. Xiao joined the Group in February 2006.

The directors present their report and the audited financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 22 to the financial statements. During the year, the Group acquired Beijing Enterprises Water Group Limited ("BE Water", formerly known as "Shang Hua Holdings Limited") (stock code: 371), which, together with its subsidiaries, is a large-scale water treatment operator in China engaging in the provision of sewage treatment service, the construction service, the sewage technical service and the water supply service. There were no other significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 40 to 167.

An interim dividend of HK20 cents per ordinary share was paid on 28 October 2008. The directors recommend the payment of a final dividend of HK40 cents per ordinary share and a final special dividend of HK5 cents per ordinary share in respect of the year to shareholders on the register of members on 3 June 2009. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet. Subject to the approval of shareholders at the forthcoming annual general meeting, the final dividend and the final special dividend will be paid on or around 18 June 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 28 May 2009 to Wednesday, 3 June 2009 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final dividend and final special dividend and for attending the forthcoming annual general meeting of the Company to be held on Wednesday, 3 June 2009, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Share Registrar, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 27 May 2009.

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 2007 is set out on page 168. 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 16 and 17 to the financial statements, respectively.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the share capital and share options of the Company and the Group's convertible bonds during the year, together with the reasons therefor, are set out in notes 34, 35 and 38 to the financial statements, respectively.

DONATIONS

The Group's charitable and other donations during the year amounted to HK$18,673,000, mainly to support the earthquake recovery efforts in Sichuan.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2008, the Company repurchased a total of 2,279,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company. Details of the repurchases of such ordinary shares are as follows:

Month	Number of ordinary shares repurchased	Price per share Highest	Price per share Lowest	Total consideration paid
		HK$	HK$	HK$'000
June	936,000	25.6227	25.0077	23,562
July	857,000	25.4000	24.3000	21,357
September	100,000	22.5000	22.0000	2,238
October	386,000	24.9500	21.8500	9,259
	2,279,000			56,416

The repurchase 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 repurchase of the shares of approximately HK$56,188,000 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 repurchase 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK$578,044,000, of which HK$511,650,000 has been proposed as final dividends for the year. In addition, the Company's share premium account, in the amount of HK$20,727,306,000, may be distributed in the form of fully paid bonus shares.

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

The directors of the Company during the year were:

Executive directors:

Mr. Yi Xiqun *(Chairman)*
Mr. Zhang Honghai *(Vice Chairman and Chief Executive Officer)*
Mr. Li Fucheng *(Vice Chairman)*
Mr. Bai Jinrong *(Vice Chairman)*
Mr. Zhou Si *(Vice Chairman)*
Mr. E Meng *(Executive Vice President)*
Mr. Liu Kai *(Vice President)*
Mr. Guo Pujin
Mr. Lei Zhengang
Mr. Jiang Xinhao *(Vice President)*
Mr. Tam Chun Fai *(Chief Financial Officer and Company Secretary)*

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 Xianzhang	(resigned on 3 March 2008)
Mr. Wu Jiesi	
Mr. Robert A. Theleen	
Mr. Lam Hoi Ham	(appointed on 3 March 2008)
Mr. Fu Tingmei	(appointed on 1 July 2008)

In accordance with articles 96 and 105(A) of the Company's articles of association and the recommendation of the board of directors, Messrs. Yi Xiqun, Zhang Honghai, Li Fucheng, Liu Kai, Guo Pujin and Fu Tingmei 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 of the Company, 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 of the Company and the senior management of the Group are set out on pages 19 to 22 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Zhang Honghai, E Meng and Liu Kai has a service contract with the Company for a term of three years commencing on 3 December 2006, 17 June 2008 and 16 January 2007, respectively, with respective unexpired periods of approximately 11 months, 30 months and 12 Months as at 31 December 2008.

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee.

Further details of the Company's remuneration committee are set out in the corporate governance report on pages 34 to 37 of the annual report.

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 year.

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

At 31 December 2008, the interests and short positions of the directors and the chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

(a) Long positions in ordinary shares of the Company

Name of director	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
Mr. Yi Xiqun	194,500#	0.017%
Mr. Li Fucheng	12,000#	0.012%
Mr. Bai Jinrong	136,000#	0.012%
Mr. E Meng	50,000#	0.004%
Mr. Liu Kai	6,000#	0.001%
Mr. Jiang Xinhao	10,000#	0.001%
Mr. Tam Chun Fai	6,000#	0.001%

All interests disclosed are directly beneficially owned by the directors.

(b) Long positions in underlying shares of the Company

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

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

(c) Long positions in ordinary shares of associated corporations

Name of director	Name of associated corporation	Number of ordinary shares held	Percentage of the associated corporation's issued share capital
Mr. Zhang Honghai	Beijing Development (Hong Kong) Limited ("Beijing Development")@	4,000,000#	0.590%
Mr. Li Fucheng	Beijing Yanjing Brewery Company Limited@	38,898#	0.003%
Mr. E Meng	Beijing Development@	601,000#	0.089%

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

All interests disclosed are directly beneficially owned by the directors.

(d) Long positions in underlying shares of associated corporations

Name of director	Name of associated corporation	Number of share options held	
Mr. Zhang Honghai	Beijing Development@	6,800,000	(a)
	China Information Technology Development Limited@ ("CIT Development")	20,000,000	(c)
Mr. E Meng	Beijing Development@	4,500,000	(a)
		1,500,000	(b)
		3,000,000	(d)

Notes:

(a) These share options were granted on 30 October 2007 at an exercise price of HK$4.03* 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$4.07. 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.

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)

Notes: (continued)

(b) 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$3.11. 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.

(c) These share options were granted on 11 February 2008 at an exercise price of HK$0.53* per share. The share options may be exercised at any time commencing on 11 August 2008 and, if not exercised, will lapse on 10 February 2013. The exercise of the share 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 of CIT Development, Mr. Zhang Honghai is entitled to exercise all the share options within three months from the date of termination of his employment with CIT Development.

(d) These share options were granted on 9 July 2008 at an exercise price of HK$2.07* 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$2.06. The share options may be exercised at any time commencing on 11 August 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.

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

* The exercise price of these 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 31 December 2008, none of the directors or the chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or an interest or a short position as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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" above and the heading "Share option scheme" below, at no time during the year 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 spouses 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.

SHARE OPTION SCHEME

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

SHARE OPTION SCHEME (continued)

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.

The following set out the movements in the share options granted under the Scheme during the year ended 31 December 2008:

	Number of share options held			
Name or category of participant	**At 1 January 2008**	**Granted during the year**	**Exercised during the year**	**At 31 December 2008**
Directors:				
Mr. Yi Xiqun	250,000	–	(250,000)	–
Mr. Bai Jinrong	90,000	–	(90,000)	–
Mr. Zhou Si	300,000	–	–	300,000
Mr. Guo Pujin	60,000	–	–	60,000
Mr. Lei Zhengang	150,000	–	–	150,000
Mr. Jiang Xinhao	110,000	–	–	110,000
	960,000	–	(340,000)	620,000
Other employees:				
In aggregate	50,000	–	–	50,000
	1,010,000	–	(340,000)	670,000

SHARE OPTION SCHEME (continued)

Notes:

(a) 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.

(b) At 31 December 2008, the Company had 670,000 share options outstanding under the Scheme, which represented approximately 0.06% 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 670,000 additional ordinary shares of the Company and additional share capital of HK$67,000 and share premium of HK$8,341,500 (before any issue expenses).

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

At 31 December 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:

	Number of ordinary shares held, capacity and nature of interest			
Name	**Directly beneficially owned**	**Others**	**Total**	**Percentage of the Company's issued share capital**
Modern Orient Limited	100,050,000	–	100,050,000	8.80%
Beijing Enterprises Investments Limited ("BEIL")	163,751,109	100,050,000[(a)]	263,801,109	23.20%
Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI")	411,250,000	263,801,109[(b)]	675,051,109	59.37%
Beijing Enterprises Group Company Limited ("BE Group")	–	675,051,109[(c)]	675,051,109	59.37%
Deutsche Bank Aktiengesellschaft	747,107	68,665,220[(d)]	69,412,327	6.10%
JPMorgan Chase & Co.	417,000	79,224,868[(e)]	79,641,868	7.00%

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

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.

(d) The interest disclosed includes 1,333,000 shares held as an investment manager, 2,332,220 shares held as security interest in the shares and 65,000,000 shares as a trustee.

(e) The interest disclosed includes 21,835,500 shares held as an investment manager and 57,389,368 shares held as a custodian corporation/approved lending agent.

Short positions:

	Number of ordinary shares held, capacity and nature of interest			
Name	**Directly beneficially owned**	**Others**	**Total**	**Percentage of the Company's issued share capital**
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[(a)]	4,801,109	0.42%
Deutsche Bank Aktiengesellschaft	402,802	246,049[(b)]	648,851	0.06%
JPMorgan Chase & Co.	4,000	–	4,000	0.00%

Notes:

(a) The interests disclosed include the shares owned by BEIL. BE Group BVI and BE Group are the immediate holding company and the ultimate holding company of BEIL, respectively. Accordingly, each of BE Group BVI and BE Group is deemed to be interested in the shares owned by BEIL.

(b) Person having a security interest in the shares.

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

Lending position:

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
JPMorgan Chase & Co.	57,389,368	5.05%

Save as disclosed above, as at 31 December 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 a 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 year are set out in notes 31 and 51 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; (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.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the significant events after the balance sheet date of the Group are set out in note 54 to the financial statements.

LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDERS

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of the Company's syndicated loan facility, which contains covenants requiring performance obligations of the Company's holding companies.

In 2007, the Company obtained a five-year HK$2.1 billion syndicated loan facility. The loan agreement includes certain conditions imposing specific performance obligations on the Company's holding companies, among which are the following events which would constitute an event of default on the loan facility:

1. If the beneficial interest of the Company ceases to be owned or controlled by BE Group; and

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

ON BEHALF OF THE BOARD

Chairman

Hong Kong
30 March 2009

GENERAL

Saved as disclosed below, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2008.

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 of the Listing Rules for securities transactions by directors of the Company (the "Directors"). All the members of the board of Directors (the "Board") 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 2008. The Model Code also applies to other specified senior management of the Company.

BOARD OF DIRECTORS

Composition and role

The Board comprises of eleven Executive Directors and four Independent Non-executive Directors. The principal focus of the Board is on the overall strategic development of the Group, while the management is principally responsible for the Group's business operations. The Board also monitors the financial performance and the internal controls of the Group's business operations.

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 or 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, three Board meetings were held. This deviates from 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.

BOARD OF DIRECTORS (continued)

Composition and role (continued)

The individual attendance of board meetings is set out below:

Name of Director		Board Meetings
Executive Directors		
Mr. Yi Xiqun *(Chairman)*		3/3
Mr. Zhang Honghai		3/3
Mr. Li Fucheng		3/3
Mr. Bai Jinrong		3/3
Mr. Zhou Si		3/3
Mr. E Meng		3/3
Mr. Liu Kai		3/3
Mr. Guo Pujin		3/3
Mr. Lei Zhengang		3/3
Mr. Jiang Xinhao		3/3
Mr. Tam Chun Fai		3/3
Independent Non-executive Directors		
Mr. Lau Hon Chuen, Ambrose	(resigned on 3 March 2008)	0/0
Dr. Lee Tung Hai, Leo	(resigned on 3 March 2008)	0/0
Mr. Wang Xianzhang	(resigned on 3 March 2008)	0/0
Mr. Wu Jiesi		2/2
Mr. Robert A. Theleen		1/2
Mr. Lam Hoi Ham	(appointed on 3 March 2008)	2/2
Mr. Fu Tingmei	(appointed on 1 July 2008)	1/1

Chairman and Chief Executive Officer

The chairman of the Company is Mr. Yi Xiqun and the chief executive officer of the Company is Mr. Zhang Honghai. The Company has complied with code provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Non-executive Directors

The Non-executive Directors of the Company (all are Independent Non-executive Directors) are not appointed for specific terms, which deviates from the requirement of code provision A.4.1. However, in view of the fact that they 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.

REMUNERATION COMMITTEE

The current members of the Remuneration Committee are:

Mr. Wu Jiesi – Committee Chairman	
Mr. Lam Hoi Ham	(appointed on 3 March 2008)
Mr. Liu Kai	

REMUNERATION COMMITTEE (continued)

The majority of the Remuneration Committee members are Independent Non-executive Directors. The Remuneration Committee advises the Board on the Company's overall policy and structure for the remuneration of Directors and senior management of the Company. The Remuneration Committee ensures that no director of the Company or any of his associate is involved in deciding his own remuneration. The Company has adopted the terms of reference of the Remuneration Committee in accordance with code provision B.1.3. A copy of the terms of reference is posted on the Company's website.

In determining the emolument payable to Directors, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, and employment conditions elsewhere in the Group. The Remuneration Committee meets regularly to determine the policy for the remuneration of Directors and assess performance of Executive Directors and certain senior management of the Company. During the year ended 31 December 2008, the individual attendance of Remuneration Committee meeting is set out below:

Name of director		**Number of meetings attended**
Mr. Wu Jiesi		1/1
Dr. Lee Tung Hai, Leo	(resigned on 3 March 2008)	1/1
Mr. Lam Hoi Ham	(appointed on 3 March 2008)	0/0
Mr. Liu Kai		1/1

COMPENSATION POLICY

The objective of the compensation policy of the Company is to provide an equitable and competitive compensation package so as to attract and retain the best employees to serve corporate needs. The compensation package for each employee is structured to include: base 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 all 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.

AUDITORS' REMUNERATION

For the year ended 31 December 2008, the auditors of the Company only provided audit services to the Company and only received from the Company auditors' remuneration in relation thereto.

AUDIT COMMITTEE

The current members of the Audit Committee are:

Mr. Lam Hoi Ham – Committee Chairman	(appointed on 3 March 2008)
Mr. Wu Jiesi	
Mr. Fu Tingmei	(appointed on 1 July 2008)

AUDIT COMMITTEE (continued)

All Audit Committee members are Independent Non-executive Directors. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial procedure and internal controls system of the Company. The Company has adopted the written terms of reference which describe the authority and duties of the Audit Committee in accordance with code provision C.3.3. A copy of the terms of reference is posted on the Company's website.

The Audit Committee meets regularly to review the reporting of financial and other information to shareholders, the effectiveness and objectivity of the audit process. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the accounts for the year ended 31 December 2008. During the year ended 31 December 2008, the individual attendance of Audit Committee meetings is set out below:

Name of director		**Number of meetings attended**
Mr. Wu Jiesi		2/2
Mr. Robert A. Theleen	(appointed on 3 March 2008 and resigned on 1 July 2008)	1/1
Mr. Lam Hoi Ham	(appointed on 3 March 2008)	2/2
Mr. Fu Tingmei	(appointed on 1 July 2008)	1/1

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledged responsibility for reviewing the accounts of the Company prepared by the Executive Board for the year ended 31 December 2008 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.

INTERNAL CONTROL

During the year under review, the Board has conducted an annual review of the effectiveness of the system of internal control of the Group. The review has covered all material controls, including financial, operational and compliance controls and risk management functions.

ERNST & YOUNG
安 永

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

We have audited the financial statements of Beijing Enterprises Holdings Limited set out on pages 40 to 167, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
30 March 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
CONTINUING OPERATIONS:			
REVENUE	5	19,704,247	10,975,515
Cost of sales		(15,199,351)	(7,810,757)
Gross profit		4,504,896	3,164,758
Gain on deemed disposal of interest in a subsidiary	6	450,791	–
Other income and gains, net	5	534,930	532,645
Selling and distribution costs		(1,142,871)	(888,992)
Administrative expenses		(1,457,685)	(891,415)
Other operating expenses, net		(193,225)	(86,166)
PROFIT FROM OPERATING ACTIVITIES	7	2,696,836	1,830,830
Finance costs	8	(407,068)	(243,275)
Share of profits and losses of:			
Jointly-controlled entities	23(a)	912,628	178,243
Associates	24(a)	(146,811)	261,009
PROFIT BEFORE TAX		3,055,585	2,026,807
TAX	11	(359,297)	(263,872)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		2,696,288	1,762,935
DISCONTINUED OPERATIONS:			
Profit for the year from discontinued operations	12(a)	–	80,827
PROFIT FOR THE YEAR		2,696,288	1,843,762
ATTRIBUTABLE TO:			
Shareholders of the Company:			
Continuing operations		2,281,828	1,397,385
Discontinued operations	12(a)	–	80,827
	13	2,281,828	1,478,212
Minority interests		414,460	365,550
		2,696,288	1,843,762

CONSOLIDATED INCOME STATEMENT (continued)

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
DIVIDENDS	14		
Interim		227,479	227,706
Proposed final		511,650	455,576
		739,129	683,282
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	15		
Basic			
– For profit for the year		HK$2.01	HK$1.72
– For profit from continuing operations		HK$2.01	HK$1.63
Diluted			
– For profit for the year		HK$1.90	HK$1.71
– For profit from continuing operations		HK$1.90	HK$1.62

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
ASSETS			
Non-current assets:			
Property, plant and equipment	16	17,988,216	15,813,634
Investment properties	17	198,759	334,262
Prepaid land premiums	18	1,136,358	837,507
Goodwill	19	8,537,759	6,898,734
Operating concessions	20	1,813,494	1,431,907
Other intangible assets	21	14,969	12,034
Interests in jointly-controlled entities	23	4,508,590	3,302,725
Interests in associates	24	802,207	881,268
Receivables under service concession arrangements	20	2,821,311	1,502,056
Prepayments, deposits and other receivables	30	124,270	22,094
Available-for-sale investments	25	309,789	290,424
Deferred tax assets	42	484,772	385,657
Total non-current assets		38,740,494	31,712,302
Current assets:			
Prepaid land premiums	18	24,356	18,832
Inventories	27	3,067,436	2,342,259
Amounts due from contract customers	28	202,512	178
Receivables under service concession arrangements	20	380,792	313,768
Trade and bills receivables	29	1,056,026	817,443
Prepayments, deposits and other receivables	30	1,419,334	1,538,517
Financial assets at fair value through profit or loss	32	1,566	39,250
Other taxes recoverable		72,873	35,196
Restricted cash and pledged deposits	26	64,413	131,800
Cash and cash equivalents	33	6,666,940	8,072,484
Total current assets		12,956,248	13,309,727
TOTAL ASSETS		51,696,742	45,022,029

CONSOLIDATED BALANCE SHEET (continued)

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company:			
Issued capital	*34*	113,700	113,894
Reserves	*36(a)(i)*	29,006,598	26,319,844
Proposed final dividends	*14*	511,650	455,576
		29,631,948	26,889,314
Minority interests		6,678,522	4,675,076
TOTAL EQUITY		36,310,470	31,564,390
Non-current liabilities:			
Bank and other borrowings	*37*	3,895,388	3,282,325
Convertible bonds	*38*	515,908	–
Defined benefit plans	*39*	389,815	223,772
Provision for major overhauls	*40*	121,438	13,569
Other long term liabilities	*41*	204,442	136,690
Deferred tax liabilities	*42*	279,859	175,469
Total non-current liabilities		5,406,850	3,831,825
Current liabilities:			
Trade and bills payables	*43*	1,190,222	1,737,563
Amounts due to contract customers	*28*	107,831	20,468
Other payables and accruals	*44*	4,689,729	4,286,012
Income tax payable		457,983	528,064
Other taxes payable		361,021	330,046
Bank and other borrowings	*37*	3,172,636	2,641,275
Provision for major overhauls	*40*	–	82,386
Total current liabilities		9,979,422	9,625,814
TOTAL LIABILITIES		15,386,272	13,457,639
TOTAL EQUITY AND LIABILITIES		51,696,742	45,022,029

Yi Xiqun
Director

Zhang Honghai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

		Attributable to shareholders of the Company												
	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000 (note 36(a)(ii))	Share option reserve HK$'000 (note 36(a)(iii))	Capital reserve HK$'000 (note 36(a)(v))	Property revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 36(a)(iv))	Retained profits HK$'000	Proposed final dividends HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007:														
As previously reported		62,250	4,839,497	–	21,279	215,246	7,593	417,183	704,186	2,478,971	124,500	8,870,705	4,189,100	13,059,805
Effect of adopting HK(IFRIC)–Int 12	2.2	–	–	–	–	(585)	–	4,611	–	90,480	–	94,506	(13,623)	80,883
As restated		62,250	4,839,497	–	21,279	214,661	7,593	421,794	704,186	2,569,451	124,500	8,965,211	4,175,477	13,140,688
Exchange realignment, as restated		–	–	–	–	–	–	877,820	–	–	–	877,820	301,755	1,179,575
Share issue expenses	34	–	(79,361)	–	–	–	–	–	–	–	–	(79,361)	–	(79,361)
Total income and expense for the year recognised directly in equity, as restated		–	(79,361)	–	–	–	–	877,820	–	–	–	798,459	301,755	1,100,214
Profit for the year, as restated		–	–	–	–	–	–	–	–	1,478,212	–	1,478,212	365,550	1,843,762
Total income and expense for the year, as restated		–	(79,361)	–	–	–	–	877,820	–	1,478,212	–	2,276,671	667,305	2,943,976
Issue of shares	34 (a) and (b)	51,125	15,873,000	–	–	–	–	–	–	–	–	15,924,125	–	15,924,125
Exercise of share options	34 (c)	519	88,574	–	(21,543)	–	–	–	–	–	–	67,550	–	67,550
Equity-settled share option arrangements	35 (b)	–	–	–	4,271	–	–	–	–	–	–	4,271	–	4,271
Acquisition of subsidiaries	45	–	–	–	–	–	–	–	–	–	–	–	9,432	9,432
Acquisition of minority interests		–	–	–	–	–	–	–	–	–	–	–	(4,185)	(4,185)
Deemed disposal of interest in an associate		–	–	–	–	61,019	(1,865)	(565)	(2,152)	(57,002)	–	(565)	–	(565)
Share of reserves of associates		–	–	–	–	137,102	6,604	(335)	(202)	(138,124)	–	5,045	–	5,045
Final 2006 dividend		–	–	–	–	–	–	–	–	(788)	(124,500)	(125,288)	–	(125,288)
Interim 2007 dividends	14	–	–	–	–	–	–	–	–	(227,706)	–	(227,706)	–	(227,706)
Proposed final 2007 dividends	14	–	–	–	–	–	–	–	–	(455,576)	455,576	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(172,953)	(172,953)
Transfer to reserves		–	–	–	–	–	–	–	304,529	(304,529)	–	–	–	–
At 31 December 2007, as restated		113,894	20,721,710*	-*	4,007*	412,782*	12,332*	1,298,714*	1,006,361*	2,863,938*	455,576	26,889,314	4,675,076	31,564,390

