

# BEIJING ENTERPRISES HOLDINGS LIMITED



INTERIM REPORT 2010  
STOCK CODE : 392





# CONTENTS

---

02

CORPORATE  
INFORMATION

04

CORPORATE  
STRUCTURE

05

SUMMARY

06

INTERIM DIVIDEND

06

CLOSURE OF  
REGISTER OF  
MEMBERS

07

BUSINESS  
OVERVIEW

15

CONDENSED  
CONSOLIDATED  
INCOME STATEMENT

16

CONDENSED  
CONSOLIDATED  
STATEMENT OF  
COMPREHENSIVE  
INCOME

17

CONDENSED  
CONSOLIDATED  
STATEMENT  
OF FINANCIAL  
POSITION

19

CONDENSED  
CONSOLIDATED  
STATEMENT OF  
CHANGES IN EQUITY

20

CONDENSED  
CONSOLIDATED  
STATEMENT OF  
CASH FLOWS

21

NOTES TO  
CONDENSED  
INTERIM  
CONSOLIDATED  
FINANCIAL  
STATEMENTS

39

DISCLOSEABLE  
INFORMATION

46

CORPORATE  
GOVERNANCE

# CORPORATE INFORMATION

## GENERAL INFORMATION:

### Registered Office

66/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

## BOARD OF DIRECTORS:

### Executive Directors

Mr. Wang Dong (*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

## AUDIT COMMITTEE:

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

## REMUNERATION COMMITTEE:

Mr. Liu Kai  
Mr. Wu Jiesi (*Committee Chairman*)  
Mr. Lam Hoi Ham

# CORPORATE INFORMATION

## 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 & Cromwell

## 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

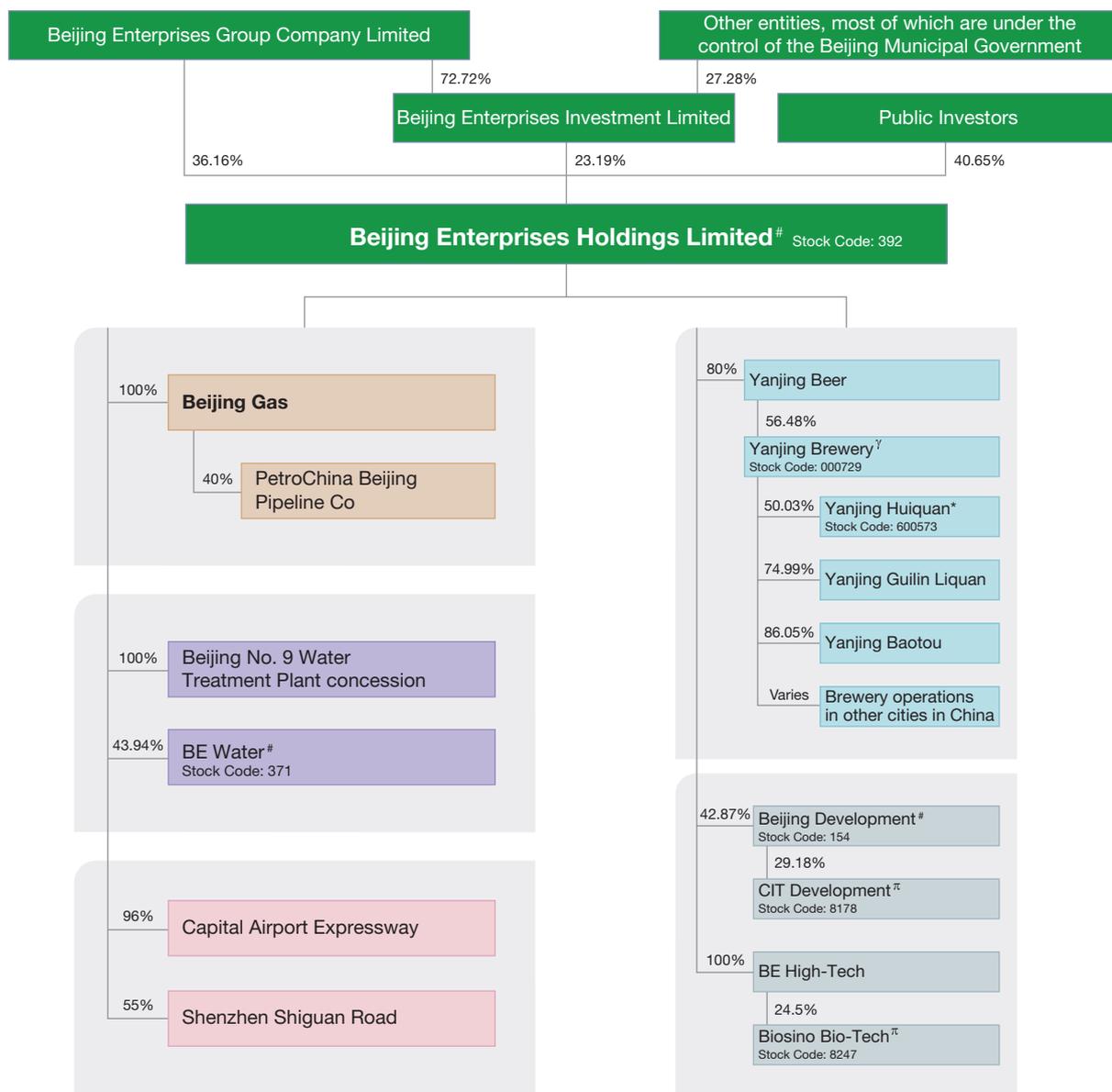
The Industrial and Commercial Bank of China