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2008

	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000 (note 36(a)(ii))	Share option reserve HK$'000 (note 36(a)(iii))	Capital reserve HK$'000 (note 36(a)(v))	Property revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 36(a)(iv))	Retained profits HK$'000	Proposed final dividends HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to shareholders of the Company												
At 1 January 2008:														
As previously reported		113,894	20,721,710	–	4,007	413,367	12,332	1,286,606	1,006,361	2,733,626	455,576	26,747,479	4,689,457	31,436,936
Effect of adopting HK(IFRIC)–Int 12	2.2	–	–	–	–	(585)	–	12,108	–	130,312	–	141,835	(14,381)	127,454
As restated		113,894	20,721,710	–	4,007	412,782	12,332	1,298,714	1,006,361	2,863,938	455,576	26,889,314	4,675,076	31,564,390
Exchange realignment		–	–	–	–	–	–	1,182,513	–	–	–	1,182,513	294,782	1,477,295
Fair value gain on revaluation of a building upon transfer to investment properties	16	–	–	–	–	–	17,561	–	–	–	–	17,561	–	17,561
Total income and expense for the year recognised directly in equity, as restated		–	–	–	–	–	17,561	1,182,513	–	–	–	1,200,074	294,782	1,494,856
Profit for the year		–	–	–	–	–	–	–	–	2,281,828	–	2,281,828	414,460	2,696,288
Total income and expense for the year		–	–	–	–	–	17,561	1,182,513	–	2,281,828	–	3,481,902	709,242	4,191,144
Exercise of share options	34 (c)	34	5,596	–	(1,363)	–	–	–	–	–	–	4,267	–	4,267
Repurchase and cancellation of shares	34 (d)	(228)	–	228	–	–	–	–	–	(56,416)	–	(56,416)	–	(56,416)
Capital contribution by minority shareholders		–	–	–	–	–	–	–	–	–	–	–	722,641	722,641
Acquisition of subsidiaries	45	–	–	–	–	–	–	–	–	–	–	–	262,343	262,343
Acquisition of minority interests		–	–	–	–	–	–	–	–	–	–	–	(15,134)	(15,134)
Disposal of subsidiaries	46	–	–	–	–	19,023	–	(20,197)	(11,762)	(7,261)	–	(20,197)	(84,429)	(104,626)
Deemed disposal of interest in a subsidiary		–	–	–	–	450,791	–	–	–	(450,791)	–	–	580,595	580,595
Deemed disposal of interest in an associate		–	–	–	–	17,112	–	614	969	(18,081)	–	614	–	614
Share of reserves of associates		–	–	–	–	19,749	–	2	90	(4,322)	–	15,519	–	15,519
Final 2007 dividends		–	–	–	–	–	–	–	–	–	(455,576)	(455,576)	–	(455,576)
Interim 2008 dividend	14	–	–	–	–	–	–	–	–	(227,479)	–	(227,479)	–	(227,479)
Proposed final 2008 dividends	14	–	–	–	–	–	–	–	–	(511,650)	511,650	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(171,812)	(171,812)
Transfer to reserves		–	–	–	–	3,086	–	–	292,611	(295,697)	–	–	–	–
At 31 December 2008, as restated		113,700	20,727,306*	228*	2,644*	922,543*	29,893*	2,461,646*	1,288,269*	3,574,069*	511,650	29,631,948	6,678,522	36,310,470

* These reserve accounts comprise the consolidated reserves of HK$29,006,598,000 (2007: HK$26,319,844,000, as restated) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		3,055,585	2,026,807
From discontinued operations		–	80,827
Adjustments for:			
Interest income	5	(116,234)	(98,889)
Investment income	5	(1,370)	(12,086)
Excess over the cost of acquisition of subsidiaries and minority interests	5	(8,669)	(341)
Gain on disposal of interests in subsidiaries	5	(94,707)	(80,827)
Gain on deemed disposal of interest in a subsidiary		(450,791)	–
Gain on deemed disposal of interest in an associate	5	(2,084)	(61,370)
Gain on disposal of available-for-sale investments carried at cost	5	(10,456)	(111,230)
Gain on disposal of financial assets at fair value through profit or loss, net	5	(393)	(18,619)
Depreciation	7	1,208,107	845,040
Amortisation of operating concessions	7	90,222	78,906
Amortisation of patents	7	26	–
Amortisation of computer software	7	23,483	1,053
Impairment of items of property, plant and equipment	7	36,231	–
Loss on disposal of items of property, plant and equipment, net	7	2,234	21,333
Fair value (gain)/loss on investment properties	7	1,750	(55,749)
Fair value (gain)/loss on financial assets at fair value through profit or loss, net	7	2,247	(11,089)
Equity-settled share option expense	7	–	4,271
Provision against inventories, net	7	11,121	–
Impairment of receivables under service concession arrangements	7	46,511	–
Impairment of trade and bills receivables, net	7	26,559	1,588
Impairment of other receivables	7	26,442	52,838
Finance costs	8	407,068	243,275
Share of profits and losses of jointly-controlled entities and associates		(765,817)	(439,252)
Operating profit before working capital changes		3,487,065	2,466,486

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2008

	2008 HK$'000	2007 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES (continued)		
Operating profit before working capital changes	3,487,065	2,466,486
Increase in prepaid land premiums	(309,765)	(73,709)
Increase in inventories	(654,162)	(523,186)
Decrease/(increase) in amounts due from contract customers	(92,157)	254
Decrease in receivables under service concession arrangements	73,785	33,175
Decrease/(increase) in trade and bills receivables	(228,553)	10,149
Decrease/(increase) in prepayments, deposits and other receivables	149,277	(575,838)
Increase in other taxes recoverable	(34,988)	(7,938)
Increase/(decrease) in trade and bills payables	(732,340)	183,244
Increase in amounts due to contract customers	87,363	5,090
Increase in other payables and accruals	23,651	668,558
Increase in other taxes payable	14,924	133,439
Increase in cost of defined benefit plans	150,183	12,314
Decrease in provision for major overhauls	(42,047)	(60,162)
Increase in other long term liabilities	78,320	89,588
Cash generated from operations	1,970,556	2,361,464
Dividends received from jointly-controlled entities and associates	496,536	26,111
Hong Kong profits tax paid	–	(612)
Mainland China income tax paid	(475,583)	(236,093)
Net cash inflow from operating activities	1,991,509	2,150,870

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(2,574,853)	(1,378,130)
Proceeds from disposal of items of property, plant and equipment		24,804	160,490
Purchases of other intangible assets		(24,465)	(2,268)
Acquisition of subsidiaries	45	11,633	(2,009,581)
Acquisition of minority interests		(172,322)	(18,712)
Disposal of subsidiaries	46	(79,625)	80,173
Acquisition of and increase in investments in jointly-controlled entities and associate		(523,746)	(23,454)
Increase in amounts due from/to and loans to jointly-controlled entities and associates		(12,511)	(38,076)
Purchases of available-for-sale investments		(18,508)	(20,000)
Proceeds from disposal of available-for-sale investments		10,056	18,538
Purchases of financial assets at fair value through profit or loss		(2,976)	(62,687)
Proceeds from disposal of financial assets at fair value through profit or loss		33,938	62,851
Increase in time deposits with maturity of more than three months when acquired		(380,444)	(28,202)
Decrease/(increase) in pledged deposits		66,608	(39,033)
Interest received		106,628	87,053
Investment income received		1,370	12,086
Net cash outflow from investing activities		(3,534,413)	(3,198,952)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new ordinary shares	34(b)	–	3,710,000
Proceeds from exercise of share options	34(c)	4,267	67,550
Share issue expenses	34	–	(79,361)
Repurchase of ordinary shares	34(d)	(56,416)	–
Capital contributions by minority shareholders		722,641	–
Issue of convertible bonds	38	100,000	–
Redemption of convertible bonds		–	(143)
New loans		4,726,606	5,424,730
Repayment of loans		(4,780,885)	(2,258,796)
Interest paid		(366,562)	(193,291)
Dividends paid		(683,055)	(352,994)
Dividends paid to minority shareholders		(171,812)	(172,953)
Net cash inflow/(outflow) from financing activities		(505,216)	6,144,742

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(2,048,120)	5,096,660
Cash and cash equivalents at beginning of year		8,042,569	2,706,682
Effect of foreign exchange rate changes, net		262,132	239,227
CASH AND CASH EQUIVALENTS AT END OF YEAR		6,256,581	8,042,569
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	33	4,767,691	4,536,911
Cash equivalents	33	90,827	89,834
Time deposits	33	1,872,835	3,577,539
		6,731,353	8,204,284
Less: Pledged deposits	33	(64,413)	(131,800)
Time deposits with maturity of more than three months when acquired		(410,359)	(29,915)
		6,256,581	8,042,569

BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	16	5,540	21,461
Investment properties	17	36,650	159,650
Interests in subsidiaries	22	23,339,032	20,528,563
Interests in jointly-controlled entities	23	2,598	46,808
Interests in associates	24	92,982	50,314
Available-for-sale investments	25	132,494	132,497
Total non-current assets		23,609,296	20,939,293
Current assets:			
Trade and bills receivables	29	999	5,565
Prepayments, deposits and other receivables	30	119,303	56,776
Financial assets at fair value through profit or loss	32	1,566	39,250
Cash and cash equivalents	33	210,664	3,557,536
Total current assets		332,532	3,659,127
TOTAL ASSETS		23,941,828	24,598,420

BALANCE SHEET (continued)

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
EQUITY AND LIABILITIES			
Equity:			
Issued capital	34	113,700	113,894
Reserves	36(b)	20,814,133	21,236,985
Proposed final dividends	14	511,650	455,576
TOTAL EQUITY		21,439,483	21,806,455
Non-current liabilities:			
Bank and other borrowings	37	2,095,267	2,093,873
Current liabilities:			
Bank and other borrowings	37	296,300	–
Other payables and accruals	44	100,799	688,411
Other taxes payable		9,979	9,681
Total current liabilities		407,078	698,092
TOTAL LIABILITIES		2,502,345	2,791,965
TOTAL EQUITY AND LIABILITIES		23,941,828	24,598,420

Yi Xiqun
Director

Zhang Honghai
Director

1. CORPORATE INFORMATION

Beijing Enterprises Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong and shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 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 repair and maintenance services in Beijing, the People's Republic of China (the "PRC");
- production, distribution and sale of beer in Beijing and other provinces in the PRC;
- investment in transportation infrastructure, including the Capital Airport Expressway, which connects the Capital Airport and the city centre of Beijing, and the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC; and
- the construction of sewage and water treatment plants, sewage treatment, water treatment and distribution, the provision of consultancy services and the licensing of technical know-how that are related to sewage treatment in the PRC.

As at 31 December 2008 and the date of approval of these financial statements, the immediate holding company of the Company is Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI"), which is incorporated in the British Virgin Islands, and in the opinion of the directors, the ultimate holding company is 北京控股集團有限公司 ("Beijing Enterprises Group"), which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality ("Beijing Municipal Government").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain financial assets which have been measured at fair value. 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 Company and its subsidiaries for the year ended 31 December 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. For the acquisition of minority interests, the difference between the consideration and the book value of the share of the net assets acquired is recognised in the consolidated balance sheet as goodwill or in the income statement as an excess over cost of acquisition, where appropriate.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements:

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Except for HK(IFRIC)-Int 12 giving rise to new accounting policies and additional disclosures for service concession arrangements as further described below, the adoption of the new interpretations and amendments has had no significant financial effect on these financial statements.

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.

The Group's concession rights to operate an expressway (the "Expressway Concession"), a toll road (the "Toll Road Concession") and a water purification and treatment plant in Beijing (the "Water Purification and Treatment Concession"), and the right to sell entrance tickets in Longqingxia (the "LQX Concession") are within the scope of HK(IFRIC)-Int 12. The Group concluded that the adoption of HK(IFRIC)-Int 12 has no significant impact on the accounting policies for the Toll Road Concession and the LQX Concession but has resulted in changes in accounting policies for (i) the Expressway Concession; (ii) the Water Purification and Treatment Concession; and (iii) contractual obligations to maintain and/or resurface the expressway.

Prior to the adoption of HK(IFRIC)-Int 12:

- the infrastructures under the Expressway Concession, including the expressway and related structures and certain buildings, were accounted for as property, plant and equipment and were depreciated on (i) the unit-of-usage basis in respect of the expressway and related structures, whereby the annual depreciation amount is determined based on the actual traffic volume for the year to the projected total traffic volume of the expressway over the remaining unexpired lease terms; and (ii) the straight-line basis over the estimated useful life in respect of the buildings;

- the Water Purification and Treatment Concession was accounted for as an intangible asset (operating concession) which was amortised on the straight-line basis over the period of the operating concession granted to the Group; and

- resurfacing costs of the expressway are recognised as incurred based on the accounting treatment that the infrastructures under the Expressway Concession were regarded as property, plant and equipment of the Group.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Upon the adoption of HK(IFRIC)-Int 12:

- the infrastructures under the Expressway Concession were no longer recognised as property, plant and equipment of the Group, and instead, the Expressway Concession was accounted for as an intangible asset (operating concession) and was amortised on the straight-line basis over the period of the operating concession granted to the Group;

- the Water Treatment and Purification Concession was accounted for as a financial asset (receivable under service concession arrangement); and

- resurfacing costs of the expressway are provided over the periods of the operating concessions granted as the Group's resurfacing obligations under the Expressway Concession arise as a consequence of use of the expressway.

HK(IFRIC)-Int 12 has been applied by the Group retrospectively and comparative amounts have been restated. The effect of the changes in these accounting policies on the consolidated financial statements for the year ended 31 December 2007 is summarised below:

Effects on the consolidated income statement for the year ended 31 December 2007

	HK$'000
Decrease in turnover	(324,341)
Decrease in depreciation	48,759
Decrease in amortisation of operating concessions	33,006
Increase in provision for major overhauls	(31,000)
Decrease in other cost of sales	295,223
Net decrease in cost of sales	345,988
Increase in finance costs	(8,713)
Decrease in tax	27,098
Net increase in profit for the year and profit from continuing operations	40,032
Attributable to:	
Shareholders of the Company	39,832
Minority interest	200
	40,032
Increase in basic earnings per share for profit for the year and profit from continuing operations	HK$0.05
Increase in diluted earnings per share:	
– For profit for the year	HK$0.04
– For profit from continuing operations	HK$0.05

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Effects on consolidated balance sheets

	31 December 2007 HK$'000	1 January 2007 HK$'000
Decrease in property, plant and equipment	(1,247,323)	(1,158,651)
Decrease in operating concessions	(1,300)	(33,384)
Increase in deferred tax assets	78,843	47,596
Decrease in prepayments, deposits and other receivables	–	(404)
Increase in receivables under service concession arrangements	1,815,824	1,731,957
Decrease in trade and bills receivables	(302,996)	(283,294)
Decrease in other payables and accruals	6,476	35,303
Increase in provision for major overhauls	(95,955)	(139,978)
Increase in deferred tax liabilities	(126,115)	(118,262)
Net increase in net assets	127,454	80,883
Decrease in capital reserve	(585)	(585)
Increase in exchange fluctuation reserve	12,108	4,611
Increase in retained profits	130,312	90,480
Decrease in minority interests	(14,381)	(13,623)
Net increase in total equity	127,454	80,883

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* [2]
HKFRS 8	*Operating Segments* [2]
HKAS 1 (Revised)	*Presentation of Financial Statements* [2]
HKAS 23 (Revised)	*Borrowing Costs* [2]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [2]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* [3]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [2]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* [5]

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for transfers of assets received on or after 1 July 2009

Further information about those changes that are relevant to the Group and are expected to significantly affect the Group is as follows:

The HKAS 27 Amendment requires all dividends from subsidiaries, jointly-controlled entities or associates to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised HKAS 27 changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*. The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

The amendments to HKFRS 7 are made to enhance disclosures about fair value measurement and liquidity risk, and do not have any financial impact on the Group.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in the income statement, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in the income statement. Other consequential amendments were made to HKAS 10 *Events after the Balance Sheet Date* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 18 applies to all entities that receive from customers an item of property, plant and equipment or cash for the acquisition or construction of such items. These assets must then be used to connect the customer to a network or to provide ongoing access to a supply of goods or services, or both. The interpretation is applied prospectively. The Group is in the process of making an assessment of the impact of this interpretation upon initial application on the Group's piped gas operation.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Apart from the above, the HKICPA has issued its first *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, the amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

* *Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.*

Those amendments that are expected to have a significant impact on the Group are as follows:

(a) HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest.

(b) HKAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is calculated as the higher of an asset's fair value less costs to sell and its value in use.

In addition, items held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventories when rental ceases and they are held for sale.

(c) HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

(d) HKAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

(e) HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any accumulated impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group/Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled 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.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising on the acquisition of associates, which was not previously eliminated against the consolidated capital reserve, is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any accumulated impairment losses.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Group or its holding companies;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2004

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed 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 testing for 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 forms part of a cash-generating unit (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 disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill previously eliminated against the consolidated capital reserve

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 *Business Combinations* in 2001, goodwill arising on acquisition was eliminated against the consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated capital reserve and is transferred to retained profits as a movement in reserves when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, jointly-controlled entities and associates, after reassessment, is recognised immediately in the consolidated income statement.

The excess for jointly-controlled entities and associates is included in the Group's share of the jointly-controlled entities' and associates' profits or losses in the period in which the investments are acquired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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:

Buildings	10 to 50 years
Leasehold improvements	Over the lease terms or 5 to 10 years, whichever is shorter
Gas pipelines	25 years
Gas metres	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 each balance sheet date.

An item of property, plant and equipment 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 the income statement 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, 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 or investment properties when completed and ready for use.

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 balance sheet date.

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

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement 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 income statement in the period the change in use takes place.

(b) any resulting increase in the carrying amount is credited to the income statement, 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 years; 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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor, are charged to the income statement 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. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the buildings as a finance lease in property, plant and equipment.

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under 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 specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for "Investments and other financial assets" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Service concession arrangements (continued)

Consideration given by the grantor (continued)

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible (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 and costs relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below.

Contractual obligations to restore the infrastructure 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 upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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 balance sheet date.

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 the income statement 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 an expressway and a toll road, sewage and water treatment plants, and to sell entrance tickets in a scenic area, 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 10 years.

Research and development costs

All research costs are charged to the income statement 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. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Computer software

Computer software 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 2 to 10 years.

Impairment of non-financial assets other than goodwill

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 and amounts due from contract customers), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at each reporting date as to whether there is any 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 the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified 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, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale investments are measured at fair value, with gains or losses recognised as movements in the investment revaluation reserve, until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in the investment revaluation reserve is included in the income statement. Interest and dividends earned are reported as interest income and investment income, respectively, and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment of available-for-sale investments" and are transferred from the investment revaluation reserve.

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

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, 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 (excluding future credit losses that have not been incurred) 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. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and bills receivables and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale investments carried at fair value

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 the income statement, is transferred from the investment revaluation reserve to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. The Group generally refers to 5% or more as significant and regards a period of greater than three months as prolonged. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Available-for-sale investments carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument 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 recognised in the income statement and are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, amounts due to contract customers, other payables and accruals, bank and other borrowings and other long term liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. 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 balance sheet date and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

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

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

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

Derecognition of financial liabilities

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 the income statement.

Treasury shares

Repurchase of the Company's own ordinary shares is recognised directly in equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Company's own ordinary shares.

Upon repurchase and cancellation of the Company's own ordinary shares, the issued share capital of the Company is reduced by the nominal value thereof and the premium paid on repurchase of the Company's own ordinary shares is charged to the retained profits of the Company. Pursuant to Section 49H of the Hong Kong Companies Ordinance, an amount equivalent to nominal value of the shares cancelled upon repurchase is transferred from the retained profits of the Company to the capital redemption reserve of the Company.

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 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 the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts 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 cost plus construction contracts is recognised on the percentage-of-completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimate total cost of the relevant contract.

Revenue from the construction of a sewage treatment plant under the terms of a service concession agreement 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 similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

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

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

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

Contracts for services

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services (continued)

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 cash flow statement, 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 balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date 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 in "Finance costs" in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- where the deferred tax liability arises from goodwill or 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 taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, 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:

- where 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 and associates and interests in 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 each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement 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 the income statement by way of a reduced depreciation/amortisation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

(b) toll revenue, on an accrual basis;

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

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

(e) from licensing of technical know-how, when the related technique has been delivered and accepted;

(f) entrance fee income, when the entrance tickets are sold;

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

(h) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(i) from the trading of listed or unlisted investments, on the trade dates; and

(j) other investment income, when the right to receive payment has been established.

Share-based payment transactions

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 payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees 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, further details of which are given in note 35 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognised in the income statement, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date 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 the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance 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. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, 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. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

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 made are based on a percentage of the eligible employees' salaries and are charged to the income statement 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 benefits 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 income statement 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 income statement so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. These obligations are measured at the present value of the estimated future cash outflows using the interest rates of the PRC government bonds which have terms similar to those of related liabilities. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the value of defined benefit obligations and the fair value of plan assets, if any, at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

Borrowing costs

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.

Other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollar, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. 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 determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in the exchange fluctuation reserve relating to that particular foreign operation is recognised in the income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, 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, estimations 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:

Estimate of gas consumption

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

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

The actual consumption could deviate from those estimates.

Determination of fair value of contract revenue in respect of the construction services rendered

Revenue from the construction service under the terms of a service concession agreement is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in 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.

The construction margin is determined from the gross profit margins of market comparables by identifying relevant peer groups, which are listed in various stock exchanges in the world. Criteria for selection included:

(i) the peer firm must be doing business on the construction of infrastructure, majoring in the public services in the PRC to which the Group's service concession arrangements relate; and

(ii) information of the peer firm must be available and from a reliable source.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Percentage of completion of construction work and service contracts

The Group recognises revenue for construction and service contracts according to the percentage of completion of the individual contract of construction or service work. The Group's management estimates the percentage of completion of construction and service work based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction and service contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract and service contract as the contract progresses.

Classification between operating concessions and receivables under service concession arrangements

As explained in note 2.4 to the financial statements, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset under a service concession arrangement, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, expected future sewage treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated balance sheet as at 31 December 2008, were HK$1,813,494,000 (2007: HK$1,431,907,000, as restated) and HK$3,202,103,000 (2007: HK$1,815,824,000, as restated), respectively, details of which are set out in note 20 to the financial statements.

Useful lives and residual values of property, plant and equipment

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use 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 in aggregate carried as assets in the consolidated balance sheet as at 31 December 2008 was HK$8,593,381,000 (2007: HK$6,932,729,000, as restated), details of which are set out in notes 19 and 24 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

The carrying amounts of items of property, plant and equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated balance sheet as at 31 December 2008 were HK$17,988,216,000 (2007: HK$15,813,634,000, as restated) and HK$1,828,463,000 (2007: HK$1,443,941,000, as restated), respectively, details of which are set out in notes 16, 20 and 21 to the financial statements, respectively.

Impairment of available-for-sale investments

The Group follows the guidance of HKAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and the extent to which the fair value of an investment is less than its cost; and the financial health of and the short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows. The carrying amount of available-for-sale investments carried as assets in the consolidated balance sheet as at 31 December 2008 was HK$309,789,000 (2007: HK$290,424,000), details of which are set out in note 25 to the financial statements.

Impairment of trade and bills receivables and other receivables

The Group's management determines the provision for impairment of trade and bills receivables and other receivables. This estimate is based on the evaluation of collectibility and ageing analysis of accounts and on management's estimation in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been changed. The carrying amounts of trade and bills receivables and other receivables carried as assets in the consolidated balance sheet as at 31 December 2008 were HK$1,056,026,000 (2007: HK$817,443,000, as restated) and HK$1,543,604,000 (2007: HK$1,560,611,000), respectively, details of which are set out in notes 29 and 30 to the financial statements.

Provision against obsolete and slow-moving inventories

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

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories carried as assets in the consolidated balance sheet as at 31 December 2008 was HK$3,067,436,000 (2007: HK$2,342,259,000), details of which are set out in note 27 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Defined benefit plans

The present value of the retirement benefits obligations under the various defined benefit plans of the Group depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligations. Key assumptions for the obligations are based in part on the current market conditions. The carrying amount of the obligations carried as liabilities in the consolidated balance sheet under defined benefit plans as at 31 December 2008 was HK$390,410,000 (2007: HK$224,076,000), details of which are disclosed in note 39 to the financial statements.

Provision for major overhauls of infrastructures to a specified level of serviceability

The Group has contractual obligations which it must fulfill as a condition of its licence and 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 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 balance sheet date. The estimation of the expenditure requires the Group to estimate the expected future cash outlays on major overhauls of the infrastructures over the service concession periods and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the provision for major overhauls carried as a liability in the consolidated balance sheet as at 31 December 2008 was HK$121,438,000 (2007: HK$95,955,000, as restated), details of which are set out in note 40 to the financial statements.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas. The Group carefully evaluates tax implications of transactions in accordance with the prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of income tax payable carried as liabilities in the consolidated balance sheet as at 31 December 2008 was HK$457,983,000 (2007: HK$528,064,000).