### ADR Depository Bank

The Bank of New York

# CORPORATE STRUCTURE

AS AT 31 AUGUST 2010



\* Listed on The Shanghai Stock Exchange

^ Listed on The Shenzhen Stock Exchange

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

^ Listed on The Growth Enterprise Market of the Stock Exchange

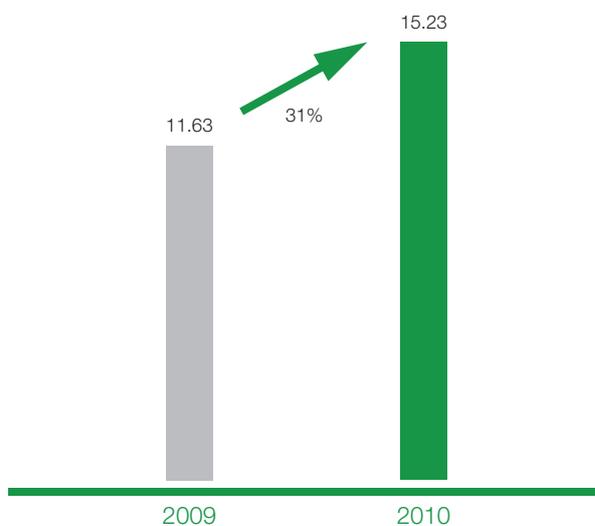
# SUMMARY

## FINANCIAL HIGHLIGHTS (UNAUDITED)

	For the six months ended 30 June		Change
	2010 (HK\$'000)	2009 (HK\$'000)	
Revenue	<b>15,229,015</b>	11,628,432	+31.0%
Gross Profit	<b>3,544,939</b>	2,917,978	+21.5%
Profit Attributable to Shareholders of the Company	<b>1,562,883</b>	1,418,078	+10.2%
Recurring Net Profit Attributable to Shareholders of the Company	<b>1,549,330</b>	1,331,620	+16.4%
Basic Earnings Per Share (HK dollar)	<b>1.37</b>	1.25	+9.6%
Interim Dividend (HK cent)	<b>25</b>	20	+25%

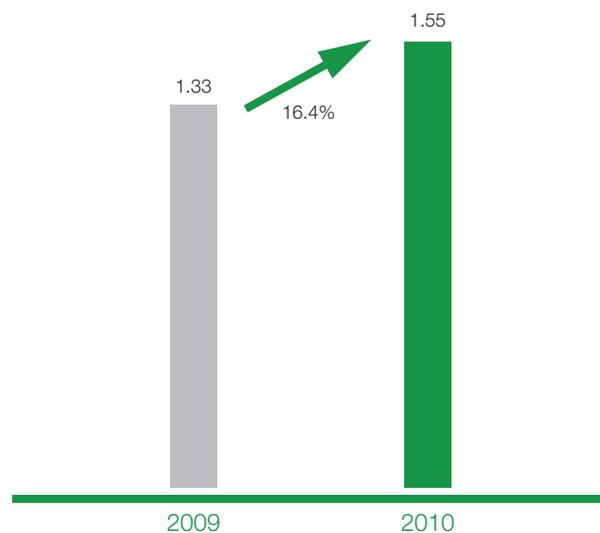
### Revenue

For the six months ended 30 June  
HK \$billion



### Recurring net profit attributable to shareholders of the Company

For the six months ended 30 June  
HK \$billion



# SUMMARY

## UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of Beijing Enterprises Holdings Limited (the “Company”) is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 and the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2010 with the comparative figures in 2009. The consolidated revenue of the Group was HK\$15.23 billion for the first half of 2010, increased by 31% comparing to corresponding period in last year. Profit attributable to shareholders of the Company was HK\$1.56 billion, increased by 10.2% compared to the corresponding period in 2009. Recurring net profit attributable to shareholders of the Company increased by 16.4% to HK\$1.55 billion.

Profit after taxation contributed by each business segment attributable to shareholders of the Company during the period were as follows:

	<b>Profit</b>	
	<b>After Taxation</b>	<b>Proportion</b>
	<i>HK\$'000</i>	<i>%</i>
Natural Gas Business	1,203,537	77.0
Beer Business	238,030	15.2
Sewage and Water Treatment Operations	153,284	9.8
Toll Roads	44,770	2.9
Headquarters expenses and others	(76,738)	(4.9)

## INTERIM DIVIDEND

The Board has resolved to declare an interim cash dividend for the six months ended 30 June 2010 of HK25 cents (2009: HK20 cents) per share, which will be payable on about 28 October 2010 to shareholders whose name appear on the register of members of the Company on 5 October 2010.

## CLOSURE OF REGISTER OF MEMBERS

The Company’s register of members will be closed from Friday, 1 October 2010 to Tuesday, 5 October 2010, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company’s share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Center, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 30 September 2010.

# BUSINESS OVERVIEW

## MANAGEMENT DISCUSSION AND ANALYSIS

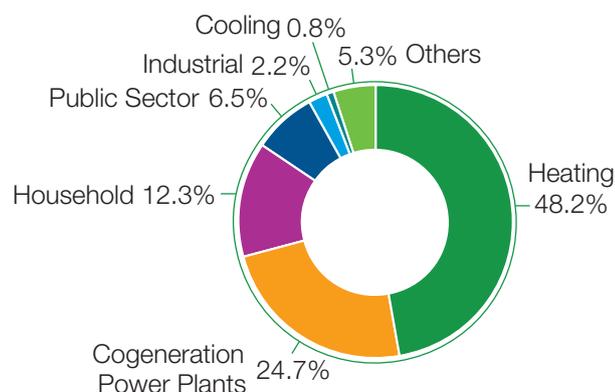
### I. BUSINESS REVIEW

#### *Natural Gas Distribution Business*

The natural gas distribution business in Beijing recorded a revenue of HK\$7.464 billion, increased by 26.7% comparing to the first half of last year. Net profit from gas distribution business in the first half of the year was HK\$519 million, increased by 15.1% compared to the first half of 2009. Gas sales volume was approximately 3.6 billion cubic meters, up 26% against 2.86 billion cubic meters in corresponding period of last year. The length of the pipeline system in Beijing city further increased to approximately 12,867 kilometers. During the period under review, capital expenditures incurred was HK\$410 million. There were 117,000 new residential subscribers, 1,439 new public sector subscribers, and fuel gas equipment capacity of 916.8 t/h steam. All types of subscribers grew steadily during the period under review.

The sales volume analysis of Beijing Gas during the six months ended 30 June 2010 is as follows:

	<b>For the six months ended 30 June 2010</b>	
	<b>Sales Volume</b>	<b>Ratio</b>
	<i>Thousand cubic meter</i>	
Heating	1,733,970	48.2%
Cogeneration Power Plants	889,574	24.7%
Household	443,212	12.3%
Public Sector	233,253	6.5%
Industrial	78,803	2.2%
Cooling	30,302	0.8%
Others	192,239	5.3%
	<hr/>	<hr/>
Total	<u>3,601,353</u>	<u>100%</u>



# BUSINESS OVERVIEW

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### I. BUSINESS REVIEW (Continued)

#### *Natural Gas Distribution Business (Continued)*

In respect of market development, we completed the acquisition of natural gas pipeline network in Fangshan District during the period and had ended the multiple operators situation in Fangshan District. We conducted active communication and negotiation with Mentougou and Shunyi District local governments and had arrived a mutual co-operative understanding. During the period, we also initiated the gas development works for several key towns at the suburban districts. We achieved the supply of piped gas for some regions while some are developing liquefied natural gas (LNG) stations, and have achieved preliminary success.

During the period, Beijing Gas Shandong Company's natural gas pipelines in "Rushan • Wendeng • Rongcheng" had commenced gas supply, laying a solid foundation for the gas market development in Shandong District. In addition, Beijing Gas signed strategic co-operation framework agreements with Datang International, Huaneng International Power Corporation (華能國際電力公司) and Huadian Operation Corporation (華電營運公司) respectively and had officially launched the coal-to-gas conversion works for Gaojing and Huaneng Thermal Power Plant (華能熱電廠).

#### *Gas Upstream Business*

The transmission volume of PetroChina Beijing Natural Gas Pipeline Company Limited (中石油北京天然氣管道有限公司) ("PetroChina Beijing Pipeline Co.") for the first half of 2010 was approximately 8.95 billion cubic meters compared against 6.96 billion in the first half of last year, increased by 28.6%. The strong transmission volume growth was mainly attributable to strong demand from the city gas operators in the Hebei area. Beijing Gas Group Company Limited ("Beijing Gas") shared a net profit after taxation of HK\$685 million, based on the 40% equity stake in PetroChina Beijing Pipeline Co. in the first half of 2010, representing a 16.2% increase when compared with the first half of 2009. The lower than expected profit growth was mainly due to an additional HK\$450 million of depreciation and electricity expenses related to the compression facilities in operation. The capital expenditures in the first half of 2010 was approximately HK\$1.3 billion.