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried in the consolidated balance sheet as at 31 December 2008 were HK$484,772,000 (2007: HK$385,657,000, as restated) and HK$279,859,000 (2007: HK$175,469,000, as restated), respectively, details of which are set out in note 42 to the financial statements.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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. Particulars of the business segments are summarised as follows:

(a) the piped gas operation segment engages in the distribution and sale of piped natural gas, the provision of 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 repair and maintenance services;

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

(c) the expressway and toll road operations segment engages in the operation of the Capital Airport Expressway, which connects the Capital Airport and the city centre of Beijing, and the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC;

(d) the sewage and water treatment operations segment engages in the construction of sewage and water treatment plants, sewage treatment, water treatment and distribution, and the provision of consultancy services and the licensing of technical know-how that are related to sewage treatment; and

(e) the corporate and others segment comprises the construction of broadband infrastructure, the sale of software, the provision of Internet services and IT technical support and consultation services, tourism operation (discontinued during the year, as further detailed in note 46(a) to the financial statements), the production, distribution and sale of wine (discontinued during the year, as further detailed in note 46(a) to the financial statements), restaurant operation (discontinued in the prior year), property investment and corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007:

Group

Year ended 31 December 2008

	Continuing operations						
	Piped gas operation HK$'000	Brewery operation HK$'000	Expressway and toll road operations HK$'000	Sewage and water treatment operations HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment revenue:							
Sales to external customers	10,151,625	8,473,045	475,318	570,615	33,644	–	19,704,247
Other income and gains, net	51,413	186,715	20,344	8,954	42,260	–	309,686
Total	10,203,038	8,659,760	495,662	579,569	75,904	–	20,013,933
Segment results	724,258	814,043	187,973	306,757	(9,983)	–	2,023,048
Unallocated income and gains, net							676,035
Unallocated expenses							(2,247)
Profit from operating activities							2,696,836
Finance costs							(407,068)
Share of profits and losses of:							
Jointly-controlled entities	913,439	–	–	(811)	–	–	912,628
Associates	–	(1,091)	205	–	(145,925)	–	(146,811)
Profit before tax							3,055,585
Tax							(359,297)
Profit for the year							2,696,288

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

Year ended 31 December 2008 (continued)

	Continuing operations						
	Piped gas operation HK$'000	Brewery operation HK$'000	Expressway and toll road operations HK$'000	Sewage and water treatment operations HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment assets	4,514,674	12,950,620	1,780,815	5,753,235	25,154,372	(11,210,638)	38,943,078
Share of net assets of:							
Jointly-controlled entities	4,443,004	–	–	45,642	–	–	4,488,646
Associates	–	10,148	–	25,313	702,077	–	737,538
	8,957,678	12,960,768	1,780,815	5,824,190	25,856,449	(11,210,638)	44,169,262
Unallocated assets							7,527,480
Total assets							51,696,742
Segment liabilities	7,804,781	3,872,536	253,200	1,029,518	5,315,101	(11,210,638)	7,064,498
Unallocated liabilities							8,321,774
Total liabilities							15,386,272
Other segment information:							
Depreciation	531,035	655,417	14,625	2,373	4,657	–	1,208,107
Amortisation of operating concessions	–	–	84,424	5,798	–	–	90,222
Amortisation of other intangible assets	23,420	–	–	79	10	–	23,509
Impairment of/(reversal of impairment)/provision against segment assets, net	75,503	1,478	52,854	46,717	(29,688)	–	146,864
Fair value loss on investment properties	–	–	–	–	1,750	–	1,750
Provision for major overhauls	–	–	37,078	7,285	–	–	44,363
Capital expenditure	1,524,336	985,261	8,665	5,024	76,032	–	2,599,318

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

Year ended 31 December 2007

	Continuing operations						Discontinued operations				
	Piped gas operation HK$'000	Brewery operation HK$'000	Expressway and toll road operations HK$'000 (Restated)	Sewage and water treatment operations HK$'000 (Restated)	Corporate and others HK$'000	Total HK$'000 (Restated)	Retail operation HK$'000	Others HK$'000	Total HK$'000	Eliminations HK$'000	Consolidated HK$'000 (Restated)
Segment revenue:											
Sales to external customers	3,253,919	6,738,239	608,584	227,039	147,734	10,975,515	–	–	–	–	10,975,515
Other income and gains, net	27,021	94,496	2,188	2,838	92,819	219,362	–	–	–	–	219,362
Total	3,280,940	6,832,735	610,772	229,877	240,553	11,194,877	–	–	–	–	11,194,877
Segment results	263,564	684,336	392,077	221,725	(44,155)	1,517,547	–	–	–		1,517,547
Unallocated income and gains, net						313,283			80,827		394,110
Profit from operating activities						1,830,830			80,827		1,911,657
Finance costs						(243,275)			–		(243,275)
Share of profits and losses of:											
Jointly-controlled entities	178,243	–	–	–	–	178,243			–		178,243
Associates	–	(280)	–	–	261,289	261,009			–		261,009
Profit before tax						2,026,807			80,827		2,107,634
Tax						(263,872)			–		(263,872)
Profit for the year						1,762,935			80,827		1,843,762

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

Year ended 31 December 2007 (continued)

	Continuing operations						Discontinued operations				
	Piped gas operation HK$'000	Brewery operation HK$'000	Expressway and toll road operations HK$'000 (Restated)	Sewage and water treatment operations HK$'000 (Restated)	Corporate and others HK$'000	Total HK$'000 (Restated)	Retail operation HK$'000	Others HK$'000	Total HK$'000	Eliminations HK$'000	Consolidated HK$'000 (Restated)
Segment assets	9,734,892	10,724,716	1,551,658	1,536,717	13,659,548	37,207,531	–	–	–	(5,216,151)	31,991,380
Share of net assets of:											
Jointly-controlled entities	3,250,906	–	–	–	29,427	3,280,333	–	–	–	–	3,280,333
Associates	–	10,799	3,689	–	817,803	832,291	–	–	–	–	832,291
	12,985,798	10,735,515	1,555,347	1,536,717	14,506,778	41,320,155	–	–	–	(5,216,151)	36,104,004
Unallocated assets						8,919,615				–	8,919,615
Total assets						50,239,770				(5,216,151)	45,023,619
Segment liabilities	3,783,020	3,191,863	388,420	31,286	4,653,658	12,048,247	–	–	–	(5,216,151)	6,832,096
Unallocated liabilities						6,627,133				–	6,627,133
Total liabilities						18,675,380				(5,216,151)	13,459,229
Other segment information:											
Depreciation	225,468	579,384	23,675	1,138	15,375	845,040	–	–	–	–	845,040
Amortisation of operating concessions	–	–	77,368	–	1,538	78,906	–	–	–	–	78,906
Amortisation of other intangible assets	1,053	–	–	–	–	1,053	–	–	–	–	1,053
Impairment/(reversal of impairment) of segment assets, net:	–	5,614	3,616	–	(54,804)	(45,574)	–	–	–	–	(45,574)
Provision for major overhauls	–	–	31,000	–	–	31,000	–	–	–	–	31,000
Capital expenditure	418,579	910,183	41,439	36	10,161	1,380,398	–	–	–	–	1,380,398

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue, and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007:

Group

	Hong Kong		Mainland China		Eliminations		Consolidated	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000 (Restated)	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000 (Restated)
Segment revenue:								
Sales to external customers	275	3,089	19,703,972	10,972,426	–	–	19,704,247	10,975,515
Other income and gains, net	46,577	67,249	263,109	152,113	–	–	309,686	219,362
Total	46,852	70,338	19,967,081	11,124,539	–	–	20,013,933	11,194,877
Other segment information:								
Segment assets	24,664,239	11,739,822	25,489,477	25,467,709	(11,210,638)	(5,216,151)	38,943,078	31,991,380
Share of net assets of:								
Jointly-controlled entities	–	23,454	4,488,646	3,256,879	–	–	4,488,646	3,280,333
Associates	313,292	458,493	424,246	373,798	–	–	737,538	832,291
	24,977,531	12,221,769	30,402,369	29,098,386	(11,210,638)	(5,216,151)	44,169,262	36,104,004
Unallocated assets							7,527,480	8,919,615
Total assets							51,696,742	45,023,619
Capital expenditure	4,776	–	2,594,542	1,380,398	–	–	2,599,318	1,380,398

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents: (1) the aggregate of the invoiced value of goods sold, net of value-added tax, consumption tax and government surcharges, and after allowances for returns and trade discounts; (2) the aggregate of toll revenue, entrance fees for scenic areas and licence fees, net of business tax and government surcharges; (3) an appropriate proportion of contract revenue of construction contracts and service contracts, net of value-added tax, business tax and government surcharges; and (4) the imputed interest income on receivables under service concession arrangements.

An analysis of the Group's revenue, other income and gains, net, is as follows:

	2008 HK$'000	2007 HK$'000 (Restated)
Revenue		
Piped gas operation	10,151,625	3,253,919
Brewery operation	8,473,045	6,738,239
Expressway and toll road operations	475,318	608,584
Sewage and water treatment operations[δ]	570,615	227,039
Corporate and others	33,644	147,734
	19,704,247	10,975,515
Attributable to continuing operations reported in the consolidated income statement	19,704,247	10,975,515
Other income		
Bank interest income	106,628	87,053
Imputed interest income on interest-free other receivables	9,606	11,836
Rental income[#]	16,320	19,319
Service income	19,067	6,246
Investment income	1,370	12,086
Government grants*	202,030	35,542
Sale of raw materials	2,133	4,153
Others	44,228	65,061
	401,382	241,296

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

	2008 HK$'000	2007 HK$'000 (Restated)
Gains, net		
Fair value gain on investment properties, net *(note 17)*	–	55,749
Excess over the cost of acquisition of subsidiaries and minority interests	8,669	341
Gain on disposal of interests in subsidiaries *(note 46)* †	94,707	80,827
Gain on deemed disposal of interest in an associate Ω	2,084	61,370
Gain on disposal of available-for-sale investments carried at cost	10,456	111,230
Gain on disposal of financial assets at fair value through profit or loss, net	393	18,619
Fair value gain on financial assets at fair value through profit or loss, net	–	11,089
Foreign exchange differences, net	17,239	32,951
	133,548	372,176
Other income and gains, net	534,930	613,472
Attributable to:		
Continuing operations reported in the consolidated income statement	534,930	532,645
Discontinued operations *(note 12(a))*	–	80,827
	534,930	613,472

δ Imputed interest income on receivables under service concession arrangements of HK$213,910,000 (2007: HK$224,450,000, as restated) is included in the revenue derived from "Sewage and water treatment operations" disclosed above.

The Group leased certain areas of buildings, which form part of the operating assets transferred to the Group by the grantors in respect of the Group's sewage and water treatment operations, to third parties under operating lease arrangements and accordingly, earned rental income therefrom for the year. Further details of the operating lease arrangements are set out in note 49(a) to the financial statements.

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

† The gain on disposal of interests in subsidiaries during the year ended 31 December 2008 was attributable to the disposal of the Group's 100% equity interest in Everbest Islands Limited ("Everbest"), 51% equity interest in each of 北京順興葡萄酒有限公司("Shun Xing") and 北京豐收葡萄酒有限公司 ("Feng Shou"), 100% equity interest in Helken Industries Limited ("Helken") and 100% equity interest in Shanghai Classic Limited. Further details of the disposal of subsidiaries are set out in note 46 to the financial statements.

The amount recognised during the year ended 31 December 2007 was attributable to the disposal of the Group's entire 50.1% equity interest in Beijing Wangfujing Department Store (Group) Co., Ltd. ("Wangfujing"), details of which are set out in note 12 to the financial statements.

Ω The gain on deemed disposal of interest in an associate recognised during the years ended 31 December 2008 and 2007 arose from the dilution of the Group's effective equity interest in Beijing Development (Hong Kong) Limited ("Beijing Development") upon the issuance of new ordinary shares by Beijing Development during these years.

6. GAIN ON DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

The gain on deemed disposal of interest in a subsidiary recognised during the year arose from the dilution of the Group's equity interest in Beijing Enterprises Water Group Limited ("BE Water", formerly known as Shang Hua Holdings Limited), an indirectly-held subsidiary of the Company acquired by the Group during the year, from 74.78% to 64.32% upon the issuance of new ordinary shares by BE Water during the year. Further details of the acquisition of BE Water are included in 45(a) to the financial statements.

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Cost of inventories sold		14,496,851	7,416,255
Cost of services provided		612,252	315,596
Depreciation	*16*	1,208,107	845,040
Amortisation of prepaid land premiums	*18*	26,652	13,751
Amortisation of operating concessions*	*20*	90,222	78,906
Amortisation of patents*	*21*	26	–
Amortisation of computer software**	*21*	23,483	1,053
Research and development expenditure		4,295	2,834
Impairment of items of property, plant and equipment***	*16*	36,231	–
Loss on disposal of items of property, plant and equipment, net		2,234	21,333
Fair value (gain)/loss on investment properties	*17*	1,750	(55,749)
Fair value (gain)/loss on financial assets at fair value through profit or loss, net		2,247	(11,089)
Minimum lease payments under operating leases:			
Land and buildings		66,721	29,771
Plant and machinery		1,564	294
		68,285	30,065

7. PROFIT FROM OPERATING ACTIVITIES (continued)

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Auditors' remuneration		8,400	10,747
Employee benefit expense (including directors' remuneration (*note 9*)):			
Salaries, allowances and benefits in kind		1,721,547	1,067,718
Equity-settled share option expense		–	4,271
Net pension scheme contributions		171,598	109,240
Cost of defined benefit plans**	*39(a)*	150,771	10,885
		2,043,916	1,192,114
Provision against inventories, net		11,121	–
Impairment of receivables under service concession arrangements	*20(d)*	46,511	–
Impairment of trade and bills receivables, net	*29(b)*	26,559	1,588
Net impairment/(reversal of impairment) of other receivables due from:	*30(b)*		
Related parties		52,854	(36,867)
Others		(26,412)	89,705
		26,442	52,838
Investment income:			
Listed		(1,370)	–
Unlisted		–	(12,086)
		(1,370)	(12,086)
Net rental income		(14,709)	(20,935)

* The amortisations of operating concessions and patents for the year are included in "Cost of sales" on the face of the consolidated income statement.

** The amortisation of computer software and the cost of defined benefit plans for the year are included in "Administrative expenses" on the face of the consolidated income statement.

*** The impairment of items of property, plant and equipment for the year is included in "Other operating expenses, net" on the face of the consolidated income statement.

8. FINANCE COSTS

	Group	
	2008	2007
	HK$'000	HK$'000
		(Restated)
Interest on bank loans, overdrafts and other loans wholly repayable within five years	370,398	186,856
Interest on other loans	1,415	6,432
Imputed interest on convertible bonds *(note 38)*	21,294	3
Imputed interest on an interest-free amount due to the immediate holding company with an extended credit period of one year *(note 45)*	10,780	34,708
Imputed interest on an interest-free other loan from a minority shareholder	7,410	6,563
Total interest expense	411,297	234,562
Increase in discounted amounts of provision for major overhauls arising from the passage of time *(note 40)*	1,022	8,713
Total finance costs	412,319	243,275
Less: Interest included in cost of construction contracts	(5,251)	–
	407,068	243,275

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Fees:		
Executive directors	1,650	1,760
Independent non-executive directors	678	690
	2,328	2,450
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	19,344	14,703
Equity-settled share option expense	–	2,321
Pension scheme contributions	19	550
	19,363	17,574
	21,691	20,024

During the year ended 31 December 2006, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair values of such options, which have been recognised in the income statements over the relevant vesting periods, were determined as at the respective dates of grant and the amounts included in the financial statements for the current year are included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

	2008 HK$'000	2007 HK$'000
Mr. Lau Hon Chuen, Ambrose	24	120
Dr. Lee Tung Hai, Leo	30	150
Mr. Wang Xian Zhang	30	150
Mr. Wu Jiesi	180	150
Mr. Robert A. Theleen	174	120
Mr. Lam Hoi Ham	150	–
Mr. Fu Ting Mei	90	–
	678	690

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2008					
Mr. Yi Xiqun	150	3,225	–	–	3,375
Mr. Zhang Honghai	150	2,611	–	–	2,761
Mr. Li Fucheng	300	–	–	–	300
Mr. Bai Jinrong	150	2,913	–	–	3,063
Mr. Zhou Si	150	2,576	–	–	2,726
Mr. E Meng	120	2,152	–	–	2,272
Mr. Liu Kai	120	2,152	–	–	2,272
Mr. Guo Pujin	150	–	–	–	150
Mr. Lei Zhengang	120	–	–	–	120
Mr. Jiang Xinhao	120	2,152	–	–	2,272
Mr. Tam Chun Fai	120	1,563	–	19	1,702
	1,650	19,344	–	19	21,013
Year ended 31 December 2007					
Mr. Yi Xiqun	150	2,684	398	97	3,329
Mr. Zhang Honghai	150	2,013	275	87	2,525
Mr. Li Fucheng	300	328	275	–	903
Mr. Bai Jinrong	150	2,341	275	117	2,883
Mr. Zhou Si	150	–	183	–	333
Mr. E Meng	120	1,676	183	75	2,054
Mr. Liu Kai	120	1,676	183	75	2,054
Mr. Guo Pujin	300	–	183	–	483
Mr. Zhao Changshan	–	–	183	–	183
Mr. Lei Zhengang	120	–	183	–	303
Mr. Jiang Xinhao	100	2,322	–	75	2,497
Mr. Tam Chun Fai	100	1,663	–	24	1,787
	1,760	14,703	2,321	550	19,334

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees during the year are directors of the Company, details of their remuneration for the year are set out in note 9 to the financial statements.

11. TAX

No provision for Hong Kong profits tax has been made during the year ended 31 December 2008 as the Group did not generate any assessable profits in Hong Kong. Hong Kong profits tax for the year ended 31 December 2007 had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during that year.

The income tax provision in respect of operations in Mainland China and overseas is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. During the 5th session of the 10th National People's Congress of the PRC, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New PRC CIT Law") was approved and became effective from 1 January 2008. The New PRC CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries enjoy income tax exemptions and reductions.

	Group	
	2008 HK$'000	2007 HK$'000 (Restated)
Current – PRC:		
Hong Kong	–	612
Mainland China	415,952	277,741
Overprovision in prior years	(57,959)	–
Deferred *(note 42)*	1,304	(14,481)
Total tax charge for the year	359,297	263,872

11. TAX (continued)

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

Group – 2008

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	371,851		2,683,734		3,055,585	
Tax at the statutory tax rate	61,363	16.5	670,933	25.0	732,296	24.0
Lower tax rate for specific provinces or enacted by local authority	–	–	(98,741)	(3.7)	(98,741)	(3.2)
Adjustments in respect of current tax of previous periods	(76)	–	(57,883)	(2.1)	(57,959)	(1.9)
Profits and losses attributable to jointly-controlled entities and associates	29,091	7.8	(234,183)	(8.7)	(205,092)	(6.7)
Income not subject to tax	(129,026)	(34.7)	(48,044)	(1.8)	(177,070)	(5.8)
Expenses not deductible for tax	11,936	3.2	46,915	1.7	58,851	1.9
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	–	–	29,542	1.1	29,542	1.0
Tax losses not recognised as deferred tax assets	26,636	7.2	58,971	2.2	85,607	2.8
Tax losses utilised from previous periods	–	–	(8,137)	(0.3)	(8,137)	(0.3)
Tax charge/(credit) at the Group's effective rate	(76)	–	359,373	13.4	359,297	11.8

Group – 2007

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
			(Restated)	(Restated)	(Restated)	(Restated)
Profit before tax	245,033		1,862,601		2,107,634	
Tax at the statutory tax rate	42,880	17.5	614,658	33.0	657,538	31.2
Lower tax rate for specific provinces or enacted by local authority	–	–	(250,938)	(13.5)	(250,938)	(11.9)
Effect of opening deferred tax of increase tax rate	–	–	(11,188)	(0.6)	(11,188)	(0.5)
Profits and losses attributable to jointly-controlled entities and associates	(23,312)	(9.5)	(75,577)	(4.1)	(98,889)	(4.7)
Income not subject to tax	(69,124)	(28.2)	(82,191)	(4.4)	(151,315)	(7.2)
Expenses not deductible for tax	44,020	17.9	15,228	0.8	59,248	2.8
Tax losses not recognised as deferred tax assets	6,229	2.5	53,917	2.9	60,146	2.8
Tax losses utilised from previous periods	(81)	–	(649)	–	(730)	–
Tax charge at the Group's effective rate	612	0.2	263,260	14.1	263,872	12.5

12. DISCONTINUED OPERATIONS

The Group's discontinued operations for the year ended 31 December 2007 represented the retail and property construction and development operations operated by Wangfujing.

Pursuant to a share transfer agreement and two supplementary agreements thereto dated 31 March 2006, 1 June 2006 and 2 July 2006, respectively, entered into between two wholly-owned subsidiaries of the Company, namely 北京市京聯發投資管理中心 ("Jing Lian Fa") and Beijing Enterprises Holdings Investment Management Co., Ltd. ("Investment Management"), Beijing Enterprises Group and 北京北控商業投資有限責任公司 ("Beikong Commercial", a former subsidiary of Beijing Enterprises Group), Jing Lian Fa and Investment Management sold their respective entire 49.52% and 0.61% equity interests in Wangfujing (collectively the "Wangfujing Sold Interests") to Beikong Commercial for cash considerations of RMB978,000,000 and RMB22,000,000, respectively, during the year ended 31 December 2006.

The transaction was completed on 12 December 2006 and the Group no longer holds any interests in Wangfujing since then.

The Group's retail operation, being a major separate business segment of the Group, and the Group's property construction and development operation were solely undertaken by Wangfujing. Accordingly, the retail and property construction and development operations of the Group were discontinued upon the completion of the disposal transactions.

Subsequent to the disposal transaction, Beikong Commercial disposed of its entire equity interest in Wangfujing to a third party independent to the Group (the "New Wangfujing Shareholder").

On 18 April 2007, Wangfujing declared a final dividend in respect of the year ended 31 December 2006 of which RMB78,806,000 (equivalent to HK$80,827,000) was received by the New Wangfujing Shareholder in respect of the Wangfujing Sold Interests. Pursuant to an agreement entered into between the Company and the New Wangfujing Shareholder on 30 April 2007, the New Wangfujing Shareholder agreed to return the aforesaid dividend to the Company for nil consideration. The amount was accounted for as additional proceeds from the disposal of Wangfujing by the Group and was recognised as an income under discontinued operations during the year ended 31 December 2007.

Notes:

(a) The results of the discontinued operations dealt with in the consolidated financial statements for the year ended 31 December 2007 represented an additional gain on disposal of the discontinued operations of HK$80,827,000 recognised by the Group as a result of the New Wangfujing Shareholder's agreement to return certain dividend it received from Wangfujing in 2007 as further described above.

(b) The net cash flows of the discontinued operations dealt with in the consolidated financial statements for the year ended 31 December 2007 is a net cash inflow from investing activities of HK$72,622,000.

12. DISCONTINUED OPERATIONS (continued)

Notes: (continued)

(c) Earnings per share from the discontinued operations

	2007
Basic from the discontinued operations	HK$0.09
Diluted from the discontinued operations	HK$0.09

The calculation of basic and diluted earnings per share amounts from the discontinued operations for the year ended 31 December 2007 is based on the following data:

	2007
Profit for the year attributable to shareholders of the Company from the discontinued operations	HK$80,827,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 15)*	859,604,521
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation *(note 15)*	861,408,600

13. PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2008 includes a profit of HK$350,671,000 (2007: HK$700,173,000) which has been dealt with in the financial statements of the Company (note 36(b)).