# BUSINESS OVERVIEW

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### I. BUSINESS REVIEW (Continued)

#### *Beer Business*

The overall sales volume of beer products sold under the brand name of “Yanjing” and associated brands increased by approximately 5.13% to 2.46 million thousand-litres. The decrease in sales volume in certain districts in the first half of the year was underpinned by the low temperature in northern China. During the period under review, by strengthening marketing network construction and launching strategic products, Yanjing Beer had firmly mastered more than 85% of the market share in Beijing. During the period, some major regional markets like Guangxi, Guangdong and Inner Mongolia recorded a strong growth in beer sales volume and attributable profit. The newly entered regional markets like Shanxi, Sichuan and Xinjiang delivered a rapid growth in the first half of the year. During the reporting period, Yanjing Beer aggressively promoted the “1+3” brand strategies and realised stable growth in concentration of four major brands of “Yanjing”, “Liquan ( 漓泉 )”, “Huiquan ( 惠泉 )” and “Xuelu ( 雪鹿 )”. During the first half year, sales volume of the four major brands aggregated to 2.25 million thousand-litres, representing a year-on-year increase of 6.64% and accounting for 91.5% of total sales volume of beer.

Overall revenue of Yanjing Beer increased by 5% to HK\$5.24 billion, mainly due to sales volume increase. Profit attributable to the Group increased by 38.3% to approximately HK\$238 million which was mainly due to the optimisation of product mix, higher gross profit margin, lower income tax rate and better cost control. Starting from 20 January 2010, the ex-factory price of 10°C Refreshing Beer sold in the Beijing area was increased by approximately 10%.

#### *Sewage and Water Treatment Operations*

The attributable profit of Beijing No. 9 Water Treatment Plant concession to the Group in the first half of 2010 was approximately HK\$72.5 million, representing a decrease of 20% as compared to the same period last year. This was mainly due to the two percentage points decrease in expected return upon the restructure of the concession term.

Beijing Enterprises Water Group Limited (“BE Water”) (stock code: 371), a 55.77% owned subsidiary of the Group, recorded a strong turnover of HK\$2.21 billion, and attributable profit of HK\$80.78 million to the Group in the first half of 2010, 408% and 185% higher than the respective comparative figures in 2009. This was mainly due to the substantial revenue brought about by vigorous exploration of construction services during the period. Revenue of other relevant water businesses had achieved stable growth. BE Water is now operating 31 water plants in mainland China with designed water processing capacity of approximately 1.95 million metric tons per day and average processing volume was 1.37 million metric tons per day during the period. We expect to continue investments in quality water projects through BE Water in the future.

# BUSINESS OVERVIEW

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### I. BUSINESS REVIEW (Continued)

#### *Toll Roads Business*

The chargeable traffic volume going through the Tianzhu toll gate of Capital Airport Expressway declined by 11.2% to 13.45 million vehicles in the first half of 2010 which was mainly due to the change of toll collection policy to one way toll collection since 1 October 2009.

The revenue of Capital Airport Expressway decreased by 10% accordingly to HK\$149.9 million in the first half of 2010. Attributable profit to the Group also declined by 31.4% to approximately HK\$44 million comparing to corresponding period of last year.

The traffic volume of Shenzhen Shiguan Road was generally unchanged, declined by 0.5% to 3.99 million vehicles in the first half of the year. The attributable profit to the Group was HK\$1.19 million for the six months ended 30 June 2010.

### II. PROSPECTS

#### *Natural Gas Distribution Business*

The natural gas distribution business in Beijing has recorded continuous volume growth and subscriber growth in the past. With sustainable economic and population growth in Greater Beijing area, the demand for clean energy consumption, in particular, piped natural gas will see steady demand growth. This demand growth will further drive the sales volume of gas distribution business in Beijing metropolitan area as well as suburban area. Beijing Gas has seen more aggressive dedication to piped natural gas infrastructure investments by county governments surrounding Beijing city. The Group will continue to deploy more resources to develop these new markets in the medium term.

In addition, the coal-to-gas conversion projects of four largest thermal power centers in Beijing will increase the gas consumption for natural gas power generation significantly in future. Beijing Gas will make investments to cope with the development of relevant projects.

# BUSINESS OVERVIEW

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### II. PROSPECTS (Continued)

#### *Gas Upstream Business*

The existing transmission capacity of 20 billion cubic metres will become saturated in next year and requires new transmission facilities to fulfill the future demand growth in the region. The construction work of No. 3 Shaanxi-Beijing Pipeline is progressing well. The new pipeline will start operation in stage. The facilities with total annual designed capacity of 15 billion cubic metres will be put into operation partially in the first half of 2011 to cater for the ever growing demand.

#### *Beer Business*

“Yanjing” will remain one of the strongest local beer brand name in the mainland China. The nationwide bottling facilities together with the established distribution network will further boost the market share in the future. Yanjing Beer’s product margin will maintain stable growth as the more profitable premium sector gains higher market share and contributes higher profit to Yanjing Beer.

#### *Sewage and Water Treatment Operations*

The water business conducted through BE Water has significantly built up the processing volume. Currently, the Group has participated in investments and development of 64 water plants. The total designed processing capacity has reached 4.58 million metric tons per day with medium term goal of achieving daily capacity of more than 5 million metric tons. Through aggressive exploration, the capital base and gearing ratio of BE Water has grown significantly. In order to rationalise the existing capital structure, the Group will continue to make additional capital contribution to BE Water to reduce its gearing ratio.

#### *Toll Roads Business*

The chargeable traffic volume of Capital Airport Expressway is expected to stabilize at around 75,000 vehicles per day based on the current air traffic volume of terminal one to three of Beijing International Airport. The traffic volume of Shenzhen Shiguan Road is expected to shrink further due to diverting of traffic to other free highways around Shenzhen area. The Group will seriously consider withdrawing from this project and seek reasonable compensation from the relevant Shenzhen authorities.

# BUSINESS OVERVIEW

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### III. FINANCIAL REVIEW

#### *Revenue*

The revenue of the Group's operations in first half of 2010 was approximately HK\$15.23 billion, increased by 31% when compared with the first half in 2009. This was mainly driven by higher gas sales volume and higher water related revenue. Revenue of beer business achieved moderate growth and other businesses contributed an aggregate of not more than 2% of the total revenue.

#### *Cost of Sales*

Cost of sales increased by 34.1% to HK\$11.68 billion, slightly higher than the increase in revenue. The cost of sales for gas distribution business included purchase cost of natural gas as well as depreciation of piped line network.

#### *Gross Profit Margin*

Overall gross profit margin was 23.3% compared to 25.1% in corresponding period of 2009. The decline in overall gross profit margin was due to the decrease of gross profit margin of the sewage operation which revenue growth was much higher than other sectors during the period under review. Natural gas distribution business had average gross margin of approximately 15.9%, representing a slight decrease when compared to the same period last year. This was mainly due to a rapid growth in gas consumption of co-generation power plants which bear lower gross profit margin.

#### *Other Income*

Other income comprised, inter alia, total interest income amounted to HK\$49.3 million; government grants amounted to HK\$49.6 million; and exchange gain etc.

# BUSINESS OVERVIEW

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### III. FINANCIAL REVIEW (Continued)

#### *Selling and Distribution Costs*

Selling and distribution costs of the Group in the first half of 2010 increased by 18.2% to HK\$784 million, lower than the extent of increase in revenue. The proportion of selling and distribution costs for sewage business was lower than that of gas distribution and brewery business due to much higher advertisement expenses for consumer products business.

#### *Administration Expenses*

Administration expenses of the Group in the first half of 2010 was HK\$986 million, increased by 28.7% comparing to the corresponding period of last year. The increase was mainly due to higher increase in wages and relevant welfare charges as a result of the organisation optimisation of natural gas distribution business and consolidation of newly acquired sewage plants from BE Water.

#### *Finance Costs*

Finance costs of the Group in the first half of 2010 was HK\$225 million, increased by 22.8% comparing to HK\$183 million in corresponding period of 2009.

#### *Share of Profits and Losses of Jointly-controlled Entities*

This substantially represented the 40% share of the net profits of PetroChina Beijing Pipeline Co. for the first half of 2010. PetroChina Beijing Pipeline Co. is 40% owned by Beijing Gas and 60% owned by PetroChina Company Limited. The primary business of PetroChina Beijing Pipeline Co. is natural gas transmission which supplies to city gas operators along No. 1 & No. 2 Shaanxi-Beijing long pipelines with an approximate total length of 2,200 kilometers owned by PetroChina Beijing Pipeline Co.

#### *Share of Results of Associated Companies*

The Group's share of net losses of associates amounted to HK\$1.08 million in the first half of 2010.

#### *Tax*

Effective income tax rate improved slightly to 22.7% due to full year impact of Yanjing Beer's privileged tax rate for its Beijing operations.

# BUSINESS OVERVIEW

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### IV. FINANCIAL POSITION OF THE GROUP

#### *Cash and Bank Borrowings*

As at 30 June 2010, cash and bank deposits held by the Group amounted to HK\$12.36 billion.

At the period end date, the Group had a strong net working capital of HK\$6.44 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\$15.98 billion as at 30 June 2010, which mainly comprised of five year syndicated loans amounting to HK\$2.1 billion, convertible bonds of HK\$2.175 billion, project financing of HK\$7.3 billion and short term working capital loans of HK\$2.2 billion carried in the PRC subsidiaries. Around 57% of the bank and other loans were denominated in Hong Kong dollars with the rest in Renminbi. The Group was in a net borrowing position of HK\$3.62 billion as at 30 June 2010.

#### *Liquidity and Capital Resources*

During the period under review, there was no movement in the issued capital of the Company. As at 30 June 2010, the issued capital of the Company was 1,137,371,000 shares and equity attributable to shareholders of the Company grew to HK\$32.5 billion. Total equity was HK\$41.22 billion comparing to HK\$39.02 billion as at the end of 2009.