14. DIVIDENDS

	2008 HK$'000	2007 HK$'000
Interim – HK$0.20 (2007: HK$0.10) per ordinary share	227,479*	113,853
Interim special – Nil (2007: HK$0.10) per ordinary share	–	113,853
	227,479	227,706
Proposed final – HK$0.40 (2007: HK$0.30) per ordinary share	454,800	341,682
Proposed final special – HK$0.05 (2007: HK$0.10) per ordinary share	56,850	113,894
	511,650	455,576
	739,129	683,282

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

* The interim dividend for the six months ended 30 June 2008 disclosed in the Company's interim report dated 17 September 2008 for that period was HK$227,600,000, which is different from the amount actually paid disclosed above as a result of the repurchase and cancellation of the Company's ordinary shares during the period between 17 September 2008 (the date of approval of the interim condensed financial statements of the Company for the six months ended 30 June 2008) and 3 October 2008 (the date of closure of the register of members).

15. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

The calculation of diluted earnings per share amounts for the year ended 31 December 2008 is based on the profit for the year attributable to shareholders of the Company, adjusted to reflect the effect of the deemed conversion of all dilutive convertible bonds issued by BE Water; and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options of the Company into ordinary shares. The exercise of all outstanding share options of Beijing Development and the conversion of all outstanding convertible bonds of China Information Technology Development ("CIT Development", an associate of Beijing Development) had either an anti-dilutive effect or no diluting effect on the Group's basic earnings per share amounts for the year ended 31 December 2008.

The calculation of diluted earnings per share amounts for the year ended 31 December 2007 was based on the profit for the year attributable to shareholders of the Company, adjusted to reflect the effect of the deemed exercise of all outstanding share options of Beijing Development and deemed conversion of all outstanding convertible bonds issued by CIT Development; and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options of the Company into ordinary shares. The deemed exercise of all outstanding share options of CIT Development and the deemed conversion of all outstanding convertible bonds of Beijing Yanjing Brewery Company Limited ("Yanjing Brewery", an indirectly-owned subsidiary of the Company) did not have a diluting effect on the Group's basic earnings per share amounts for the year ended 31 December 2007.

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

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

	2008 HK$'000	2007 HK$'000 (Restated)
Earnings:		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation		
From continuing operations	2,281,828	1,397,385
From discontinued operations *(note 12(c))*	–	80,827
	2,281,828	1,478,212
Imputed interest expense for the year relating to the liability component of the dilutive convertible bonds of BE Water	21,294	–
Decrease in profit for the year as a result of the dilution of interest in BE Water assuming the exercise of all dilutive convertible bonds issued by BE Water	(145,292)	–
Decrease in share of profit of Beijing Development by the Group assuming the exercise of all outstanding share options of Beijing Development	–	(1,568)
Decrease in share of profit of Beijing Development as a result of the dilution of interest in CIT Development assuming the conversion of all outstanding convertible bonds issued by CIT Development	–	(1,481)
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	2,157,830	1,475,163
Attributable to:		
Continuing operations	2,157,830	1,394,336
Discontinued operations *(note 12(c))*	–	80,827
	2,157,830	1,475,163

	2008	2007
Number of ordinary shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,138,028,340	859,604,521
Effect of dilution of share options – weighted average number of ordinary shares	525,258	1,804,079
Weighted average number of ordinary shares used in the diluted earnings per share calculation	1,138,553,598	861,408,600

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Expressway and related structures HK$'000	Buildings HK$'000 *(notes (a) and (b))*	Leasehold improvements HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000 *(note (b))*	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2008										
At 31 December 2007 and 1 January 2008:										
Cost:										
As previously reported		1,498,220	4,614,171	14,735	6,510,856	7,545,582	387,473	371,583	1,312,499	22,255,119
Effect of adopting HK(IFRIC)-Int 12	*2.2*	(1,498,220)	(17,182)	–	–	–	–	–	(48,939)	(1,564,341)
As restated		–	4,596,989	14,735	6,510,856	7,545,582	387,473	371,583	1,263,560	20,690,778
Accumulated depreciation and impairment:										
As previously reported		(308,667)	(834,664)	(10,899)	(253,814)	(3,377,854)	(211,567)	(166,888)	(29,809)	(5,194,162)
Effect of adopting HK(IFRIC)-Int 12	*2.2*	308,667	8,351	–	–	–	–	–	–	317,018
As restated		–	(826,313)	(10,899)	(253,814)	(3,377,854)	(211,567)	(166,888)	(29,809)	(4,877,144)
Net carrying amount, as restated		–	3,770,676	3,836	6,257,042	4,167,728	175,906	204,695	1,233,751	15,813,634
Net carrying amount:										
At 1 January 2008:										
As previously reported		1,189,553	3,779,507	3,836	6,257,042	4,167,728	175,906	204,695	1,282,690	17,060,957
Effect of adopting HK(IFRIC)-Int 12	*2.2*	(1,189,553)	(8,831)	–	–	–	–	–	(48,939)	(1,247,323)
As restated		–	3,770,676	3,836	6,257,042	4,167,728	175,906	204,695	1,233,751	15,813,634
Acquisition of subsidiaries	*45*	–	–	450	–	–	3,644	6,017	–	10,111
Additions		–	83,867	3,257	94,167	207,773	37,892	64,522	2,083,375	2,574,853
Transfer from construction in progress		–	401,011	–	551,079	848,637	11,818	3,207	(1,815,752)	–
Fair value gain on revaluation upon transfer to investment properties	*36(b)*	–	17,561	–	–	–	–	–	–	17,561
Transfer to investment properties	*17*	–	(36,650)	–	–	–	–	–	–	(36,650)
Depreciation provided during the year		–	(141,587)	(710)	(320,380)	(648,818)	(45,152)	(51,460)	–	(1,208,107)
Impairment during the year recognised in the income statement		–	–	–	–	–	–	–	(36,231)	(36,231)
Disposals		–	(20,736)	–	–	(9,827)	(1,175)	(4,176)	(29,002)	(64,916)
Disposal of subsidiaries	*46*	–	(41,640)	(1,091)	–	(32,466)	(6,114)	(4,946)	(1,712)	(87,969)
Exchange realignment		–	236,385	79	399,223	266,293	10,759	12,730	80,461	1,005,930
At 31 December 2008		–	4,268,887	5,821	6,981,131	4,799,320	187,578	230,589	1,514,890	17,988,216
At 31 December 2008:										
Cost		–	5,263,210	15,555	7,575,650	8,874,119	451,717	443,065	1,583,297	24,206,613
Accumulated depreciation and impairment		–	(994,323)	(9,734)	(594,519)	(4,074,799)	(264,139)	(212,476)	(68,407)	(6,218,397)
Net carrying amount		–	4,268,887	5,821	6,981,131	4,799,320	187,578	230,589	1,514,890	17,988,216

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Notes	Expressway and related structures HK$'000	Buildings HK$'000 *(notes (a) and (b))*	Leasehold improvements HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000 *(note (b))*	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2007										
At 1 January 2007:										
Cost:										
As previously reported		1,374,786	3,510,552	13,852	–	5,627,655	302,912	247,615	409,302	11,486,674
Effect of adopting HK(IFRIC)-Int 12	2.2	(1,374,786)	(16,082)	–	–	–	–	–	(16,971)	(1,407,839)
As restated		–	3,494,470	13,852	–	5,627,655	302,912	247,615	392,331	10,078,835
Accumulated depreciation and impairment:										
As previously reported		(241,787)	(665,450)	(8,915)	–	(2,601,418)	(160,645)	(126,577)	–	(3,804,792)
Effect of adopting HK(IFRIC)-Int 12	2.2	241,787	7,401	–	–	–	–	–	–	249,188
As restated		–	(658,049)	(8,915)	–	(2,601,418)	(160,645)	(126,577)	–	(3,555,604)
Net carrying amount, as restated		–	2,836,421	4,937	–	3,026,237	142,267	121,038	392,331	6,523,231
Net carrying amount:										
At 1 January 2007:										
As previously reported		1,132,999	2,845,102	4,937	–	3,026,237	142,267	121,038	409,302	7,681,882
Effect of adopting HK(IFRIC)-Int 12	2.2	(1,132,999)	(8,681)	–	–	–	–	–	(16,971)	(1,158,651)
As restated		–	2,836,421	4,937	–	3,026,237	142,267	121,038	392,331	6,523,231
Acquisition of subsidiaries	45	–	593,912	–	5,663,990	851,661	35,078	74,383	934,911	8,153,935
Additions, as restated		–	26,580	156	19,145	192,321	30,277	31,345	1,078,306	1,378,130
Transfer from construction in progress, as restated		–	331,151	–	454,394	432,015	835	–	(1,218,395)	–
Depreciation provided during the year, as restated		–	(116,554)	(1,322)	(124,708)	(534,445)	(37,751)	(30,260)	–	(845,040)
Disposals		–	(119,618)	(113)	–	(43,493)	(5,408)	(2,966)	(10,225)	(181,823)
Exchange realignment, as restated		–	218,784	178	244,221	243,432	10,608	11,155	56,823	785,201
At 31 December 2007, as restated		–	3,770,676	3,836	6,257,042	4,167,728	175,906	204,695	1,233,751	15,813,634

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2008					
At 31 December 2007 and 1 January 2008:					
Cost	23,502	5,196	5,577	2,056	36,331
Accumulated depreciation	(3,881)	(3,881)	(5,272)	(1,836)	(14,870)
Net carrying amount	19,621	1,315	305	220	21,461
Net carrying amount:					
At 1 January 2008	19,621	1,315	305	220	21,461
Additions	–	3,231	–	1,532	4,763
Fair value gain on revaluation upon transfer to investment properties *(note 36(b))*	17,561	–	–	–	17,561
Transferred to investment properties *(note 17)*	(36,650)	–	–	–	(36,650)
Depreciation provided during the year	(532)	(479)	(185)	(289)	(1,485)
Disposals	–	–	–	(110)	(110)
At 31 December 2008	–	4,067	120	1,353	5,540
At 31 December 2008:					
Cost	–	8,427	5,577	2,276	16,280
Accumulated depreciation	–	(4,360)	(5,457)	(923)	(10,740)
Net carrying amount	–	4,067	120	1,353	5,540
Year ended 31 December 2007					
At 1 January 2007:					
Cost	43,611	5,196	5,577	2,056	56,440
Accumulated depreciation	(6,211)	(3,457)	(5,045)	(1,574)	(16,287)
Net carrying amount	37,400	1,739	532	482	40,153
Net carrying amount:					
At 1 January 2007	37,400	1,739	532	482	40,153
Depreciation provided during the year	(799)	(424)	(227)	(262)	(1,712)
Disposals	(16,980)	–	–	–	(16,980)
At 31 December 2007	19,621	1,315	305	220	21,461

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) The buildings of the Group included above as at 31 December 2008 are held under the following lease terms:

Group

	Hong Kong HK$'000	Elsewhere HK$'000	Total HK$'000
Cost:			
Long term leases	29,170	–	29,170
Medium term leases	–	5,234,040	5,234,040
	29,170	5,234,040	5,263,210

(b) Certain of the above buildings, plant and machinery of the Group with an aggregate net carrying amount at the balance sheet date of HK$31,724,000 (2007: HK$114,297,000) were pledged to secure certain bank and other loans granted to the Group (note 37(d)(i)).

17. INVESTMENT PROPERTIES

		Group		Company	
	Notes	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Carrying amount at 1 January		334,262	272,904	159,650	134,000
Transfer from property, plant and equipment	*16*	36,650	–	36,650	–
Transfer from prepaid land premiums	*18*	48,122	–	–	–
Disposals		(214,042)	–	(159,650)	–
Disposal of subsidiaries	*46*	(11,000)	–	–	–
Fair value gain/(loss) on revaluation, net		(1,750)	55,749	–	25,650
Exchange realignment		6,517	5,609	–	–
Carrying amount at 31 December		198,759	334,262	36,650	159,650

17. INVESTMENT PROPERTIES (continued)

Notes:

(a) The investment properties of the Group as at 31 December 2008 are held under the following lease terms:

Group

	Hong Kong HK$'000	Elsewhere HK$'000	Total HK$'000
Long term leases	6,050	–	6,050
Medium term leases	–	192,709	192,709
	6,050	192,709	198,759

The Company's investment property is situated in Mainland China and is held under a medium term lease.

(b) The investment properties are leased to third parties under operating leases, further summary details of which are included in note 49(a) to the financial statements. The gross rental income received and receivable by the Group and the Company and related expenses in respect of these investment properties are summarised as follows:

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Gross rental income	15,143	19,726	3,401	6,088
Direct expenses	(1,274)	(1,478)	–	–
Net rental income	13,869	18,248	3,401	6,088

(c) At 31 December 2008, the investment properties were revalued by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on an open market value basis using the direct comparison approach or the depreciated replacement cost approach.

18. PREPAID LAND PREMIUMS

Group

	Notes	2008 HK$'000	2007 HK$'000
Carrying amount at 1 January		856,339	310,843
Acquisition of subsidiaries	45	–	428,289
Additions		336,049	90,427
Amortisation provided during the year		(26,652)	(13,751)
Transfer to investment properties	17	(48,122)	–
Disposals		(276)	(2,968)
Disposal of subsidiaries	46	(12,137)	–
Exchange realignment		55,513	43,499
Carrying amount at 31 December		1,160,714	856,339
Portion classified as current assets		(24,356)	(18,832)
Non-current portion		1,136,358	837,507

All leasehold lands of the Group as at 31 December 2008 are held under medium term leases.

Certain of the leasehold land of the Group with an aggregate carrying amount at the balance sheet date of HK$30,724,000 (2007: HK$51,073,000) was pledged to secure certain bank and other loans granted to the Group (note 37(d)(i)).

19. GOODWILL

The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising on the acquisition of subsidiaries and minority interests, is as follows:

Group

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Cost and net carrying amount:			
At 1 January:			
As previously reported		7,044,321	44,177
Other restatement	45(d)	(145,587)	–
As restated		6,898,734	44,177
Acquisition of subsidiaries	45	1,466,760	6,836,993
Acquisition of minority interests		164,613	14,868
Exchange realignment		7,652	2,696
At 31 December		8,537,759	6,898,734

19. GOODWILL (continued)

Notes:

(a) As detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of the acquisitions of subsidiaries before 1 January 2001 to remain eliminated against the consolidated capital reserve.

The movement of the amount of goodwill remaining in the consolidated capital reserve, arising on the acquisition of subsidiaries prior to 1 January 2001, was as follows:

	2008 HK$'000	2007 HK$'000
Cost and net carrying amount:		
At 1 January	26,062	26,062
Disposal of a subsidiary	(20,014)	–
At 31 December	6,048	26,062

(b) Impairment testing of goodwill

The carrying amount of the goodwill acquired through acquisitions has been allocated to the relevant business units of the following individual business operations of the Group for impairment testing, which is summarised as follows:

Group

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Piped gas operation	*(i)*	6,836,993	6,836,993
Brewery operation	*(ii)*	204,932	39,911
Sewage and water treatment operations	*(iii)*	1,466,760	–
Others		29,074	21,830
		8,537,759	6,898,734

(i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by CB Richard Ellis Limited, independent professionally qualified valuers, on a value-in-use calculation using cash flow projections which are based on financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections for the first five-year period is 9.6%, which is determined by reference to the average rates for similar industry and the business risk of the relevant business unit. A growth rate of 4% is used for the perpetual period.

19. GOODWILL (continued)

Notes: (continued)

(b) Impairment testing of goodwill (continued)

(ii) The recoverable amount of the brewery operation has been determined on the fair value less costs to sell basis by reference to the market value of the shares of Yanjing Brewery, the underlying cash-generating unit to which the goodwill relates, held by the Group as at 31 December 2008.

(iii) The recoverable amount of the sewage and water treatment operations has been determined by reference to a business valuation performed by CB Richard Ellis Limited, independent professionally qualified valuers, on a value-in-use calculation using cash flow projections which are based on financial forecast approved by senior management covering a period of ten years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections for the first ten-year period is 12%, which is determined by reference to the average rates for similar industry and the business risk of the relevant business unit. A growth rate of 3% is used for the perpetual period.

Based on the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2008.

Key assumptions used in value-in-use calculations

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:

- Budgeted turnover

  The budgeted turnover is based on the following assumptions:

  – in respect of the relevant business unit in the piped gas operation segment, based on the projected piped gas sales volume;

  – in respect of the relevant business unit in the sewage and water treatment operations segment, based on projected sewage and water treatment volume; and

  – in respect of the business units in other business segments, with reference to (i) the expected growth rate of the market in which the assessed entity operates and (ii) the expected market share of the assessed entity.

- Budgeted gross margins

  – in respect of the relevant business unit in the piped gas operation segment, the latest gas selling price up to the date of valuation report;

  – in respect of the relevant business unit in the sewage and water treatment operations segment, the basis used to determine the latest sewage treatment and water selling price up to the date of valuation report; and

  – 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 budgeted year, increased for expected efficiency improvements.

19. GOODWILL (continued)

Notes: (continued)

(b) Impairment testing of goodwill (continued)

Key assumptions used in value-in-use calculations (continued)

- Discount rates
  - The discount rates used are before tax and reflect specific risks relating to the relevant units.
- Business environment
  - There have been no major changes in the existing political, legal and economic conditions in Mainland China and other locations in which the assessed entity carried on its business.
  - As the gas supply network has already been set up in most urban areas in Beijing, where the Group's piped gas operation operates, and due to the high degree of idiosyncratic feature of the gas supply business, the high construction and fixed costs in establishing another gas supply network in these urban districts in Beijing are too huge for other operators to enter these regions. Therefore, in the opinion of the directors, the Group's piped gas operation can generate income perpetually.
  - Under the service concession arrangements, the Group has been granted with priority for renewal of operating rights of sewage and water treatment plants. Given its historical performance record and its long-established relationship with the grantor, the Group has key advantages over other operators. In addition, the high investment cost has also created an entry barrier for new competitors. Therefore, in the opinion of the directors, the operating rights of sewage and water treatment plants shall be renewed at expiry, and therefore the sewage treatment and water distribution operations can generate income perpetually.

20. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China on a Build-Operate-Transfer ("BOT") or a Transfer-Operate-Transfer ("TOT") basis in respect of its expressway and toll road operations, sewage and water treatment operations and tourism operation. 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; (iii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 40 years (the "service concession periods"), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is 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 authority 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 financial assets (receivables under service concession arrangements) and intangible assets (operating concessions) are set out under the heading of "Service concession arrangements" in note 2.4 to the financial statements.

20. SERVICE CONCESSION ARRANGEMENTS (continued)

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

Operating concessions

Group

	Notes	Expressway and toll road operations HK$'000 (note (a))	Sewage and water treatment operations HK$'000 (note (b))	Tourism operation HK$'000 (note (c))	Total HK$'000
At 31 December 2007 and 1 January 2008:					
Cost:					
As previously reported		696,581	1,602,564	64,103	2,363,248
Effect of adopting HK(IFRIC)-Int 12	2.2	1,492,683	(1,602,564)	–	(109,881)
As restated		2,189,264	–	64,103	2,253,367
Accumulated amortisation:					
As previously reported		(194,464)	(721,154)	(14,423)	(930,041)
Effect of adopting HK(IFRIC)-Int 12	2.2	(612,573)	721,154	–	108,581
As restated		(807,037)	–	(14,423)	(821,460)
Net carrying amount, as restated		1,382,227	–	49,680	1,431,907
Net carrying amount:					
At 1 January 2008:					
As previously reported		502,117	881,410	49,680	1,433,207
Effect of adopting HK(IFRIC)-Int 12	2.2	880,110	(881,410)	–	(1,300)
As restated		1,382,227	–	49,680	1,431,907
Acquisition of subsidiaries	45	–	436,105	–	436,105
Amortisation provided during the year		(84,424)	(5,798)	–	(90,222)
Disposal of subsidiaries	46	–	–	(49,680)	(49,680)
Exchange realignment		86,102	(718)	–	85,384
At 31 December 2008		1,383,905	429,589	–	1,813,494
At 31 December 2008:					
Cost		2,327,426	483,337	–	2,810,763
Accumulated amortisation		(943,521)	(53,748)	–	(997,269)
Net carrying amount		1,383,905	429,589	–	1,813,494

20. SERVICE CONCESSION ARRANGEMENTS (continued)

Operating concessions (continued)

Group

	Notes	Expressway and toll road operations HK$'000 (note (a))	Sewage and water treatment operations HK$'000 (note (b))	Tourism operation HK$'000 (note (c))	Total HK$'000
At 1 January 2007:					
Cost:					
As previously reported		652,001	1,500,000	60,000	2,212,001
Effect of adopting HK(IFRIC)-Int 12	2.2	1,397,150	(1,500,000)	–	(102,850)
As restated		2,049,151	–	60,000	2,109,151
Accumulated amortisation:					
As previously reported		(149,417)	(600,000)	(12,000)	(761,417)
Effect of adopting HK(IFRIC)-Int 12	2.2	(530,534)	600,000	–	69,466
As restated		(679,951)	–	(12,000)	(691,951)
Net carrying amount, as restated		1,369,200	–	48,000	1,417,200
Net carrying amount:					
At 1 January 2007:					
As previously reported		502,584	900,000	48,000	1,450,584
Effect of adopting HK(IFRIC)-Int 12	2.2	866,616	(900,000)	–	(33,384)
As restated		1,369,200	–	48,000	1,417,200
Amortisation provided during the year, as restated		(77,369)	–	(1,537)	(78,906)
Exchange realignment, as restated		90,396	–	3,217	93,613
At 31 December 2007, as restated		1,382,227	–	49,680	1,431,907

20. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements

	2008 HK$'000	2007 HK$'000 (Restated)
Sewage and water treatment operations	3,256,966	1,815,824
Impairment *(note (d))*	(54,863)	–
	3,202,103	1,815,824
Portion classified as current assets	(380,792)	(313,768)
Non-current portion	2,821,311	1,502,056

Notes:

(a) Details of the Group's expressway and toll road operations under service concession arrangements are summarised as follows:

(i) In connection with a group reorganisation undertaken by the Group prior to the listing of the Company's shares on the Stock Exchange in 1997, Beijing Capital Expressway Development Co., Ltd. ("Capital Expressway Company"), a 96% indirectly-owned subsidiary of the Company, was established in Mainland China with an initial term of 30 years commencing on 13 March 1997. Pursuant to the approval documents issued by the Beijing Municipal Government in March and April 1997, the right to operate the Capital Airport Expressway and the right to use the land on which the Capital Airport Expressway is adhered for a period of 30 years commencing on 1 January 1997 (the Expressway Concession referred to in note 2.2) was injected into Capital Expressway Company as part of the capital contributions from one of its equity holders. The Expressway Concession was previously accounted for as property, plant and equipment and is now accounted for as an intangible asset (operating concession) upon the adoption of HK(IFRIC)-Int 12 by the Group during the year, further details of which are set out in note 2.2 to the financial statements.

As at 31 December 2008, the remaining term of this service concession arrangement is approximately 18 years.

(ii) Pursuant to a co-operative joint venture agreement dated 18 July 2001 entered into between Hong Kong Zhong Ji Facility Investment Co., Ltd., a 96.5% indirectly-owned subsidiary of the Company, and 深圳市石觀公路有限公司 ("Shiguan Road Limited") for the establishment of Shenzhen Guanshun Road & Bridge Co., Ltd. ("Shenzhen Guanshun"), a 53.08% indirectly-owned subsidiary of the Company, and as approved by the relevant government authorities, Shiguan Road Limited transferred to Shenzhen Guanshun at a total consideration of RMB652 million an operating right to operate the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC, for a period of 20 years commencing on 12 April 2002 (the Toll Road Concession referred to in note 2.2).

As at 31 December 2008, the remaining term of this service concession arrangement is approximately 13 years and 4 months.

20. SERVICE CONCESSION ARRANGEMENTS (continued)

Notes: (continued)

(b) Details of the Group's sewage and water treatment operations under service concession arrangements are summarised as follows:

(i) BE Water, a subsidiary acquired by the Group during the year as further detailed in note 45(a) to the financial statements, and its subsidiaries (collectively the "BE Water Group") have entered into a number of service concession arrangements with certain governmental authorities in Mainland China on BOT or TOT bases in respect of their sewage treatment, and water treatment and distribution businesses.