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.

## EMPLOYEE

At 30 June 2010, the Group had approximately 37,900 employees. The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Group's employee remuneration policy and package are periodically reviewed by the management. Apart from pension funds, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

By order of the Board

**Wang Dong**

*Chairman*

Hong Kong, 31 August 2010

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

		For the six months ended 30 June	
		2010	2009
		Unaudited	Unaudited
		HK\$'000	HK\$'000
	Notes		
REVENUE	3	15,229,015	11,628,432
Cost of sales		<u>(11,684,076)</u>	<u>(8,710,454)</u>
Gross profit		3,544,939	2,917,978
Other income and gains, net	4	196,179	365,337
Selling and distribution expenses		(784,045)	(663,141)
Administrative expenses		(985,858)	(766,097)
Other operating expenses, net		<u>(32,540)</u>	<u>(183,117)</u>
PROFIT FROM OPERATING ACTIVITIES	5	1,938,675	1,670,960
Finance costs	6	(224,897)	(183,177)
Share of profits and losses of:			
Jointly-controlled entities		684,882	593,581
Associates		<u>(1,075)</u>	<u>(3,875)</u>
<b>PROFIT BEFORE TAX</b>		<b>2,397,585</b>	<b>2,077,489</b>
Income tax	7	<u>(389,583)</u>	<u>(346,266)</u>
<b>PROFIT FOR THE PERIOD</b>		<b><u>2,008,002</u></b>	<b><u>1,731,223</u></b>
<b>ATTRIBUTABLE TO:</b>			
Shareholders of the Company		1,562,883	1,418,078
Non-controlling interests		<u>445,119</u>	<u>313,145</u>
		<b><u>2,008,002</u></b>	<b><u>1,731,223</u></b>
<b>EARNINGS PER SHARE</b>			
<b>ATTRIBUTABLE TO SHAREHOLDERS</b>			
<b>OF THE COMPANY</b>	9		
Basic		<u>HK\$1.37</u>	<u>HK\$1.25</u>
Diluted		<u>HK\$1.34</u>	<u>HK\$1.15</u>

Details of interim dividend declared are disclosed in note 8.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
<b>PROFIT FOR THE PERIOD</b>	<b>2,008,002</b>	1,731,223
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Exchange differences on translation of foreign operations	<b>340,460</b>	(36,468)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX OF NIL</b>	<b><u>2,348,462</u></b>	<u>1,694,755</u>
<b>ATTRIBUTABLE TO:</b>		
Shareholders of the Company	<b>1,787,162</b>	1,388,343
Non-controlling interests	<b>561,300</b>	306,412
	<b><u>2,348,462</u></b>	<u>1,694,755</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

		<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
	<i>Notes</i>		
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipment		<b>19,955,864</b>	19,045,485
Investment properties		<b>200,856</b>	204,371
Prepaid land premiums		<b>1,167,883</b>	1,129,884
Goodwill		<b>8,659,464</b>	8,649,068
Operating concessions		<b>1,663,269</b>	1,697,362
Other intangible assets		<b>25,186</b>	26,911
Interests in jointly-controlled entities		<b>5,176,341</b>	5,397,326
Interests in associates		<b>1,090,574</b>	899,778
Amounts due from contract customers		<b>2,428,326</b>	1,286,205
Receivables under service concession arrangements	<i>10</i>	<b>3,510,763</b>	3,414,841
Trade and bills receivables	<i>11</i>	<b>51,828</b>	51,710
Prepayments, deposits and other receivables		<b>378,081</b>	270,829
Available-for-sale investments		<b>746,584</b>	290,000
Deferred tax assets		<b>608,917</b>	564,490
Total non-current assets		<b>45,663,936</b>	42,928,260
Current assets:			
Prepaid land premiums		<b>26,215</b>	26,433
Inventories		<b>3,302,802</b>	2,995,039
Amounts due from contract customers		<b>1,710,092</b>	55,089
Receivables under service concession arrangements	<i>10</i>	<b>806,325</b>	659,566
Trade and bills receivables	<i>11</i>	<b>1,230,844</b>	1,097,656
Prepayments, deposits and other receivables		<b>2,458,849</b>	1,653,855
Other taxes recoverable		<b>45,195</b>	85,141
Restricted cash and pledged deposits		<b>693,259</b>	118,245
Cash and cash equivalents		<b>11,669,594</b>	9,486,026
Total current assets		<b>21,943,175</b>	16,177,050
<b>TOTAL ASSETS</b>		<b>67,607,111</b>	59,105,310