As at 31 December 2008, the BE Water Group had 21 service concession arrangements on sewage treatment and 1 service concession arrangement on water treatment and distribution with various governmental authorities in Mainland China and a summary of the major terms of each service concession arrangement is set out as follows:

No.	Name of subsidiary as operator	Name of sewage and water treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
1.	江油中科成污水淨化有限公司	江油市污水處理廠一期	Jiangyou, Sichuan Province, the PRC	江油市人民政府	BOT	25,000	30 years from 2002 to 2032
2.	江油中科成污水淨化有限公司	江油市污水處理廠二期	Jiangyou, Sichuan Province, the PRC	江油市人民政府	BOT	25,000	30 years from 2007 to 2037
3.	成都雙流中科成污水淨化有限公司	雙流縣污水處理廠	Shuangliu, Sichuan Province, the PRC	雙流縣人民政府	BOT	25,000	20 years from 2004 to 2024
4.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠一期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	TOT	100,000	30 years from 2002 to 2032
5.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠二期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	BOT	50,000	30 years from 2003 to 2033
6.	成都華陽中科成污水淨化有限公司	雙流縣華陽污水處理廠	Shuangliu, Sichuan Province, the PRC	雙流縣人民政府	BOT	40,000	20 years (Not yet started)
7.	長沙中科成污水淨化有限公司	長沙市金霞污水處理廠	Changsha, Hunan Province, the PRC	長沙市公用事業管理局	TOT	180,000	20 years from 2004 to 2024
8.	青島上馬中科成污水淨化有限公司	青島市城陽區上馬污水處理廠	Qingdao, Shandong Province, the PRC	青島市城陽區城市規劃建設管理局	BOT	40,000	20 years from 2008 to 2028
9.	青島膠南中科成污水淨化有限公司	膠南市污水處理廠	Jiaonan, Shandong Province, the PRC	膠南市城鄉建設局	BOT	60,000	20 years from 2006 to 2026

20. SERVICE CONCESSION ARRANGEMENTS (continued)

Notes: (continued)

(b) (i) (continued)

No.	Name of subsidiary as operator	Name of sewage and water treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
10.	青島中科成污水淨化有限公司	山東省膠州市污水處理廠	Jiaozhou, Shandong Province, the PRC	山東省膠州市城鄉建設局	BOT	50,000	20 years from 2004 to 2024
11.	菏澤中科成污水淨化有限公司	菏澤市污水處理廠	Heze, Shandong Province, the PRC	菏澤市建設局	TOT	60,000	25 years from 2008 to 2032
12.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT	100,000	25 years from 2008 to 2033
13.	廣州中科成污水淨化有限公司	廣州南沙開發區黃閣污水處理廠	Guangzhou, Guangdong Province, the PRC	廣州南沙開發區建設局	BOT	50,000	22 years from 2004 to 2026
14.	台州市路橋中科成污水淨化有限公司	路橋污水處理廠	Taizhou, Zhejiang Province, the PRC	台州市建設規劃局路橋分局	BOT/TOT	40,000	27 years from 2007 to 2034
15.	成都龍泉中科成污水淨化有限公司	龍泉驛區蘆溪河污水處理廠	Chengdu, Sichuan Province, the PRC	成都市龍泉驛區國有資產投資經營有限公司	BOT	20,000	25 years (Not yet started)
16.	濟南十方水質淨化有限公司	濟南高新區水質淨化一廠	Jinan, Shandong Province, the PRC	濟南高新技術產業開發區中心	BOT/TOT	10,000	30 years from 2008 to 2038
17.	彭州中科成污水淨化有限公司	彭州第二污水處理廠	Pengzhou, Sichuan Province, the PRC	彭州市興彭建設投資經管有限公司	BOT	15,000	25 years (Not yet started)
18.	佛山市三水中科成水質淨化有限公司	佛山市三水區中心工業園南部污水處理廠	Foshan, Guangdong Province, the PRC	佛山市三水工業園區管理委員會	BOT	50,000	22 years (Not yet started)
19.	永州市北控污水淨化有限公司	永州市下河綫污水處理廠	Yongzhou, Hunan Province, the PRC	永州市公用事業管理局	BOT	50,000	30 years (Not yet started)
20.	深圳華強豐泰投資有限公司	深圳市龍崗區橫嶺污水處理廠	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區人民政府	BOT	200,000	25 years from 2007 to 2032
21.	沾化華強水務環保有限公司	沾化縣生態皮業城污水處理廠	Zhanhua, Shandong Province, the PRC	沾化縣人民政府	BOT	15,000	30 years from 2008 to 2038
22.	濱州華強西海水務有限公司 ("Hua Qiang Xihai") #	濱州市西海供水工程	Binzhou, Shandong Province, the PRC	濱州市人民政府	BOT	50,000	40 years from 2006 to 2046

Except for Hua Qiang Xihai which operates under a service concession arrangement on water treatment and distribution, all operators' service concession arrangements are on sewage treatment.

20. SERVICE CONCESSION ARRANGEMENTS (continued)

Notes: (continued)

(b) (i) (continued)

Pursuant to the service concession agreements signed, the BE Water Group is granted the rights to use the property, plant and equipment of the sewage and water treatment plants and related land, which are generally registered under the names of the relevant companies in the BE Water Group during the service concession periods, but the BE Water Group is generally required to surrender these property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective service concession periods. As at 31 December 2008, the BE Water Group was in the process of applying for the changing of registration of the title certificates of certain land use rights and buildings of certain sewage treatment plants to which the BE Water Group's service concession arrangements relate. The directors are of the opinion that the BE Water Group is entitled to the lawful and valid occupation or use of these buildings and land that the above-mentioned land use rights relate, and that the BE Water Group would not have any legal barriers in obtaining the proper title certificates.

As at 31 December 2008, certain sewage treatment concession rights of the BE Water Group in an aggregate net carrying amount of HK$98,529,000 were pledged to secure certain bank loans granted to the Group (note 37(d)(ii)).

(ii) Pursuant to a concession agreement dated 13 July 1998 entered into between the Company and 北京市自來水公司("Beijing Water"), the Company acquired at a consideration of RMB1.5 billion an operating right from Beijing Water to operate a water purification and treatment plant, No. 9 Phase I, in Beijing and sell purified water, for a period of 20 years commencing on 24 November 1998 (the Water Purification and Treatment Concession referred to in note 2.2). Beijing Water has guaranteed the Company a net cash inflow of RMB210 million from the water purification and treatment business for each of the years in the concession period. The concession right so granted was subsequently transferred by the Company to Beijing Bei Kong Water Production Co., Ltd., a wholly-owned subsidiary set up by the Company for the purpose of holding this concession right and engaging in the water purification and treatment operations.

The Water Purification and Treatment Concession was previously accounted for as an intangible asset (operating concession) and is now accounted for as a financial asset (receivable under service concession arrangement) upon the adoption of HK(IFRIC)-Int 12 by the Group during the year, further details of which are set out in note 2.2 to the financial statements.

As at 31 December 2008, the remaining term of this service concession arrangement is approximately 10 years.

20. SERVICE CONCESSION ARRANGEMENTS (continued)

Notes: (continued)

(c) Pursuant to a concession agreement dated 17 June 1998 entered into between Beijing Long Qing Xia Tourism Development Co., Ltd. ("LQX Tourism"), a former 75% indirectly-owned subsidiary of the Company, and 延慶龍慶峽管理處 ("LQX Management"), LQX Tourism acquired at a consideration of RMB60 million an operating right from LQX Management to sell entrance tickets and provide tourism services in Longqingxia, a scenic area in Beijing, for a period of 40 years commencing on 19 August 1998 (the LQX Concession referred to in note 2.2). An additional concession fee is payable as determined by reference to the turnover of LQX Tourism for an accounting year based on the following progressive rates:

Turnover	Concession fee rate
The portion exceeding RMB35 million but less than RMB70 million, inclusive	20%
The portion exceeding RMB70 million but less than RMB100 million, inclusive	30%
The portion exceeding RMB100 million	40%

The LQX Concession was derecognised upon the disposal of the Group's equity interest in Everbest (the investment holding company of LQX Tourism) during the year, as further detailed in note 46(a) to the financial statements.

(d) The movements in provision for impairment of receivables under service concession arrangements are as follows:

	Group	
	2008 HK$'000	2007 HK$'000
At 1 January	–	–
Acquisition of a subsidiary	7,749	–
Impairment during the year recognised in the income statement *(note 7)*	46,511	–
Exchange realignment	603	–
At 31 December	54,863	–

21. OTHER INTANGIBLE ASSETS

Group

	Patents HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2008			
At 31 December 2007 and 1 January 2008:			
Cost	–	15,866	15,866
Accumulated amortisation	–	(3,832)	(3,832)
Net carrying amount	–	12,034	12,034
Net carrying amount:			
At 1 January 2008	–	12,034	12,034
Acquisition of subsidiaries *(note 45)*	133	1,086	1,219
Additions	–	24,465	24,465
Amortisation provided during the year	(26)	(23,483)	(23,509)
Exchange realignment	(1)	761	760
At 31 December 2008	106	14,863	14,969
At 31 December 2008:			
Cost	555	42,759	43,314
Accumulated amortisation	(449)	(27,896)	(28,345)
Net carrying amount	106	14,863	14,969
Year ended 31 December 2007			
At 1 January 2007:			
Cost and net carrying amount	–	–	–
Net carrying amount:			
At 1 January 2007	–	–	–
Acquisition of subsidiaries *(note 45)*	–	10,350	10,350
Additions	–	2,268	2,268
Amortisation provided during the year	–	(1,053)	(1,053)
Exchange realignment	–	469	469
At 31 December 2007	–	12,034	12,034

22. INTERESTS IN SUBSIDIARIES

		Company	
		2008	2007
	Notes	HK$'000	HK$'000
Unlisted shares or investments, at cost		20,429,253	20,932,613
Due from subsidiaries	*(a)*	5,767,327	2,106,162
Due to subsidiaries	*(a)*	(2,512,458)	(2,143,786)
		23,684,122	20,894,989
Impairment of unlisted shares	*(b)*	(124,227)	(124,227)
Impairment of amount due from subsidiaries	*(c)*	(220,863)	(242,199)
		(345,090)	(366,426)
		23,339,032	20,528,563

Notes:

(a) The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

(b) An impairment was recognised for certain unlisted investments with an aggregate carrying amount of HK$231,438,000 (before deducting the impairment loss) (2007: HK$231,438,000) as at the balance sheet date because these subsidiaries have been loss-making for some time.

(c) The movement in the provision for impairment of the amounts due from subsidiaries is as follows:

	Company	
	2008	2007
	HK$'000	HK$'000
At 1 January	242,199	316,947
Disposal of subsidiaries	(21,336)	(74,748)
At 31 December	220,863	242,199

22. INTERESTS IN SUBSIDIARIES (continued)

Notes: (continued)

(d) Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
北京市燃氣集團有限責任公司 ("Beijing Gas")	PRC/Mainland China	RMB1,983,630,000	–	100	Distribution and sale of piped gas
Beijing Yanjing Brewery Company Limited *	PRC/Mainland China	RMB1,210,266,963	–	45.18 †	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan") #	PRC/Mainland China	RMB250,000,000	–	22.60 †	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司	PRC/Mainland China	RMB297,631,824	–	38.88 †	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司	PRC/Mainland China	RMB260,226,900	–	34.99 †	Production and sale of beer
燕京啤酒(桂林玉林)股份有限公司	PRC/Mainland China	RMB430,000,000	–	35.40 †	Production and sale of beer
燕京啤酒(赤峰)有限責任公司	PRC/Mainland China	RMB367,110,200	–	41.11 †	Production and sale of beer
燕京啤酒(新疆)有限責任公司	PRC/Mainland China	RMB230,000,000	–	45.18 †	Production and sale of beer
燕京啤酒(衡陽)有限公司	PRC/Mainland China	RMB210,660,000	–	42.76 †	Production and sale of beer
燕京啤酒(萊州)有限公司	PRC/Mainland China	RMB187,053,800	–	69.00	Production and sale of beer
燕京啤酒(仙桃)有限公司	PRC/Mainland China	RMB292,353,000	–	45.08 †	Production and sale of beer
燕京啤酒(曲阜三孔)有限責任公司	PRC/Mainland China	RMB230,769,230	–	58.90	Production and sale of beer
燕京啤酒(四川)有限公司 δ	PRC/Mainland China	RMB200,000,000	–	45.18 †	Production and sale of beer

22. INTERESTS IN SUBSIDIARIES (continued)

Notes: *(continued)*

(d) (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
Beijing Enterprises Water Group Limited δ π	Bermuda/ Hong Kong	HK$240,507,336	–	64.32	Investment holding
Z.K.C Environmental Group Co., Ltd. ("ZKC Environmental") δ	PRC/Mainland China	RMB286,969,071	–	56.88	Consultancy service and investment holding
綿陽中科成污水淨化有限公司 δ	PRC/Mainland China	RMB40,000,000	–	56.88	Sewage treatment
長沙中科成污水淨化有限公司 δ	PRC/Mainland China	RMB50,000,000	–	51.19	Sewage treatment
廣州中業污水處理有限公司 δ	PRC/Mainland China	RMB40,000,000	–	56.88	Sewage treatment
深圳華強創新投資有限公司 ("Shenzhen Hua Qiang") δ	PRC/Mainland China	RMB300,000,000	–	34.13 †	Investment holding
深圳華強豐泰投資有限公司 δ	PRC/Mainland China	RMB70,000,000	–	27.30 †	Sewage treatment
Beijing Bei Kong Water Production Co., Ltd. Ω	PRC/Mainland China	US$85,000,000	100	100	Water treatment
北京北控水務有限公司	PRC/Mainland China	RMB100,000,000	–	99.9	Investment holding
Beijing Capital Expressway Development Co., Ltd.	PRC/Mainland China	US$64,053,700	–	96	Operations of an expressway

22. INTERESTS IN SUBSIDIARIES (continued)

Notes: (continued)

(d) (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
Shenzhen Guanshun Road & Bridge Co., Ltd.	PRC/Mainland China	RMB217,500,000	–	53.08	Operations of a toll road
Beijing Enterprises Holdings High-Tech Development Co., Ltd.	PRC/Mainland China	US$30,000,000	97.99	97.99	Investment holding

† These entities are accounted for as subsidiaries by virtue of the Company's control over them.

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

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

π Shares of BE Water are listed on the Main Board of the Stock Exchange.

Ω This entity is registered as a wholly-foreign-owned enterprise under PRC Law.

δ Acquired/incorporated during the year.

The Group had the following major acquisitions of subsidiaries during the year:

(i) acquisition of a 74.78% equity interest in BE Water (interest diluted afterwards) by subscribing 247,000,000 new ordinary shares of BE Water, further details of which are included in note 45(a) to the financial statements; and

(ii) acquisition of an 88.43% equity interest in ZKC Environmental and a 60% equity interest in Shenzhen Hua Qiang by the BE Water Group, further details of which are included in notes 45(b) and 45(c) to the financial statements, respectively.

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

23. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Notes	Group 2008 HK$'000	Group 2007 HK$'000	Company 2008 HK$'000	Company 2007 HK$'000
Unlisted shares, at cost		–	–	–	23,454
Share of net assets	*(a)*	4,488,646	3,280,333	–	–
Due from jointly-controlled entities	*(b)*	19,944	23,686	2,598	23,354
Due to jointly-controlled entities	*(b)*	–	(1,294)	–	–
		4,508,590	3,302,725	2,598	46,808

Notes:

(a) The following tables illustrate the summarised financial information of the Group's jointly-controlled entities:

	2008 HK$'000	2007 HK$'000
Share of the jointly-controlled entities' assets and liabilities		
Non-current assets	6,733,062	5,538,755
Current assets	530,462	128,764
Non-current liabilities	(587,983)	(1,671,871)
Current liabilities	(2,181,383)	(712,508)
Minority interests	(5,512)	(2,807)
Net assets	4,488,646	3,280,333
Share of the jointly-controlled entities' results		
Revenue	2,418,524	782,152
Other income	167	2,591
Total revenue	2,418,691	784,743
Total expenses	(1,180,186)	(513,555)
Profit before tax	1,238,505	271,188
Tax	(325,877)	(92,945)
Profit for the year	912,628	178,243

23. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Notes: (continued)

(b) The amounts due from/to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

(c) Particulars of the principal jointly-controlled entity, which is indirectly held by the Company, are as follows:

			Percentage of			
Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activity
中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas", formerly known as 北京華油天然氣有限責任公司)	PRC/Mainland China	RMB6,760,785,000	40	40	40	Provision of natural gas transmission services

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

24. INTERESTS IN ASSOCIATES

		Group		Company	
		2008	2007	2008	2007
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Unlisted shares, at cost		–	–	46,168	46,168
Shares listed in Hong Kong, at cost		–	–	46,814	–
Share of net assets	*(a)*	737,538	832,291	–	–
Due from associates	*(b)*	9,047	15,278	–	4,146
Due to associates	*(b)*	–	(296)	–	–
Goodwill on acquisition	*(c)*	55,622	33,995	–	–
		802,207	881,268	92,982	50,314

24. INTERESTS IN ASSOCIATES (continued)

Notes :

(a) The following tables illustrate the summarised financial information of the Group's associates:

	2008 HK$'000	2007 HK$'000
Share of the associates' assets and liabilities		
Non-current assets	463,677	545,231
Current assets	678,954	691,164
Non-current liabilities	(95,485)	(76,344)
Current liabilities	(270,215)	(296,798)
Minority interests	(39,393)	(30,962)
Net assets	737,538	832,291
Share of the associates' results		
Revenue	491,203	419,311
Other income	17,095	294,935
Total revenue	508,298	714,246
Total expenses	(652,986)	(449,843)
Profit/(loss) before tax	(144,688)	264,403
Tax	(2,123)	(3,394)
Profit/(loss) for the year	(146,811)	261,009

24. INTERESTS IN ASSOCIATES (continued)

Notes : (continued)

(b) The amounts due from/to associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

(c) The amount of the goodwill included in the interests in associates is as follows:

Group

	2008 HK$'000	2007 HK$'000
Cost and net carrying amount:		
At 1 January	33,995	33,995
Acquisition of an additional interest in an associate	21,627	-
At 31 December	55,622	33,995

As detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of acquisition of associates before 1 January 2001 to remain eliminated against the consolidated capital reserve.

The amount of goodwill remaining in the consolidated capital reserve, arising on the acquisition of associates prior to 1 January 2001, was HK$76,236,000 (2007: HK$76,236,000) as at 31 December 2008. The amount of goodwill is stated at cost.

24. INTERESTS IN ASSOCIATES (continued)

Notes : (continued)

(d) Particulars of the principal associates are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Percentage of Ownership interest attributable to the Group	Percentage of Voting power	Percentage of Profit sharing	Principal activity
Beijing Development (Hong Kong) Limited Ω	Hong Kong	HK$677,460,150	42.86	42.86	42.86	Investment holding
Beijing Peking University WBL Biotech Co., Ltd.†	PRC/Mainland China	RMB80,000,000	26.01	22.2	26.55	Production and sale of healthcare products
Biosino Bio-Technology and Science Incorporation ("BioSino") π	PRC/Mainland China	RMB100,017,528	24.01	24.5	24.5	Manufacture, sale and distribution of in-vitro diagnostic reagent and pharmaceutical products
北京機電院高技術股份有限公司*	PRC/Mainland China	RMB135,872,209	38.27	38.27	38.27	Production and sale of mechanical and electrical equipment, and property investment

Ω 2.17% and 40.69% equity interests of Beijing Development are held by the Company and indirectly held by a wholly-owned subsidiary, respectively. Shares of Beijing Development are listed on the Main Board of the Stock Exchange. The fair value of the shares of Beijing Development held by the Group as at 31 December 2008, based on its then published price quotation, amounted to approximately HK$301,994,000.

† The interest in this associate is indirectly held by the Company.

π The interest in BioSino is indirectly held by the Company. H shares of BioSino are listed on the Growth Enterprise Market of the Stock Exchange. All of the shares of BioSino held by the Group are legal person shares and cannot be traded on any stock exchange. The directors do not consider it appropriate to disclose a value of the Group's investment in BioSino based on the published price quotation of BioSino's listed H shares as such information would be misleading.

* 23.44% and 14.83% equity interests of this associate are directly held by the Company and indirectly held by a wholly-owned subsidiary, respectively.

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

25. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Unlisted equity investments, at cost	309,789	315,572	132,494	141,695
Impairment	–	(25,148)	–	(9,198)
	309,789	290,424	132,494	132,497

Notes:

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

(b) During the year, the gain on disposal of available-for-sale investments stated at cost less any accumulated impairment losses recognised in the income statement amounted to HK$10,456,000 (2007: HK$111,230,000). The carrying amounts of these investments amounted to HK$3,000 (2007: HK$93,060,000) at the time of disposal.

26. RESTRICTED CASH AND PLEDGED DEPOSITS

	Group	
	2008	2007
	HK$'000	HK$'000
Restricted cash *(note (a))*	27,214	25,591
Pledged deposits *(note (b))*	37,199	106,209
Restricted cash and pledged deposits *(note 33)*	64,413	131,800

Notes:

(a) The restricted cash represented the proceeds of a government surcharge collected by Beijing Gas, a subsidiary acquired by the Group during the year ended 31 December 2007 as further detailed in note 45(d) to the financial statements, from piped gas customers on behalf of 北京市發展和改革委員會 (the Beijing Municipal Commission of Development and Reform) (the "BMCDR") prior to 2003. The proceeds held on behalf of the BMCDR, which are deposited in a specific bank account of the Group, together with any interest earned therefrom, are repayable to the BMCDR (note 44).

(b) Bank balances of HK$29,133,000 (2007: HK$63,206,000) and HK$8,066,000 (2007: HK$43,003,000) as at 31 December 2008 were pledged to secure certain trade finance facilities (note 43) and short term bank loans (note 37(d)(v)) granted to the Group, respectively.

27. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	2,630,334	2,046,595
Work in progress	237,633	160,313
Finished goods	199,469	135,351
	3,067,436	2,342,259

28. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group	
	2008	2007
	HK$'000	HK$'000
Amounts due from contract customers	202,512	178
Amounts due to contract customers	(107,831)	(20,468)
	94,681	(20,290)
Contract costs incurred plus recognised profits less recognised losses to date	321,742	139,114
Less: Progress billings received and receivable	(227,061)	(159,404)
	94,681	(20,290)

29. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000
Trade and bills receivables	1,308,600	1,076,778	999	5,565
Impairment *(note (b))*	(252,574)	(259,335)	–	–
	1,056,026	817,443	999	5,565

29. TRADE AND BILLS RECEIVABLES (continued)

Notes:

(a) 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 the receivables.

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

	Group		Company	
	2008 HK$'000	2007 HK$'000 (Restated)	2008 HK$'000	2007 HK$'000
Within one year	961,288	733,043	999	5,565
One to two years	44,698	34,907	–	–
Two to three years	18,548	17,612	–	–
Over three years	31,492	31,881	–	–
	1,056,026	817,443	999	5,565

(b) The movements in provision for impairment of trade and bills receivables are as follows:

	Group	
	2008 HK$'000	2007 HK$'000
At 1 January	259,335	52,324
Acquisition of subsidiaries	–	200,960
Impairment during the year recognised in the income statement *(note 7)*	26,559	1,588
Amount written off as uncollectible	(49,381)	(7,458)
Exchange realignment	16,061	11,921
At 31 December	252,574	259,335

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$312,783,000 (2007: HK$285,398,000). The individually impaired trade receivables relate to customers that were in financial difficulties or were in default or delinquency in principal payments and more or only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

29. TRADE AND BILLS RECEIVABLES (continued)

Notes: *(continued)*

(b) (continued)

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

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Neither past due nor impaired	800,935	630,486	–	–
Less than one year past due	157,835	102,557	999	5,565
More than one year past due	97,256	84,400	–	–
	1,056,026	817,443	999	5,565

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

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

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2008	2007	2008	2007
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Prepayments		47,967	33,234	49	261
Deposits and other debtors	*(a)*	1,160,959	1,415,929	99,755	97,747
Due from holding companies	*31*	273,415	194,443	79,816	844
Due from fellow subsidiaries	*31*	44,507	43,208	29,856	30,307
Due from related parties	*31*	269,728	89,478	5,961	6,688
		1,796,576	1,776,292	215,437	135,847
Impairment of deposits and other debtors	*(b)*	(252,972)	(215,681)	(96,134)	(79,071)
		1,543,604	1,560,611	119,303	56,776
Portion classified as current assets		(1,419,334)	(1,538,517)	(119,303)	(56,776)
Non-current portion		124,270	22,094	–	–

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes:

(a) The Group's deposits and other debtors as at the balance sheet date included, inter alia, the following:

(i) an aggregate amount of HK$89,453,000 (2007: HK$71,044,000) paid in advance to related companies arising from purchases of raw materials in the ordinary course of business of the Group. The balances with the related companies are unsecured and interest-free;

(ii) the amortised cost of a loan advanced to 北京市八達嶺旅游總公司 ("Badaling Tourism Corporation"), a former related company, by the Group in March 2006. The amount, with an original principal of RMB64,000,000, bears interest at a rate of 3.5% per annum and is repayable in 16 equal quarterly instalments with the last instalment being due for repayment in 2010.

As at 31 December 2008, the outstanding loan to Badaling Tourism Corporation amounted to RMB20,966,000 (2007: RMB37,094,000) with a corresponding amortised cost of HK$23,346,000 (2007: HK$38,350,000), comprising the current and non-current portions of HK$18,532,000 (2007: HK$16,256,000) and HK$4,814,000 (2007: HK$22,094,000), respectively.

Interest income of HK$2,099,000 (2007: HK$3,620,000) was recognised in the consolidated income statement during the year ended 31 December 2008;

(iii) an amount of HK$53,249,000 (2007: HK$152,498,000) due from a former related company, representing the outstanding cash consideration in respect of its acquisition of the Group's equity interest in an available-for-sale investment in 2006. The amount was wholly repayable on 31 August 2008 and a full impairment provision has been recognised as at 31 December 2008 (2007: HK$100,000,000);

(iv) an investment deposit of RMB50,001,600 (equivalent to HK$56,792,000) (2007: Nil) paid to a government authority in Mainland China in connection with the acquisition of a 66.67% equity interest in 貴港市供水有限責任公司 ("Guigang Water") by the BE Water Group. Further details of the acquisition are set out in note 54(ii) to the financial statements. The balance is classified as a non-current asset;

(v) deposits of RMB28,150,000 (equivalent to HK$31,972,000) (2007: Nil) in aggregate paid for the purchase of a land use right and an office building in Mainland China. The balances are classified as a non-current assets;

(vi) cash advances of RMB41,107,000 (equivalent to HK$46,689,000) in aggregate made to a contract customer of the Group in connection with a contract of service dated 8 May 2008 entered into between the two parties, pursuant to which the Group is providing (i) construction management services to the customer regarding the construction of a sewage treatment plant in Mainland China by the customer; and (ii) funding at the maximum amount of RMB60 million (equivalent to HK$68 million) to the customer to finance the construction of the sewage treatment plant. Any advances made will be due for repayment on 25 April 2009 and hence, the cash advances made to the customer as at 31 December 2008 are classified as current assets.

A service fee of RMB12 million will be charged by the Group under this contract, of which RMB5,522,000 (equivalent to HK$6,273,000) has been recognised in the income statement during the year by reference to the stage of completion of the contract as at 31 December 2008;

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes: (continued)

(a) (continued)

(vii) a deposit of RMB39,005,000 (equivalent to HK$44,302,000) (2007: Nil) paid by the Group to a government authority in Mainland China for the procurement of a concession right to operate a sewage treatment plant on a BOT basis. The balance is classified as a current asset; and

(viii) various tender deposits of RMB30,650,000 (equivalent to HK$34,812,000) (2007: Nil) in aggregate paid by the Group for the bidding of potential sewage treatment projects. These deposits are classified as current assets.

(b) The movements in provision for impairment of other receivables are as follows:

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
At 1 January	215,681	158,364	79,071	80,653
Acquisition of subsidiaries	4,043	–	–	–
Impairment/(reversal of impairment) during the year recognised in the income statement, net *(note 7)*	26,442	52,838	17,063	(4,392)
Amount written off as uncollectible	(3,477)	–	–	–
Exchange realignment	10,283	4,479	–	2,810
At 31 December	252,972	215,681	96,134	79,071

The above provision for impairment of other receivables of the Group and the Company represented provision for individually impaired other receivables with aggregate carrying amounts of HK$321,623,000 (2007: HK$289,162,000) and HK$96,134,000 (2007: HK$79,071,000), respectively.

31. DUE FROM/TO HOLDING COMPANIES/FELLOW SUBSIDIARIES/RELATED PARTIES

The amounts due from/to holding companies, fellow subsidiaries and related parties are unsecured, interest-free and have no fixed terms of repayment, except for:

(a) an amount due to BE Group BVI of HK$589,422,000 as at 31 December 2007, which represented the outstanding cash consideration in respect of the acquisition of Beijing Gas Group (BVI) Company Limited ("Beijing Gas BVI") in 2007. Further details of the acquisition, including the terms of repayment of the consideration, are set out in note 45(d) to the financial statements. The amount due was fully settled during the year;

31. DUE FROM/TO HOLDING COMPANIES/FELLOW SUBSIDIARIES/RELATED PARTIES (continued)

(b) the outstanding consideration payable to a shareholder of BE Water of HK$542,451,000 in connection with the Group's acquisition of 100% equity interest in Monico Investments Limited ("Monico"), as further detailed in note 45(b) to the financial statements; and

(c) an amount of RMB86,908,000 (equivalent to HK$98,710,000) due from 鴻橋投資有限公司 ("Hong Qiao"), a company established in Mainland China holding a 40% equity interest in Shenzhen Hua Qiang. Pursuant to the Assignment of Equity Interest Agreement (as defined in BE Water's circular dated 6 October 2008) entered into between the Group and Hong Qiao in connection with the acquisition of Shenzhen Hua Qiang, the Group was required to settle the purchase consideration of RMB156,908,000 payable by Hong Qiao to the vendor on behalf of Hong Qiao, which will repay the amount to the Group in future periods. Further details of the acquisition of Shenzhen Hua Qiang are disclosed in note 45(c) to the financial statements.

As at 31 December 2008, RMB70,000,000 has been settled by Hong Qiao and the remaining balance of RMB86,908,000 will be settled by the deduction in the same amount of the capital contributed by Hong Qiao in Shenzhen Hua Qiang in accordance with a memorandum of understanding entered into between the Group and Hong Qiao on 27 March 2009. As at the date of approval of these financial statements, the arrangement has not yet been completed. Notwithstanding the above, in the opinion of the directors, no impairment loss on the amount is foreseen.

The balances with related companies of the Group included in deposits and other debtors, and trade and bills payables are disclosed in notes 30(a)(i) and 43 to the financial statements, respectively.

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets at fair value through profit or loss of the Group and the Company as at 31 December 2008 and 2007 are listed equity investments in Hong Kong, which are stated at market value.

33. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Cash and bank balances	4,767,691	4,536,911	168,503	11,956
Cash equivalents	90,827	89,834	42,161	49,024
Time deposits	1,872,835	3,577,539	–	3,496,556
	6,731,353	8,204,284	210,664	3,557,536
Less: Restricted cash and pledged deposits *(note 26)*	(64,413)	(131,800)	–	–
Cash and cash equivalents	6,666,940	8,072,484	210,664	3,557,536

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in RMB amounted to HK$6,385,213,000 (2007: HK$4,416,892,000). 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.

The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of defaults.

34. SHARE CAPITAL

Shares

	Company 2008 HK$'000	Company 2007 HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	200,000	200,000
Issued and fully paid:		
1,137,001,000 (2007: 1,138,940,000) ordinary shares of HK$0.10 each	113,700	113,894

A summary of the movements in the Company's issued share capital during the years ended 31 December 2008 and 2007 is as follows:

	Notes	Number of ordinary shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2007		622,500,000	62,250	4,839,497	4,901,747
Allotment of new ordinary shares for the acquisition of Beijing Gas BVI	*(a)*	411,250,000	41,125	12,173,000	12,214,125
Share placement	*(b)*	100,000,000	10,000	3,700,000	3,710,000
Exercise of share options	*(c)*	5,190,000	519	88,574	89,093
Share issue expenses		–	–	(79,361)	(79,361)
At 31 December 2007 and 1 January 2008		**1,138,940,000**	**113,894**	**20,721,710**	**20,835,604**
Exercise of share options	*(c)*	**340,000**	**34**	**5,596**	**5,630**
Repurchase and cancellation of shares	*(d)*	**(2,279,000)**	**(228)**	**–**	**(228)**
At 31 December 2008		**1,137,001,000**	**113,700**	**20,727,306**	**20,841,006**

Notes:

(a) Pursuant to a sale and purchase agreement (the "Beijing Gas Sale and Purchase Agreement") entered into between the Company, Beijing Enterprises Group, Beijing Gas, BE Group BVI and 北京北燃實業有限公司 ("Beiran Enterprises") on 10 April 2007 for the acquisition of Beijing Gas BVI, 411,250,000 ordinary shares of the Company were issued as part of the consideration for the acquisition of Beijing Gas BVI. The fair value of these ordinary shares, determined by reference to the closing quoted market price of the Company's ordinary shares on the Stock Exchange at the date of acquisition of 29 June 2007, amounted to HK$12,214,125,000. Further details of the transaction are set out in note 45(d) to the financial statements.

(b) Pursuant to a placing agreement and a subscription agreement entered into between, where applicable, the Company, a substantial shareholder of the Company and three placing agents on 20 September 2007, 100,000,000 ordinary shares of the Company were allotted at a price of HK$37.1 per ordinary share to the substantial shareholder for a total cash consideration, before any issuance expenses, of HK$3,710,000,000. The purpose of the share placement was to provide additional working capital to the Group.

34. SHARE CAPITAL (continued)

Shares (continued)

Notes: (continued)

(c) The subscription rights attaching to 340,000 (2007: 4,890,000 and 300,000) share options were exercised at a subscription price of HK$12.55 per ordinary share (2007: HK$12.55 and HK$20.6 per ordinary share, respectively), resulting in the issue of 340,000 (2007: 5,190,000) ordinary shares of the Company for a total cash consideration of HK$4,267,000 (2007: HK$67,549,500). At the time when the share options were exercised, the fair values of these share options in an aggregate amount of HK$1,363,000 (2007: HK$21,543,000) previously recognised in the share option reserve were transferred to the share premium account. Further details of the share options are set out in note 35 to the financial statements.

(d) During the year, the Company repurchased a total of 2,279,000 ordinary shares of the Company on the Stock Exchange and these shares were subsequently cancelled by the Company. The summary details of these transactions are as follows:

Month of repurchase	Number of ordinary shares repurchased and cancelled	Price per ordinary share Highest HK$	Price per ordinary share Lowest HK$	Total consideration paid HK$'000
June 2008	936,000	25.62	25.01	23,562
July 2008	857,000	25.40	24.30	21,357
September 2008	100,000	22.50	22.00	2,238
October 2008	386,000	24.95	21.85	9,259
	2,279,000			56,416

The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK$56,188,000 was charged to the retained profits of the Company. Pursuant to Section 49H of the Hong Kong Companies Ordinance, an amount of HK$227,900 equivalent to the par value of the shares cancelled was transferred from the retained profits of the Company to the capital redemption reserve.

The repurchase 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.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

35. SHARE OPTION SCHEME

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

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

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

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

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's ordinary shares on the 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 share options; and (iii) the nominal value of an ordinary share of the Company.

The following share options were outstanding under the Scheme during the year:

		2008		2007	
	Notes	Weighted average exercise price HK$ per share	Number of share options	Weighted average exercise price HK$ per share	Number of share options
At 1 January	*(a)*	12.55	1,010,000	12.55	5,900,000
Granted during the year	*(b)*	–	–	20.60	300,000
Exercised during the year	*(c)*	12.55	(340,000)	13.02	(5,190,000)
At 31 December	*(a), (d)*	12.55	670,000	12.55	1,010,000

Notes:

(a) The outstanding share options were granted on 19 July 2006 at an exercise price of HK$12.55 per ordinary share of the Company. The share options may be exercised in two portions, with the first portion (representing 80% of the total share options granted for each grantee) being vested on 19 January 2007 and exercisable at any time from that date; and the second portion (representing the remaining 20% of the total share options granted for each grantee) being vested and exercisable at any time after six months from the date of grant. All the share options, if not otherwise excised, will lapse on 19 July 2011.

35. SHARE OPTION SCHEME (continued)

Notes: (continued)

(b) The estimated fair value of the 300,000 share options granted during the year ended 31 December 2007 was HK$1,950,000, which was fully recognised in the income statement as equity-settled share option expense during that year. The fair value of the share options granted was estimated as at the date of grant using a binomial lattice model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used for the year ended 31 December 2007:

- Share price as at the grant date of HK$20.6 per ordinary share, which was the closing price of the Company's ordinary shares on the Stock Exchange on 2 May 2007;
- Risk-free rate of 4.054% per annum, which was the yield of the five-year Hong Kong Monetary Authority Exchange Fund Note in May 2007;
- Expected annualised share price volatility of 30.89%, of which reference was made to the volatility of the historical share price of the Company from 5 May 2002 to 4 May 2007;
- Dividend yield of 0.9%;
- Expected life of the share options of five years; and
- The second portion of the share options are exercisable at any time after six months from the date of grant.

The expected volatility reflects the assumption that the volatility for 12 months is indicative of future trends, which may not necessarily be the actual outcome.

In addition to the share options granted during the year ended 31 December 2007, equity-settled share option expense of HK$2,321,000 was recognised in the income statement during the year ended 31 December 2007 in respect of the share options granted during the year ended 31 December 2006 which vested in 2007.

(c) 340,000 share options were exercised during the year ended 31 December 2008. The weighted average closing price of the ordinary shares of the Company immediately before these dates on which the share options were exercised was HK$28.93.

(d) At 31 December 2008, the Company had 670,000 share options outstanding under the Scheme, which represented approximately 0.06% of the ordinary 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 670,000 additional ordinary shares of the Company and additional share capital of HK$67,000 and share premium of HK$8,341,500 (before any issuance expenses).

36. RESERVES

(a) Group

(i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 44 to 45 of the financial statements.

(ii) The capital redemption reserve represents the par value of ordinary shares of the Company which had been repurchased and cancelled.

(iii) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payment transactions in note 2.4 to the financial statements. The amount will either to be transferred to the share premium account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.

(iv) 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, jointly-controlled entities and associates. None of the Group's PRC reserve funds as at 31 December 2008 were distributable in the form of cash dividends.

(v) Certain amounts of goodwill arising on the acquisition of subsidiaries and associates in prior years remain eliminated against the consolidated capital reserve as further explained in notes 19(a) and 24(c) to the financial statements, respectively.

36. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2007		4,839,497	–	21,279	–	495,165	5,355,941
Share issue expenses and total income and expense recognised directly in equity	*34*	(79,361)	–	–	–	–	(79,361)
Profit for the year	*13*	–	–	–	–	700,173	700,173
Total income and expense for the year		(79,361)	–	–	–	700,173	620,812
Allotment of new ordinary shares for acquisition of Beijing Gas BVI	*34(a)*	12,173,000	–	–	–	–	12,173,000
Share placement	*34(b)*	3,700,000	–	–	–	–	3,700,000
Exercise of share options	*34(c)*	88,574	–	(21,543)	–	–	67,031
Equity-settled share option arrangements	*35(b)*	–	–	4,271	–	–	4,271
Final 2006 dividend		–	–	–	–	(788)	(788)
Interim 2007 dividends	*14*	–	–	–	–	(227,706)	(227,706)
Proposed final 2007 dividends	*14*	–	–	–	–	(455,576)	(455,576)
At 31 December 2007 and 1 January 2008		**20,721,710**	**–**	**4,007**	**–**	**511,268**	**21,236,985**
Fair value gain on revaluation of a building upon transfer to investment properties and total income and expense recognised directly in equity	*16*	**–**	**–**	**–**	**17,561**	**–**	**17,561**
Profit for the year	*13*	**–**	**–**	**–**	**–**	**350,671**	**350,671**
Total income and expense for the year		**–**	**–**	**–**	**17,561**	**350,671**	**368,232**
Exercise of share options	*34(c)*	**5,596**	**–**	**(1,363)**	**–**	**–**	**4,233**
Repurchase and cancellation of shares	*34(d)*	**–**	**228**	**–**	**–**	**(56,416)**	**(56,188)**
Interim 2008 dividend	*14*	**–**	**–**	**–**	**–**	**(227,479)**	**(227,479)**
Proposed final 2008 dividends	*14*	**–**	**–**	**–**	**–**	**(511,650)**	**(511,650)**
At 31 December 2008		**20,727,306**	**228**	**2,644**	**17,561**	**66,394**	**20,814,133**

37. BANK AND OTHER BORROWINGS

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Bank loans:				
Secured	1,180,671	167,769	–	–
Unsecured	5,082,691	4,974,666	2,391,567	2,093,873
	6,263,362	5,142,435	2,391,567	2,093,873
Other loans, unsecured	804,662	781,165	–	–
Total bank and other borrowings	7,068,024	5,923,600	2,391,567	2,093,873
Analysed into:				
Bank loans repayable:				
Within one year	3,071,937	2,557,961	296,300	–
In the second year	241,652	184,243	–	–
In the third to fifth years, inclusive	2,520,400	2,368,822	2,095,267	2,093,873
Beyond five years	429,373	31,409	–	–
	6,263,362	5,142,435	2,391,567	2,093,873
Other loans repayable:				
Within one year	100,699	83,314	–	–
In the second year	63,155	47,979	–	–
In the third to fifth years, inclusive	180,208	158,150	–	–
Beyond five years	460,600	491,722	–	–
	804,662	781,165	–	–
Total bank and other borrowings	7,068,024	5,923,600	2,391,567	2,093,873
Portion classified as current liabilities	(3,172,636)	(2,641,275)	(296,300)	–
Non-current portion	3,895,388	3,282,325	2,095,267	2,093,873

37. BANK AND OTHER BORROWINGS (continued)

Notes:

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

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
HK$	2,391,567	2,093,873	2,391,567	2,093,873
RMB	4,233,517	3,362,200	–	–
Euro	13,233	14,699	–	–
US$	429,707	452,828	–	–
	7,068,024	5,923,600	2,391,567	2,093,873

(b) Included in the Group's bank and other borrowings of the Group at the balance sheet date are:

(i) amortised cost of interest-free loans of HK$139,251,000 (2007: HK$125,965,000) granted from a joint venture partner of a subsidiary;

(ii) certain bank and other loans, with an aggregate carrying amount of HK$610,715,000 (2007: HK$647,953,000), that were utilising the proceeds from certain loans granted by three overseas governments and the Asian Development Bank to the PRC government and a number of loans from 北京市財政局 (the Finance Bureau of Beijing) to finance certain of the Group's pipeline construction projects. Except for an interest-free loan of HK$12,711,000 (2007: HK$13,310,000), these loans bear interest at rates of 2% to 6.3%. These loans were acquired by the Group upon the acquisition of Beijing Gas BVI during the year ended 31 December 2007 as further detailed in note 45(d) to the financial statements; and

(iii) a loan of HK$6,815,000 (2007: Nil) granted by a local government in Mainland China to finance a sewage treatment plant construction project of the Group.

(c) HK$313,140,000 (2007: HK$333,333,000) of the Group's unsecured bank loans at the balance sheet date were guaranteed by the joint venture partners of certain of the Group's PRC subsidiaries or their associates.

(d) Certain of the Group's bank and other loans are secured by:

(i) mortgages over the Group's buildings and plant and machinery, and leasehold land with aggregate net carrying amounts at the balance sheet date of HK$31,724,000 (2007: HK$114,297,000) (note 16(b)) and HK$30,724,000 (2007: HK$51,073,000) (note 18), respectively;

(ii) mortgages over sewage treatment concession rights, land use rights and certain operating facilities of the sewage treatment plants which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors. These land use rights and operating facilities are normally registered under the names of the relevant entities in the Group and are required to be returned to the grantors at the end of the respective service concession periods (note 20(b)(i));

37. BANK AND OTHER BORROWINGS (continued)

Notes: (continued)

(d) (continued)

(iii) guarantees given by certain subsidiaries;

(iv) a pledge over the Group's 60% equity interest in Shenzhen Hua Qiang; and/or

(v) pledges over certain of the Group's bank balances of HK$8,066,000 (2007: HK$43,003,000) in aggregate (note 26(b)).

(e) The bank loans of the Group and the Company include a five-year HK$2.1 billion syndicated loan facility obtained by the Company in 2007. The syndicated loan bears interest at HIBOR+0.285% and is fully repayable on 20 June 2012.

The loan agreement includes certain conditions imposing specific performance obligations on the Company's holding companies, among which are the following events which would constitute an event of default on the loan facility:

(i) If the beneficial interest of the Company ceases to be owned or controlled by Beijing Enterprises Group; and

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

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

38. CONVERTIBLE BONDS

Summary information of the Group's convertible bonds as at 31 December 2008, which are all issued by BE Water, a subsidiary acquired by the Group during the year as further detailed in note 45(a) to the financial statements, is set out as follows:

Group

	Tranche 1 Bonds* *(note (a))*	Tranche 2 Bonds* *(note (a))*	ZKC Convertible Bonds* *(note (b))*
Issuance date	27/7/2007	31/3/2008	24/7/2008
Maturity date	26/7/2010	30/3/2011	23/7/2013
Original principal amount *(HK$'000)*	100,000	100,000	589,304
Coupon rate	Zero	Zero	Zero
Conversion price per ordinary share of BE Water *(HK$)*	0.40	0.40	0.69

* As defined in the respective circulars of BE Water in connection with the issuance of the convertible bonds (see notes below).

38. CONVERTIBLE BONDS (continued)

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

Group

	Tranche 1 Bond HK$'000 *(note (a))*	**Tranche 2 Bond** HK$'000 *(note (a))*	**ZKC Convertible Bonds** HK$'000 *(note (b))*	**Total** HK$'000
Principal amount outstanding				
At 31 December 2007 and 1 January 2008	–	–	–	–
Acquisition of subsidiaries	100,000	–	–	100,000
Issue of convertible bonds	–	100,000	589,304	689,304
Conversion to ordinary shares of BE Water	(66,000)	(20,000)	–	(86,000)
At 31 December 2008	34,000	80,000	589,304	703,304
Liability component				
At 31 December 2007 and 1 January 2008	–	–	–	–
Acquisition of subsidiaries *(note 45)*	85,955	–	–	85,955
Issue of convertible bonds	–	78,707	404,263	482,970
Imputed interest expense *(note 8)*	2,975	4,357	13,962	21,294
Conversion to ordinary shares of BE Water	(58,154)	(16,157)	–	(74,311)
At 31 December 2008	30,776	66,907	418,225	515,908

Notes:

(a) Tranche 1 Bond and Tranche 2 Bond were issued to Pioneer Wealth Limited, a shareholder of BE Water, pursuant to a convertible bond subscription agreement dated 12 April 2007 for the purpose of financing future investments in water treatment businesses in the PRC (as amended) and providing additional working capital to BE Water. Further details of these convertible bonds are set out in BE Water's circular dated 3 May 2007 and BE Water's announcements dated 27 July 2007, 31 March 2008 and 12 June 2008.

(b) The ZKC Convertible Bonds were issued to Besto Holdings Limited ("Besto"), Tenson Investment Limited ("Tenson") and Newton Finance Holdings Limited ("Newton") (collectively the "ZKC Environmental Vendors") as part of the consideration payable by the Group for the acquisition of the 100% equity interest in Gainstar Limited, which holds indirectly an 88.43% equity interest in ZKC Environmental, pursuant to a sale and purchase agreement (the "ZKC Acquisition Agreement") entered into between, among others, BE Water and the ZKC Environmental Vendors.