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2010

		<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to shareholders of the Company			
Issued capital	12	<b>113,737</b>	113,737
Reserves		<b>32,099,539</b>	30,679,528
Proposed dividends		<b>284,343</b>	511,817
		<b>32,497,619</b>	31,305,082
Non-controlling interests		<b>8,723,947</b>	7,711,919
<b>TOTAL EQUITY</b>		<b>41,221,566</b>	39,017,001
Non-current liabilities:			
Bank and other borrowings		<b>6,892,379</b>	5,264,237
Convertible bonds	13	<b>2,692,255</b>	2,721,488
Defined benefit plans		<b>446,419</b>	423,947
Provision for major overhauls		<b>241,652</b>	184,499
Other non-current liabilities		<b>194,043</b>	196,055
Deferred tax liabilities		<b>418,563</b>	413,139
Total non-current liabilities		<b>10,885,311</b>	9,203,365
Current liabilities:			
Trade and bills payables	14	<b>2,052,479</b>	1,408,103
Amounts due to contract customers		<b>86,236</b>	48,342
Other payables and accruals		<b>5,844,274</b>	5,436,612
Income tax payable		<b>642,363</b>	522,316
Other taxes payable		<b>474,636</b>	431,623
Bank and other borrowings		<b>6,400,246</b>	3,037,948
Total current liabilities		<b>15,500,234</b>	10,884,944
<b>TOTAL LIABILITIES</b>		<b>26,385,545</b>	20,088,309
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>67,607,111</b>	59,105,310

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to shareholders of the Company												
	Issued capital	Share premium account	Capital redemption reserve	Share option reserve	Capital reserve	Property revaluation reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Proposed dividends	Total	Non-controlling interests	Total equity
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010	113,737	20,733,395*	228*	1,162*	968,422*	29,893*	2,465,414*	2,202,834*	4,278,180*	511,817	31,305,082	7,711,919	39,017,001
Total comprehensive income for the period	-	-	-	-	-	-	224,279	-	1,562,883	-	1,787,162	561,300	2,348,462
Capital contribution by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	355,032	355,032
Acquisition of a subsidiary	-	-	-	-	(68,666)	-	-	-	-	-	(68,666)	126,690	58,024
Acquisition of non-controlling interests	-	-	-	-	(5,905)	-	-	-	-	-	(5,905)	56,614	50,709
Deemed disposal of interest in a subsidiary	-	-	-	-	(12,220)	-	-	-	-	-	(12,220)	64,617	52,397
Share of reserves of associates	-	-	-	-	5,088	-	3,389	(158)	(4,336)	-	3,983	-	3,983
Final 2009 dividends	-	-	-	-	-	-	-	-	-	(511,817)	(511,817)	-	(511,817)
Proposed interim 2010 dividend	-	-	-	-	-	-	-	-	(284,343)	284,343	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(152,225)	(152,225)
Transfer to reserves	-	-	-	-	-	-	-	70,242	(70,242)	-	-	-	-
At 30 June 2010	113,737	20,733,395*	228*	1,162*	886,719*	29,893*	2,693,082*	2,272,918*	5,482,142*	284,343	32,497,619	8,723,947	41,221,566

\* These reserve accounts comprise the consolidated reserves of HK\$32,099,539,000 (31 December 2009: HK\$30,679,528,000) in the consolidated statement of financial position as at 30 June 2010.

	Attributable to shareholders of the Company												
	Issued capital	Share premium account	Capital redemption reserve	Share option reserve	Capital reserve	Property revaluation reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Proposed dividends	Total	Non-controlling interests	Total equity
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	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
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(29,735)	-	1,418,078	-	1,388,343	306,412	1,694,755
Exercise of share options	28	4,608	-	(1,122)	-	-	-	-	-	-	3,514	-	3,514
Capital contribution by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	25,550	25,550
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	28,369	28,369
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(12,903)	(12,903)
Deemed disposal of interest in a subsidiary	-	-	-	-	134,071	-	-	-	(134,071)	-	-	312,104	312,104
Share of reserves of associates	-	-	-	-	6,869	-	1,220	-	-	-	8,089	-	8,089
Final 2008 dividends	-	-	-	-	-	-	-	-	-	(511,650)	(511,650)	-	(511,650)
Proposed interim 2009 dividend	-	-	-	-	-	-	-	-	(227,456)	227,456	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(100,344)	(100,344)
Transfer to reserves	-	-	-	-	(138,692)	-	-	411,011	(272,319)	-	-	-	-
At 30 June 2009	113,728	20,731,914	228	1,522	924,791	29,893	2,433,131	1,699,280	4,358,301	227,456	30,520,244	7,237,710	37,757,954

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Net cash flows from operating activities	<b>991,827</b>	2,945,446
Net cash flows used in investing activities	<b>(1,314,843)</b>	(2,094,291)
Net cash flows from financing activities	<b>3,655,539</b>	2,363,849
	<hr/>	<hr/>
Increase in cash and cash equivalents	<b>3,332,523</b>	3,215,004
Cash and cash equivalents at beginning of period	<b>7,827,362</b>	6,256,581
Effect of foreign exchange rate changes, net	<b>89,358</b>	–
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<b>11,249,243</b>	9,471,585
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>7,524,894</b>	9,070,067
Cash equivalents	–	43,731
Time deposits	<b>4,837,959</b>	1,130,544
	<hr/>	<hr/>
	<b>12,362,853</b>	10,244,342
Less: Pledged deposits	<b>(693,259)</b>	(61,843)
Time deposits with maturity of more than three months when acquired	<b>(420,351)</b>	(710,914)
	<hr/>	<hr/>
	<b>11,249,243</b>	9,471,585
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 1. BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements for the six months ended 30 June 2010 are prepared in accordance with the applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The accounting policies and basis of preparation adopted in the preparation of these interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2009 except for the changes in accounting policies made thereafter in adopting the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, which became effective for the first time for the current period's financial statements.