Besto, Tenson and Newton become related companies of the Group immediately following the completion of the acquisition of Gainstar Limited by BE Water. Further details of the ZKC Convertible Bonds are set out in BE Water's circular dated 30 June 2008.

39. DEFINED BENEFIT PLANS

Certain employees of Beijing Gas, an indirectly-held wholly-owned subsidiary of the Company, can enjoy retirement benefits after retirement such as supplemental medical reimbursement, allowance and beneficiary benefits pursuant to certain of its defined benefit plans.

The following tables summarise the components of the net benefit expense of the defined benefit plans recognised in the consolidated income statement of the Group and the amounts recognised in the consolidated balance sheet for the respective plans:

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

Group	2008				
	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	2007 Total HK$'000
Current service cost	6,324	2,553	–	8,877	6,193
Past service cost	116,834	6,464	10,406	133,704	–
Interest cost on benefit obligations	6,296	3,304	17	9,617	4,049
Net actuarial (gain)/loss recognised in the year	(876)	(551)	–	(1,427)	643
Net benefit expense	128,578	11,770	10,423	150,771	10,885

(b) Benefit liabilities

Group	2008				
	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	2007 Total HK$'000
Defined benefit obligations	228,375	101,830	10,866	341,071	184,766
Unrecognised actuarial gains/(losses)	56,221	(6,733)	(149)	49,339	39,310
Total benefit liabilities	284,596	95,097	10,717	390,410	224,076
Portion classified as current liabilities included in other payables and accruals (*note 44*)				(595)	(304)
Non-current portion				389,815	223,772

39. DEFINED BENEFIT PLANS (continued)

(c) Changes in the present values of the defined benefit obligations

Group

	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 2007	–	–	–	–
Acquisition of subsidiaries (*note 45*)	137,728	69,619	177	207,524
Current service cost	4,389	1,628	–	6,017
Present value of benefit obligations for new participants of internal retirement plan during the year	–	–	176	176
Interest cost	2,736	1,313	–	4,049
Benefits paid	(39)	(108)	–	(147)
Actuarial gains on obligations	(29,123)	(10,908)	–	(40,031)
Exchange realignment	4,673	2,492	13	7,178
At 31 December 2007 and 1 January 2008	**120,364**	**64,036**	**366**	**184,766**
Current service cost	**6,324**	**2,553**	**–**	**8,877**
Past service cost	**116,834**	**6,464**	**10,406**	**133,704**
Interest cost	**6,296**	**3,304**	**17**	**9,617**
Benefits paid	**(73)**	**(282)**	**(232)**	**(587)**
Actuarial losses/(gains) on obligations	**(30,291)**	**21,269**	**147**	**(8,875)**
Exchange realignment	**8,921**	**4,486**	**162**	**13,569**
At 31 December 2008	**228,375**	**101,830**	**10,866**	**341,071**

39. DEFINED BENEFIT PLANS (continued)

(d) Principal assumptions

The above obligations were determined based on actuarial valuations performed by an independent actuary, Towers Perrin, 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:

	2008	2007
Discount rate	3.50%	4.75%
Salary increase rate of internal retirees	4.50%	4.50%
Average salary increase rate of Beijing city	15.00%	15.00%
Healthcare cost inflation rate	8.00%	8.00%

The assumed healthcare cost inflation rate has a significant effect on the amounts recognised in the consolidated income statement. A one percentage point change in the assumed healthcare cost inflation rate would have the following effects:

Group

	Increase/(decrease)	
	2008	2007
	HK$'000	HK$'000
Effect on the aggregate of the service cost and interest cost:		
One percentage point increase	7,139	2,188
One percentage point decrease	(4,913)	(1,532)
Effect on the defined benefit obligations:		
One percentage point increase	82,835	41,983
One percentage point decrease	(58,710)	(30,062)

40. PROVISION FOR MAJOR OVERHAULS

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

40. PROVISION FOR MAJOR OVERHAULS (continued)

The movements in the provision for major overhauls of the expressway, the toll road, and sewage and water treatment plants for the years ended 31 December 2008 and 2007, are as follows:

Group

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
At 1 January:			
As previously reported		–	–
Effect of adopting HK(IFRIC)-Int 12	*2.2*	95,955	139,978
As restated		95,955	139,978
Acquisition of subsidiaries	*45*	61,447	–
Additional provision		44,363	31,000
Amounts utilised during the year		(86,430)	(91,162)
Increase in discounted amounts arising from the passage of time	*8*	1,022	8,713
Exchange realignment		5,081	7,426
At 31 December		121,438	95,955
Portion classified as current liabilities		–	(82,386)
Non-current portion		121,438	13,569

41. OTHER LONG TERM LIABILITIES

	Group 2008 HK$'000	Group 2007 HK$'000
Other liabilities – non-current portion *(note 44)*	85,832	14,856
Deferred income *(note)*	118,610	121,834
	204,442	136,690

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

42. DEFERRED TAX

Net deferred tax assets/(liabilities) recognised in the consolidated balance sheet are as follows:

Group

	2008 HK$'000	2007 HK$'000 (Restated)
Deferred tax assets	484,772	385,657
Deferred tax liabilities	(279,859)	(175,469)
	204,913	210,188

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

Group

	Notes	Revaluation of properties HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Depreciation allowances in excess of related depreciation HK$'000	Revaluation of investment HK$'000	Impairment and provision HK$'000	Derecognition of property, plant and equipment HK$'000	Provision for bonus and defined benefit plans HK$'000	Provision for major overhauls HK$'000	Temporary difference related to service concession arrangements HK$'000	Withholding taxes HK$'000 *(note (b))*	Net deferred tax assets/ (liabilities) HK$'000
At 1 January 2007:												
As previously reported		–	(1,212)	(19,300)	–	663	–	–	–	–	–	(19,849)
Effect of adopting HK(IFRIC)-Int 12	2.2	–	–	18,903	–	–	–	–	47,596	(137,165)	–	(70,666)
As restated		–	(1,212)	(397)	–	663	–	–	47,596	(137,165)	–	(90,515)
Acquisition of subsidiaries, as restated	45	–	130,700	–	–	60,082	27,298	68,009	–	–	–	286,089
Deferred tax credited/(charged) to income statement during the year, due to the effect of changes in tax rates, as restated	*11*	–	–	–	–	–	–	–	14,879	(3,691)	–	11,188
Deferred tax credited/(charged) to the income statement during the year, as restated	*11*	–	–	(340)	(64)	1,927	–	(3,057)	11,995	(7,168)	–	3,293
Exchange realignment, as restated		–	(687)	(27)	–	2,564	1,108	2,633	4,372	(9,830)	–	133
At 31 December 2007, as restated		–	128,801	(764)	(64)	65,236	28,406	67,585	78,842	(157,854)	–	210,188

42. DEFERRED TAX (continued)

Group

	Notes	Revaluation of properties HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Depreciation allowances in excess of related depreciation HK$'000	Revaluation of investment HK$'000	Impairment and provision HK$'000	Derecognition of property, plant and equipment HK$'000	Provision for bonus and defined benefit plans HK$'000	Provision for major overhauls HK$'000	Temporary difference related to service concession arrangements HK$'000	Withholding taxes HK$'000 *(note (b))*	Net deferred tax assets/ (liabilities) HK$'000
At 1 January 2008:												
As previously reported		–	(16,786)	(32,504)	(64)	65,236	28,406	67,585	–	–	–	111,873
Effect of adopting HK(IFRIC)-Int 12	2.2	–	–	31,740	–	–	–	–	78,843	(157,855)	–	(47,272)
Other restatement	45(d)	–	145,587	–	–	–	–	–	–	–	–	145,587
As restated		–	128,801	(764)	(64)	65,236	28,406	67,585	78,843	(157,855)	–	210,188
Acquisition of subsidiaries	45	–	49,910	–	–	2,066	–	–	–	(76,679)	–	(24,703)
Deferred tax credited/(charged) to the income statement during the year	11	(733)	(27,015)	–	–	36,158	(3,508)	48,291	(12,657)	(12,298)	(29,542)	(1,304)
Disposal of subsidiaries	46	–	–	424	–	–	–	–	–	–	–	424
Exchange realignment		(10)	14,077	(60)	(77)	4,595	1,745	4,911	4,807	(9,680)	–	20,308
At 31 December 2008		(743)	165,773	(400)	(141)	108,055	26,643	120,787	70,993	(256,512)	(29,542)	204,913

Notes:

(a) At 31 December 2008, deferred tax assets have not been recognised in respect of unused tax losses of HK$663,391,000 (2007: HK$704,019,000) 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, unrecognised tax losses of HK$643,683,000 (2007: HK$668,425,000) will expire in one to five years.

(b) Pursuant to the New PRC CIT 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 the PRC and 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, jointly-controlled entities and associates established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$1,526,648,000 as at 31 December 2008 (2007: Nil).

(c) There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders. In addition, in the opinion of the directors, there are no income tax consequences regarding the Group's convertible bonds and hence, no deferred tax liabilities have been provided in respect of these convertible bonds.

43. TRADE AND BILLS PAYABLES

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

	Group	
	2008 HK$'000	2007 HK$'000
Within one year	997,868	1,334,249
One to two years	158,266	392,436
Two to three years	18,351	3,947
Over three years	15,737	6,931
	1,190,222	1,737,563

Included in the Group's trade and bills payables at the balance sheet date are amounts of HK$24,927,000 (2007: HK$341,941,000) and HK$44,947,000 (2007: HK$8,577,000) due to related companies and a jointly-controlled entity, respectively, arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related companies and the jointly-controlled entity to their major customers.

Certain of the Group's bills payables as at the balance sheet date are secured by a pledge over certain of the Group's bank balances with an aggregate amount of HK$29,133,000 (2007: HK$63,206,000) (note 26(b)).

44. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Notes	2008 HK$'000	2007 HK$'000 (Restated)	2008 HK$'000	2007 HK$'000
Accruals		91,482	111,479	50,109	62,329
Defined benefit plans – current portion	*39(b)*	595	304	–	–
Other liabilities		3,605,067	3,542,707	2,404	14,934
Due to the immediate holding company	*31*	–	578,643	–	578,643
Due to a fellow subsidiary	*31*	–	8,523	–	8,523
Due to related parties	*31*	1,078,417	59,212	48,286	23,982
		4,775,561	4,300,868	100,799	688,411
Portion classified as current liabilities		(4,689,729)	(4,286,012)	(100,799)	(688,411)
Non-current portion	*41*	85,832	14,856	–	–

The Group's other liabilities as at the balance sheet date included, inter alia, the following:

(i) an amount of HK$27,214,000 (2007: HK$25,591,000) 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 26(a) to the financial statements;

(ii) construction project costs of HK$72,595,000 (2007: HK$82,462,000) payable to certain fellow subsidiaries of the Group. The balances with the fellow subsidiaries are unsecured, interest-free, and have no fixed terms of repayment;

(iii) outstanding considerations in the amounts of RMB33,680,000 (equivalent to HK$38,255,000) and RMB41,159,000 (equivalent to HK$46,748,000) payable to the Mianyang Government for the transfer and construction of sewage treatment facilities under a TOT agreement and a BOT arrangement, respectively. The outstanding considerations will be repayable in four annual instalments of RMB15,000,000 and the last instalment of RMB14,839,000 being due for repayment in 2012; and

(iv) outstanding consideration in the amount of RMB4,000,000 (equivalent to HK$4,543,000) payable to Taizhou Government for the transfer of a sewage treatment facility to the Group under a TOT arrangement. The balance is fully repayable in 2009.

45. BUSINESS COMBINATIONS

Except for operating concessions with an aggregate carrying amount of HK$626,772,000 immediately before the acquisitions, the fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year as at their respective dates of acquisition have no significant differences from their respective carrying amounts, and are set out as follows:

	Notes	BE Water HK$'000 (note (a))	ZKC Group HK$'000 (note (b))	Hua Qiang Group HK$'000 (note (c))	2008 Total HK$'000	2007 Total HK$'000 (Restated) (note (d))
Net assets acquired:						
Property, plant and equipment	*16*	72	7,886	2,153	10,111	8,153,935
Prepaid land premiums	*18*	–	–	–	–	428,289
Operating concessions	*20*	–	101,702	334,403	436,105	–
Other intangible assets	*21*	–	1,219	–	1,219	10,350
Interest in a jointly-controlled entity		–	–	–	–	2,732,095
Interest in an associate		–	26,268	–	26,268	–
Available-for-sale investments		–	457	–	457	–
Prepayments, deposits and other receivables		12,217	76,532	15,021	103,770	285,512
Deferred tax assets	*42*	–	8,245	20,485	28,730	300,976
Inventories		–	1,999	897	2,896	34,436
Amounts due from contract customers		–	110,177	–	110,177	432
Receivables under service concession arrangements		–	1,292,821	63,129	1,355,950	–
Trade and bills receivables		5,657	9,630	–	15,287	641,589
Financial assets at fair value through profit or loss		27,471	–	–	27,471	–
Restricted cash and pledged deposits		–	–	–	–	31,262
Cash and bank balances		175,858	79,928	221,764	477,550	502,443
Trade and bills payables		–	(67,442)	(37,955)	(105,397)	(733,143)
Amounts due to contract customers		–	–	–	–	(15,378)
Other payables and accruals		(335)	(210,871)	(29,319)	(240,525)	(1,885,531)
Income tax payable		–	(10,304)	(5,442)	(15,746)	(131,849)
Bank and other borrowings		–	(695,002)	(275,461)	(970,463)	(672,890)
Convertible bonds	*38*	(85,955)	–	–	(85,955)	–
Defined benefit plans		–	–	–	–	(204,584)*
Provision for major overhauls	*40*	–	(58,627)	(2,820)	(61,447)	–
Other long term liabilities		–	(1,184)	–	(1,184)	(22,028)
Deferred tax liabilities	*42*	–	(41,806)	(11,627)	(53,433)	(14,887)
Minority interests		(34,016)	(90,425)	(137,902)	(262,343)	(9,432)
		100,969	541,203	157,326	799,498	9,431,597
Goodwill on acquisition	*19*	–	1,357,139	109,621	1,466,760	6,836,993
Excess over cost of a business combination recognised as income		(1,244)	–	–	(1,244)	–
		99,725	1,898,342	266,947	2,265,014	16,268,590

* Included in the amount were defined benefit obligations of HK$207,524,000 (note 39(c)) and unrecognised actuarial losses of HK$2,940,000.

45. BUSINESS COMBINATIONS (continued)

	Notes	BE Water HK$'000 (note (a))	ZKC Group HK$'000 (note (b))	Hua Qiang Group HK$'000 (note (c))	2008 Total HK$'000	2007 Total HK$'000 (Restated) (note (d))
Satisfied by:						
Cash		–	–	266,947	266,947	4,000,100
Fair value adjustment of cash consideration		–	–	–	–	(45,488)
Allotment of new ordinary shares of the Company as consideration	*34(a)*	–	–	–	–	12,214,125
Allotment of new ordinary shares of BE Water as consideration	*(b)*	–	1,053,871	–	1,053,871	–
Issue of new convertible bonds by BE Water	*(b)*	–	828,000	–	828,000	–
Subscription of new ordinary shares of BE Water		98,800	–	–	98,800	–
Costs associated with the acquisitions		925	16,471	–	17,396	99,853
		99,725	1,898,342	266,947	2,265,014	16,268,590
Profit/(loss) for the year since acquisition		(23,151)	72,507	4,286	53,642	339,202

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

	BE Water HK$'000 (note (a))	ZKC Group HK$'000 (note (b))	Hua Qiang Group HK$'000 (note (c))	Beijing Gas BVI Group HK$'000 (note (d))	2008 Total HK$'000	2007 Total HK$'000 (Restated) (note (d))
Subscription of new ordinary shares of BE Water	(98,800)	–	–	–	(98,800)	–
Cash and bank balances acquired	175,858	79,928	221,764	–	477,550	502,443
Amortised cost of outstanding cash consideration:						
At beginning of year	–	–	–	(578,643)	(578,643)	–
Cash consideration, at fair value	–	–	(266,947)	–	(266,947)	(3,954,612)
Increase in fair value of cash consideration arising from the passage of time *(note 8)*	–	–	–	(10,780)	(10,780)	(34,708)
Set-off against current accounts with fellow subsidiaries	–	–	–	–	–	998,506
Offset against the cash consideration receivable from BE Group BVI and fellow subsidiaries in respect of the Group's disposal of Everbest, Shun Xing, Feng Shou, Helken and certain buildings and investment properties *(notes 46(a), (b) and 51(b)(i))*	–	–	–	506,649	506,649	–
At end of year	–	–	–	–	–	578,643
Cash paid for costs associated with the acquisition	(925)	(16,471)	–	–	(17,396)	(99,853)
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	76,133	63,457	(45,183)	(82,774)	11,633	(2,009,581)

45. BUSINESS COMBINATIONS (continued)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year, profit from continuing operations and profit from discontinued operations for the year ended 31 December 2008 would have been HK$2,681,229,000 (2007: HK$2,305,908,000, as restated), HK$2,681,229,000 (2007: HK$2,225,081,000, as restated) and nil (2007: HK$80,827,000), respectively, and the Group's revenue (comprising turnover and other income and gains, net), revenue from continuing operations and revenue from discontinued operations for the year would have been HK$20,693,327,000 (2007: HK$15,270,105,000, as restated), HK$20,693,327,000 (2007: HK$15,189,278,000, as restated) and nil (2007: HK$80,827,000), respectively.

Notes:

(a) Pursuant to a subscription agreement (the "BE Water Subscription Agreement") dated 21 January 2008 entered into between the Company, BE Water and a wholly-owned subsidiary of the Company, the Group acquired a 74.78% equity interest in BE Water, a company incorporated in Bermuda and listed on the Main Board of the Stock Exchange, by subscription of 247,000,000 new ordinary shares of BE Water at a subscription price of HK$0.40 per share. Total subscription consideration, before any costs associated with the acquisition, amounted to HK$98,800,000. The BE Water Subscription Agreement was completed on 7 March 2008 and BE Water becomes a subsidiary of the Group since then.

At the time of acquisition, BE Water and its then subsidiaries were principally engaged in the trading of computer and related products in Hong Kong and Mainland China.

(b) Pursuant to the ZKC Acquisition Agreement entered into between, among others, BE Water and the ZKC Environmental Vendors on 3 June 2008 and as approved by BE Water's shareholders at a special general meeting held on 15 July 2008, the BE Water Group acquired from the ZKC Environmental Vendors the entire issued share capital of Gainstar Limited, an investment holding company holding indirectly an aggregate of an 88.43% equity interest in ZKC Environmental after the completion of its acquisition of Monico (see below). Gainstar Limited and its subsidiaries (the "ZKC Group") are principally engaged in the operations of sewage treatment and the provision of related services in Mainland China. The acquisition was completed on 1 August 2008.

In accordance with the ZKC Acquisition Agreement, total consideration for the acquisition, subject to adjustments in certain circumstances, amounted to HK$1,370,665,000, of which HK$975,557,782 (the "Gainstar Consideration") was payable to the ZKC Environmental Vendors for the transfer of the entire issued share capital of Gainstar Limited to the Group and the remaining balance of HK$395,107,218 (the "Monico Consideration") payable to Tenson or its nominees for the transfer of the entire issued share capital of Monico to Gainstar Limited.

The Gainstar Consideration, which has been fully settled as at 31 December 2008, was satisfied by the allotment and issuance of 559,787,908 new ordinary shares of BE Water and the issue of the ZKC Convertible Bonds with an aggregate principal amount of HK$589,304,125 by BE Water to the ZKC Environmental Vendors. The fair value of the Gainstar Consideration amounted to approximately HK$1,339,420,000, being the aggregate amount of the fair value of the 559,787,908 consideration shares of approximately HK$750,116,000 (determined based on the closing price of BE Water's ordinary shares on the Stock Exchange on the date of acquisition of 1 August 2008) and the nominal value of the ZKC Convertible Bonds issued. Further details of the ZKC Convertible Bonds are set out in note 38 to the financial statements.

The Monico Consideration, which remained unsettled as at the date of approval of these financial statements and is included in the amounts due to related parties of the Group as at 31 December 2008, is to be satisfied by the allotment and issuance of 226,683,106 new ordinary shares of BE Water and the issue of convertible bonds with an aggregate principal amount of HK$238,695,875 (the "Monico Convertible Bonds") by BE Water to Tenson or its nominees. The fair value of the Monico Consideration amounted to approximately HK$542,451,000 (note 31(b)), being the aggregate amount of the fair value of the 226,683,106 consideration shares of approximately HK$303,755,000 (determined based on the closing price of BE Water's ordinary shares on the Stock Exchange on the date of acquisition of 1 August 2008) and the nominal value of the Monico Convertible Bonds to be issued.

Further details of this transaction are set out in BE Water's circular dated 30 June 2008 (the "ZKC Acquisition Circular").

The purchase price allocation in respect of the acquisition of the ZKC Group set out above is still preliminary, as the Gainstar Consideration is subject to adjustments contingent on future events, which include, inter alia, (i) the attainment of a profit for the year attributable to equity holders of RMB100 million by ZKC Environmental and its subsidiaries for the year ended 31 December 2008, as determined on the basis set out in the ZKC Acquisition Circular; and (ii) the ultimate settlement of billed trade receivables outstanding as at 1 August 2008 (date of completion of the acquisition of Gainstar Limited).

45. BUSINESS COMBINATIONS (continued)

Notes: *(continued)*

(c) Pursuant to a share transfer agreement entered into between, among others, ZKC Environmental, Hong Qiao and two third parties independent to the Group on 8 September 2008 (the "Hua Qiang Acquisition Agreement"), the Group acquired a 60% equity interest in Shenzhen Hua Qiang from the two third parties for a total cash consideration of RMB235,362,074 (equivalent to HK$266,947,000), which was fully settled during the year. Shenzhen Hua Qiang and its subsidiaries (the "Hua Qiang Group") are principally engaged in the operations of sewage treatment, water treatment and distribution and the provision of related services in Mainland China. The acquisition was completed on 28 September 2008.

(d) Pursuant to the Beijing Gas Sale and Purchase Agreement dated 10 April 2007, the Company acquired the entire issued share capital of Beijing Gas BVI at HK$11,600,000,000, which was payable as to HK$4,000,100,000 in cash and as to the balance of HK$7,599,900,000 by way of issuance of 411,250,000 ordinary shares of the Company at a price of HK$18.48 per share. The cash consideration was to be settled in two instalments, with the first instalment of HK$3,000,000,000 being payable upon completion of the acquisition and the final instalment of HK$1,000,100,000 being due for settlement on 30 June 2008 or such other date as the Company and BE Group BVI might agree.

Beijing Gas BVI is an investment holding company which holds a 100% equity interest in Beijing Gas, a company incorporated in the PRC. Beijing Gas and its subsidiaries engage in (i) the distribution and sale of piped natural gas in Beijing; (ii) the provision of gas technology consultation and development services and surveying and plotting of underground construction projects; and (iii) the construction and installation of gas pipelines and related equipment and the provision of repair and maintenance services. Beijing Gas BVI and its subsidiaries are hereinafter collectively referred to as the "Beijing Gas BVI Group".

Approval of the acquisition transaction from the shareholders of the Company was obtained on 17 May 2007 and the transaction was completed on 29 June 2007. Beijing Gas BVI became a wholly-owned subsidiary of the Company since then. The fair value of the 411,250,000 ordinary shares of the Company at the date of acquisition of 29 June 2007, determined based on the then closing quoted market price of the Company's ordinary shares on the Stock Exchange, amounted to HK$12,214,125,000 and was treated as a part of the Group's costs of acquisition of BE Group BVI.

Pursuant to a deed of set-off entered into between the Company, Beijing Enterprises Group and certain subsidiaries of Beijing Enterprises Group on 10 April 2007, Beijing Enterprises Group agreed that HK$998,506,000 of the first instalment of the cash consideration payable by the Company in respect of the acquisition could be offset against certain of the Group's amounts due from certain subsidiaries of Beijing Enterprises Group. The remaining balance of the first instalment of the cash consideration of HK$2,001,494,000 payable upon completion of the acquisition had fully been settled during that year. During the year ended 31 December 2008, the final instalment of the cash consideration was partly settled in cash or offset against the consideration receivable from BE Group BVI of HK$254,729,000 in respect of its acquisition of the Group's equity interests in Everbest, Shun Xing, Feng Shou and Helken and the consideration receivable from Beijing Holdings Limited ("BHL", a fellow subsidiary) and certain of its subsidiaries of HK$251,920,000 in respect of their purchases of certain buildings and investment properties of the Group during the year, details of which are disclosed in notes 46(a), (b) and 51(b)(i) to the financial statements, respectively.

The purchase price allocation in respect of this acquisition as set out in the financial statements for the year ended 31 December 2007 was still preliminary and was pending the confirmation of the tax basis of the underlying assets from the relevant tax bureau in Mainland China. As the tax basis of the underlying assets has been confirmed by the relevant tax bureau during the year ended 31 December 2008, the purchase price allocation was adjusted retrospectively to complete the initial accounting for the acquisition of the Beijing Gas BVI Group in accordance with the requirement of HKFRS 3. The effect of this adjustment is to increase and decrease the deferred tax assets as at the date of acquisition of Beijing Gas BVI and goodwill arising on the acquisition by HK$145,587,000, respectively.

46. DISPOSAL OF SUBSIDIARIES

	Notes	2008 HK$'000 (note)	2007 HK$'000
Net assets disposed of:			
Property, plant and equipment	16	87,969	–
Investment properties	17	11,000	–
Prepaid land premiums	18	12,137	–
Operating concessions	20	49,680	–
Interests in jointly-controlled entities		4,679	–
Inventories		76,202	–
Trade and bills receivables		23,125	–
Prepayments, deposits and other receivables		15,943	–
Pledged deposits		779	–
Cash and bank balances		91,037	–
Trade and bills payables		(21,377)	–
Other payables and accruals		(57,829)	–
Income tax payable		(198)	–
Other taxes payable		(4,911)	–
Other long term liabilities		(11,752)	–
Deferred tax liabilities	42	(424)	–
Minority interests		(84,429)	–
		191,631	–
Exchange fluctuation reserve realised		(20,197)	–
Gain on disposal of interests in subsidiaries	5	94,707	80,827
		266,141	80,827
Satisfied by cash		266,141	80,827

46. DISPOSAL OF SUBSIDIARIES (continued)

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

	2008 HK$'000	2007 HK$'000
Cash and bank balances disposed of	(91,037)	–
Amortised cost of outstanding cash consideration:		
At beginning of year	8,205	235,719
Cash consideration	266,141	80,827
Increase in fair value of cash consideration arising from the passage of time	–	4,381
Offset against the cash consideration payable to BE Group BVI for the acquisition of Beijing Gas BVI (*notes (a), (b)* and *45(d)*)	(254,729)	(240,386)
Reversal of impairment/(impairment) of consideration receivable	(9,086)	5,640
Exchange realignment	881	2,197
At end of year	–	(8,205)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	(79,625)	80,173

Note: During the year ended 31 December 2008, the Group had the following transactions for the disposal of subsidiaries:

(a) Pursuant to a sale and purchase agreement dated 7 April 2008 entered into between the Company and BE Group BVI, the immediate holding company, the Company disposed of its 100% equity interest in Everbest (a company which holds a 75% equity interest in LQX Tourism) and 51% equity interest in each of Shun Xing and Feng Shou to BE Group BVI at a total cash consideration of HK$243,729,000, which had been offset against a portion of the Group's cash consideration payable to BE Group BVI for the acquisition of Beijing Gas BVI as further detailed in note 45(d) to the financial statements. Upon the completion of the transactions, these companies ceased to be subsidiaries of the Company and the Group's tourism operation and the operation of production and sale of wine were discontinued accordingly.

(b) Pursuant to a sale and purchase agreement dated 9 May 2008 entered into between the Company and BHL, a fellow subsidiary, the Company disposed of its 100% equity interest in Helken to BHL at a cash consideration of HK$11,000,000, which had been offset against a portion of the Group's cash consideration payable to BE Group BVI for the acquisition of Beijing Gas BVI as further detailed in note 45(d) to the financial statements. The main asset held by Helken is an investment property in Hong Kong which is held for earning rentals.

(c) Pursuant to a sale and purchase agreement dated 27 May 2008, BE Water disposed of its entire equity interest in Shanghai Classic Limited, a wholly-owned subsidiary of BE Water, to an independent third party for a cash consideration of HK$11,412,000. Shanghai Classic Limited and its subsidiary, Shanghai Jian Kai International Trading Company Limited, did not actively engage in any business at the date of disposal.

47. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

Apart from the transactions detailed in notes 6, 34(c), 38, 45 and 46 to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2008 and 2007.

48. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Guarantee given for banking facilities granted to a company which was deconsolidated in 2006	–	213,675	–	–
Guarantee given in respect of a specific performance of an infrastructure project to be undertaken by a jointly-controlled entity	92,993	93,594	92,993	93,594
	92,993	307,269	92,993	93,594

At 31 December 2007, banking facilities were granted to a company that was deconsolidated during the year ended 31 December 2006 and an aggregate amount of HK$188,034,000 was utilised as at that date. The guarantee was released during the year ended 31 December 2008 and the Group no longer provides any guarantee to that company.

49. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 17) and certain portions of its buildings (including those that the Group is granted the right to use under service concession arrangements (note 20)) under operating lease arrangements, with the leases negotiated for original terms ranging from 2 to 10 years. The terms of the leases generally require the tenants to pay security deposits.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	7,641	3,769
In the second to fifth years, inclusive	1,946	3,725
After five years	8,880	675
	18,467	8,169

At the balance sheet date, the Company did not have any non-cancellable operating lease arrangements as lessor (2007: Nil).

(b) As lessee

The Group leases certain of its office properties and staff quarters under operating lease arrangements, with the leases negotiated with original terms ranging from 10 to 47 years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	77,230	99,248	6,712	1,004
In the second to fifth years, inclusive	96,495	124,513	8,220	8
After five years	685,430	664,626	–	–
	859,155	888,387	14,932	1,012

50. COMMITMENTS

(a) Capital commitments

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

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for:		
Buildings	45,128	231,527
Gas pipelines	166,296	233,357
Plant and machinery	201,067	322,177
Capital contributions to a jointly-controlled entity	2,111,702	–
	2,524,193	787,061
Authorised, but not contracted for:		
Buildings	579	–
Plant and machinery	90,334	–
Capital contributions to a jointly-controlled entity	53,951	591,346
	144,864	591,346
Total capital commitments	2,669,057	1,378,407

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

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for	366,447	252,908

At the balance sheet date, the Company did not have any significant capital commitments (2007: Nil).

(b) Other commitments

In addition to the operating lease commitments as disclosed in note 49(b) and the capital commitments as disclosed above, the Group had the following commitments at the balance sheet date:

	Group	
	31 December 2008	31 December 2007
	HK$'000	HK$'000
Purchase of plant and equipment, and land use rights for construction services under service concession arrangement:		
Authorised, but not contracted for	77,839	–
Contracted, but not provided for	110,368	–
	188,207	–

51. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transaction	Notes	2008 HK$'000	2007 HK$'000
Joint venture partners of subsidiaries and their associates				
北京燕京啤酒集團公司 ("Yanjing Beer Group") and its associates	Purchase of bottle labels	*(i)*	106,595	92,595
	Purchase of bottle caps	*(i)*	78,573	75,557
	Import of raw materials	*(ii)*	253,064	66,768
	Sale of beer	*(iii)*	11,102	8,566
	Canning service fees paid	*(iv)*	34,014	24,954
	Comprehensive support service fees paid	*(v)*	17,423	15,944
	Land rent expenses	*(vi)*	1,959	1,896
	Trademark licensing fees paid	*(vii)*	38,773	31,861
	Less: Refund for advertising subsidies	*(vii)*	(5,430)	(4,886)
Fellow subsidiaries				
Beiran Enterprises and its subsidiaries	Sale of piped natural gas	*(viii)*	159,160	62,420
	Service contract income	*(ix)*	12,019	3,343
	Construction contract fee expenses	*(x)*	31,064	19,432
	Purchase of raw materials	*(xi)*	216,756	41,840
	Building rental expenses	*(xi)*	42,911	17,029
	Sale of raw materials	*(xii)*	42,960	16,211
	Repair and maintenance expenses	*(xii)*	14,437	6,787
北京京泰國際貿易有限公司	Purchase of construction materials	*(xi)*	75,210	8,321
Jointly-controlled entity				
PetroChina Beijing Gas	Natural gas transmission fee expenses	*(viii)*	2,442,354	826,064
Other related parties				
China Communications Construction Company Limited and its associates	Construction costs, maintenance service costs and dismantling costs for an expressway	*(xiii)*	–	2,938

51. RELATED PARTY DISCLOSURES (continued)

(a) (continued)

Notes:

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

(ii) The import of certain raw materials for the Group's brewery operation was procured by Yanjing Beer Group from overseas suppliers on behalf of Yanjing Brewery and its subsidiaries as the Group's brewery operation does 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.

(iii) The selling price of the beer was determined by reference to the then prevailing market rates.

(iv) 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.

(v) The comprehensive support service fees paid included 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, were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.

(vi) The land rent expenses were charged at a mutually-agreed amount of RMB1,744,000 (2007: RMB1,744,000) per annum.

(vii) The trademark licensing fees paid were for the use of the "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 Brewery Group would refund 20% of the trademark licencing fees received from Yanjing Brewery for the use by Yanjing Brewery to develop and promote the "Yanjing" trademark.

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

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

(x) The construction contract fee was determined by reference to the then prevailing market rates or on a cost-plus basis and set at prices not higher than the guidance prices set by the PRC government.

(xi) The purchase prices of raw materials, construction materials, and the building rentals were determined by reference to the then prevailing market rates.

(xii) The selling prices of raw materials and the repair and maintenance expenses paid were determined on a cost-plus basis.

(xiii) The construction costs, maintenance service costs and dismantling costs for an expressway were determined by reference to the then prevailing market rates.

51. RELATED PARTY DISCLOSURES (continued)

(b) Other transactions with related parties

Year ended 31 December 2008

(i) Pursuant to a number of sale and purchase agreements entered into between the Company, Beijing Enterprises (Properties) Limited ("BE Properties", a wholly-owned subsidiary of the Company), BHL and certain of its subsidiaries in May, June and August 2008, the Company and BE Properties disposed of certain buildings and investment properties to BHL and certain of its subsidiaries during the year for an aggregate cash consideration of HK$251,920,000. The consideration was offset against a portion of the Group's consideration payable to BE Group BVI for the acquisition of Beijing Gas BVI as further detailed in note 45(d) to the financial statements.

(ii) Pursuant to an agreement dated 21 November 2008 entered into between Beijing Gas, a wholly-owned subsidiary of the Company, and Beiran Enterprises, a fellow subsidiary of the Company, Beijing Gas purchased during the year from Beiran Enterprises 68,677.25 meters long of natural gas pipelines and their related pressure regulation facilities, monitoring and control systems in Yizhuang district of the Beijing City Economic-technical Development Zone at a cash consideration of RMB120,763,163 (equivalent to HK$136,610,000).

Year ended 31 December 2007

Pursuant to an agreement dated 16 August 2007 entered into between Beijing Enterprises Treasury Company Limited ("BE Treasury"), a wholly-owned subsidiary of the Company, and a then related party, BE Treasury disposed of its equity interest in an available-for-sale investment at a cash consideration of HK$157,498,141.

(c) Outstanding balances with related parties

(i) Details of the Group's balances with related parties included in deposits and other debtors, and trade and bills payables and other payables and accruals are disclosed in notes 30(a)(i), 43 and 44 to the financial statements, respectively.

(ii) Details of the balances with jointly-controlled entities, associates, holding companies, fellow subsidiaries and related parties are disclosed in notes 23, 24 and 31 to the financial statements, respectively.

(iii) Details of the guarantees given by related parties in respect of the Group's bank and other borrowings are disclosed in note 37 to the financial statements.

(iv) Details of the guarantee given by the Group for banking facilities granted to a jointly-controlled entity are disclosed in note 48 to the financial statements.

(d) Compensation of key management personnel of the Group

	2008 HK$'000	2007 HK$'000
Short term employee benefits	21,962	17,606
Employee share option benefits	–	2,321
Pension scheme contributions	19	550
Total compensation paid to key management personnel	21,981	20,477

Further details of directors' emoluments are included in note 9 to the financial statements.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other loans, convertible bonds and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, deposits and other receivables, trade and bills payables, other payables and accruals and amounts due from/to holding companies, fellow subsidiaries and related parties, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity 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 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, convertible bonds, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the income statement as earned/incurred.

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

At 31 December 2008

	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Effective interest rate %
Floating rate:								
Restricted cash and pledged deposits	64,413	–	–	–	–	–	64,413	0.36
Cash and cash equivalents	4,794,105	–	–	–	–	–	4,794,105	0.36
Bank and other borrowings	(903,167)	(267,278)	(179,959)	(2,274,831)	(160,061)	(684,376)	(4,469,672)	3.08
Fixed rate:								
Restricted cash and pledged deposits	–	–	–	–	–	–	–	–
Cash and cash equivalents	1,872,835	–	–	–	–	–	1,872,835	1.82
Bank and other borrowings	(2,257,682)	(27,852)	(27,852)	(27,852)	(27,852)	(70,485)	(2,439,575)	4.87

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

At 31 December 2007

	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Effective interest rate %
Floating rate:								
Restricted cash and pledged deposits	115,988	–	–	–	–	–	115,988	0.72
Cash and cash equivalents	4,510,757	–	–	–	–	–	4,510,757	0.72
Bank and other borrowings	(740,215)	(42,973)	(23,818)	(26,260)	(2,122,824)	(305,474)	(3,261,564)	5.68
Fixed rate:								
Restricted cash and pledged deposits	15,812	–	–	–	–	–	15,812	3.30
Cash and cash equivalents	3,561,727	–	–	–	–	–	3,561,727	3.30
Bank and other borrowings	(1,896,349)	(186,627)	(293,465)	(26,371)	(26,371)	(93,578)	(2,522,761)	4.82

At 31 December 2008, it is estimated that a general decrease/increase of 100 basis points in 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$8,770,000 (2007: HK$18,965,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date 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 next annual balance sheet date. The analysis performed on the same basis for 2007.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, the Group's balance sheet can be affected significantly by movements in the RMB/HK$ exchange rate.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in 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
2008		
If Hong Kong dollar weakens against RMB by 5%	**132,919**	**1,399,721**
If Hong Kong dollar strengthens against RMB by 5%	**(132,919)**	**(1,399,721)**
2007		
If Hong Kong dollar weakens against RMB by 5%, as restated	90,340	1,080,786
If Hong Kong dollar strengthens against RMB by 5%, as restated	(90,340)	(1,080,786)

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.

Credit risk

The Group engaged in certain cash income businesses, such as the expressway and toll road operations, and the Group has very high debtor turnover rate and low credit risk in respect of these operations.

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

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

At the balance sheet date, 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 20 and 29 to the financial statements, respectively.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from jointly-controlled entities and associates, deposits and other receivables and amounts due from holding companies, fellow subsidiaries and related parties, arises from default at the counterparty, with a maximum exposure to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 48 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank overdrafts, bank loans, other loans and convertible bonds. In addition, banking facilities have been put in place for contingency purposes.

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

The maturity profile of the Group's financial liabilities (other than defined benefit plans) as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

At 31 December 2008

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
Bank loans	–	3,238,957	336,317	230,114	2,297,547	157,741	479,468	6,740,144
Other loans	6,815	123,869	93,334	100,347	100,213	100,162	542,214	1,066,954
Trade and bills payables	–	1,190,222	–	–	–	–	–	1,190,222
Accruals and other liabilities	15,863	3,594,854	34,904	17,037	33,891	–	–	3,696,549
Due to related parties	535,966	542,451	–	–	–	–	–	1,078,417
Convertible bonds	–	–	30,776	66,907	–	418,225	–	515,908
	558,644	8,690,353	495,331	414,405	2,431,651	676,128	1,021,682	14,288,194

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

At 31 December 2007 (Restated)

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
Bank loans	–	2,735,665	285,826	363,173	81,225	2,133,487	33,202	5,632,578
Other loans	–	118,367	78,826	85,596	92,433	92,555	593,977	1,061,754
Trade and bills payables	–	1,737,563	–	–	–	–	–	1,737,563
Accruals and other liabilities	–	3,639,330	14,856	–	–	–	–	3,654,186
Due to the immediate holding company	–	578,643	–	–	–	–	–	578,643
Due to a fellow subsidiary	8,523	–	–	–	–	–	–	8,523
Due to related parties	59,212	–	–	–	–	–	–	59,212
	67,735	8,809,568	379,508	448,769	173,658	2,226,042	627,179	12,732,459

Fair value risk

The following table sets out a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values. The fair values of these financial instruments have been calculated by discounting the expected future cash flows at prevailing interest rates.

	Carrying amount		Fair value	
	2008 HK$'000	2007 HK$'000 (Restated)	2008 HK$'000	2007 HK$'000 (Restated)
Financial assets:				
Non-current receivables under service concession arrangements	2,821,311	1,502,056	2,821,311	1,502,056
Non-current prepayments, deposits and other receivables	124,270	22,094	124,270	22,094
Financial liabilities:				
Non-current bank and other borrowings:				
Floating rate borrowings	3,566,505	2,521,349	3,566,505	2,521,349
Fixed rate borrowings	181,893	626,412	142,250	502,175
Interest-free borrowings *(note (ii))*	146,990	134,564	139,709	110,095
Convertible bonds	669,275	–	713,028	–

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value risk (continued)

Notes:

(i) 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. In addition, as disclosed in note 25(a) to the financial statements, the available-for-sale investments of the Group are not stated at fair value but 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.

(ii) The balance represented the non-current portion of an interest-free loan of HK$139,251,000 (2007: HK$125,965,000) obtained by the Group from a joint venture partner of a subsidiary and is repayable within 17 years (2007: 18 years) and an interest-free loan of HK$12,711,000 (2007: HK$13,310,000) obtained from an oversea government as further detailed in notes 37(b)(i) and 37(b)(ii) to the financial statements, respectively.

Capital management

The primary objective of the Group's capital management is 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 during the years ended 31 December 2008 and 31 December 2007.

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 gearing ratio, which is interest-bearing bank borrowings divided by the sum of total equity and interest-bearing bank borrowings. The gearing ratios as at the balance sheet date were as follows:

	Group	
	2008 HK$'000	2007 HK$'000 (Restated)
Interest-bearing bank borrowings	6,250,651	5,129,125
Total equity	36,310,470	31,564,390
Total equity and interest-bearing bank borrowings	42,561,121	36,693,515
Gearing ratio	15%	14%

53. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain equity investments being classified as available-for-sale investments and financial assets at fair value through profit or loss as disclosed in notes 25 and 32 to the financial statements, respectively, all financial assets and liabilities of the Group and the Company as at 31 December 2008 and 2007, are loans and receivables, and financial liabilities stated at amortised cost, respectively.

54. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the following significant events occurred:

(i) On 8 January 2009, certain convertible bonds of BE Water in an aggregate principal amount of HK$94,244,700 were converted by the Group and other bondholders into 199,630,000 new ordinary shares of BE Water at conversion prices of HK$0.40 or HK$0.69 per share, where applicable, resulting in an increase in the Group's equity interest in BE Water from 64.32% to 65.15%. The Group is not yet in a position to disclose any financial impact of this transaction on the Group.

(ii) At a special general meeting of BE Water held on 19 January 2009, BE Water's shareholders approved a share transfer agreement dated 17 November 2008 entered into between the Group and a third party independent to the Group in relation to the acquisition of a 66.67% equity interest in Guigang Water, a limited liability company established in the PRC, at a cash consideration of RMB50,001,600.

In addition, in accordance with the share transfer agreement, after the registration of the transfer of the 66.67% equity interest in Guigang Water to the Group, the Group shall make an additional capital contribution of RMB50,000,000 to Guigang Water to increase its equity interest in Guigang Water to 80%. As at the date of the approval of these financial statements, the legal process of the abovementioned transaction has not yet been completed. However, the directors of the Company and BE Water are of the view that there is presently no legal barrier for the completion of the transaction.

Guigang Water and its subsidiaries are principally engaged in the operations of water treatment and distribution, and the provision of related water distribution services in Guigang Municipality, Guangxi Province, the PRC.

Further details of the acquisition are set out in BE Water's circular dated 31 December 2008.

Since the share transfer agreement was effected shortly before the date of approval of these financial statements, the Group is not yet in a position to disclose any financial impact of this transaction on the Group.

(iii) On 6 February 2009, each of Beijing Development (an associate of the Group) and CIT Development (an associate of Beijing Development) made a public announcement to advise their respective shareholders and potential investors that, in the course of auditing CIT Development's financial statements for the year ended 31 December 2008, the auditors of CIT Development were aware of unusual transaction data being recorded in the revenue recording system in Mingsuo (an Internet platform which provides corporate information enquiry services to its members) and a special committee has been established by CIT Development to investigate the matter. As at the date of the approval of these financial statements, the investigation has not been concluded but, in the opinion of the directors, any consequential findings from the investigation would not be material to the Group.

55. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated in the preparation of these financial statements as a result of the following:

(i) the adoption of HK(IFRIC)-Int 12 during the year, as further detailed in note 2.2 to the financial statements;

(ii) the completion of the initial accounting for the acquisition of Beijing Gas BVI, as further explained in note 45(d) to the financial statements; and

(iii) reclassification of certain balances to conform to the current year's presentation.

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2009.

FIVE YEAR FINANCIAL SUMMARY

31 December 2008

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 2007 and restated/reclassified as appropriate is set out below:

RESULTS

	Year ended 31 December				
	2004 HK$'000 (Restated)	2005 HK$'000 (Restated)	2006 HK$'000 (Restated)	2007 HK$'000 (Restated)	2008 HK$'000
CONTINUING OPERATIONS					
Revenue	5,006,419	5,756,516	6,730,443	10,975,515	19,704,247
Operating profit	871,221	728,575	419,560	1,587,555	2,289,768
Share of profits and losses of:					
Jointly-controlled entities	50,068	(12,712)	688	178,243	912,628
Associates	54,012	24,095	64,644	261,009	(146,811)
Profit before tax	975,301	739,958	484,892	2,026,807	3,055,585
Tax	(204,445)	(141,978)	(183,510)	(263,872)	(359,297)
Profit for the year from continuing operations	770,856	597,980	301,382	1,762,935	2,696,288
DISCONTINUED OPERATIONS					
Profit/(loss) for the year from discontinued operations	(120,929)	119,061	353,875	80,827	–
Profit for the year	649,927	717,041	655,257	1,843,762	2,696,288
ATTRIBUTABLE TO:					
Shareholders of the Company	489,793	574,082	385,247	1,478,212	2,281,828
Minority interests	160,134	142,959	270,010	365,550	414,460
	649,927	717,041	655,257	1,843,762	2,696,288

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2004 HK$'000 (Restated)	2005 HK$'000 (Restated)	2006 HK$'000 (Restated)	2007 HK$'000 (Restated)	2008 HK$'000
Total assets	19,698,533	19,992,218	17,627,972	45,022,029	51,696,742
Total liabilities	(8,069,365)	(7,454,421)	(4,487,284)	(13,457,639)	(15,386,272)
NET ASSETS	11,629,168	12,537,797	13,140,688	31,564,390	36,310,470
REPRESENTED BY:					
Equity attributable to shareholders of the Company	7,921,692	8,487,796	8,965,211	26,889,314	29,631,948
Minority interests	3,707,476	4,050,001	4,175,477	4,675,076	6,678,522
TOTAL EQUITY	11,629,168	12,537,797	13,140,688	31,564,390	36,310,470

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

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