Details of the effect of changes in accounting policies are set out in note 2.

## 2. EFFECT OF CHANGES IN ACCOUNTING POLICIES

The Group has adopted the following new and revised HKFRSs for the first time for the current period's financial statements:

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 amendment (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
Improvements to HKFRSs 2009 (May 2009)	<i>Amendments to a number of HKFRSs</i>

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 2. EFFECT OF CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring since 1 January 2010. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. These revised standards were applied by the Group prospectively.

Except for the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised), the adoption of the new and amended HKFRSs has had no significant financial effect on these interim financial statements and there have been no significant changes to the accounting policies applied in these interim financial statements.

## 3. OPERATING SEGMENT INFORMATION

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

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

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2010 and 2009, respectively.

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 3. OPERATING SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2010

	Piped gas operation Unaudited HK\$'000	Brewery operation Unaudited HK\$'000	Sewage and water treatment operations Unaudited HK\$'000	Expressway and toll road operations Unaudited HK\$'000	Corporate and others Unaudited HK\$'000	Eliminations Unaudited HK\$'000	Consolidated Unaudited HK\$'000
Revenue	7,463,719	5,236,568	2,305,550	186,651	36,527	-	15,229,015
Cost of sales	(6,276,722)	(3,421,787)	(1,844,227)	(107,437)	(33,903)	-	(11,684,076)
Gross profit	<u>1,186,997</u>	<u>1,814,781</u>	<u>461,323</u>	<u>79,214</u>	<u>2,624</u>	<u>-</u>	<u>3,544,939</u>
Profit from operating activities	769,661	762,511	382,013	63,110	6,494	(45,114)	1,938,675
Finance costs	(69,980)	(42,508)	(96,717)	(1,424)	(59,382)	45,114	(224,897)
Share of profits and losses of:							
Jointly-controlled entities	684,979	-	(97)	-	-	-	684,882
Associates	861	(908)	-	-	(1,028)	-	(1,075)
Profit/(loss) before tax	<u>1,385,521</u>	<u>719,095</u>	<u>285,199</u>	<u>61,686</u>	<u>(53,916)</u>	<u>-</u>	<u>2,397,585</u>
Income tax	(180,652)	(119,924)	(44,672)	(14,604)	(29,731)	-	(389,583)
<b>Profit/(loss) for the period</b>	<u><u>1,204,869</u></u>	<u><u>599,171</u></u>	<u><u>240,527</u></u>	<u><u>47,082</u></u>	<u><u>(83,647)</u></u>	<u><u>-</u></u>	<u><u>2,008,002</u></u>
<b>Profit/(loss) attributable to shareholders of the Company</b>	<u><u>1,203,537</u></u>	<u><u>238,030</u></u>	<u><u>153,284</u></u>	<u><u>44,770</u></u>	<u><u>(76,738)</u></u>	<u><u>-</u></u>	<u><u>1,562,883</u></u>

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 3. OPERATING SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2009

	Piped gas operation Unaudited HK\$'000	Brewery operation Unaudited HK\$'000	Sewage and water treatment operations Unaudited HK\$'000	Expressway and toll road operations Unaudited HK\$'000	Corporate and others Unaudited HK\$'000	Eliminations Unaudited HK\$'000	Consolidated Unaudited HK\$'000
Revenue	5,888,694	5,005,828	553,901	204,252	20,297	(44,540)	11,628,432
Cost of sales	(4,942,844)	(3,408,619)	(262,410)	(115,263)	(14,060)	32,742	(8,710,454)
Gross profit	<u>945,850</u>	<u>1,597,209</u>	<u>291,491</u>	<u>88,989</u>	<u>6,237</u>	<u>(11,798)</u>	<u>2,917,978</u>
Profit from operating activities	667,081	654,723	238,318	87,756	78,569	(55,487)	1,670,960
Finance costs	(59,835)	(76,875)	(61,454)	(476)	(28,226)	43,689	(183,177)
Share of profits and losses of:							
Jointly-controlled entities	589,541	-	4,040	-	-	-	593,581
Associates	-	(354)	-	-	(3,521)	-	(3,875)
Profit before tax	<u>1,196,787</u>	<u>577,494</u>	<u>180,904</u>	<u>87,280</u>	<u>46,822</u>	<u>(11,798)</u>	<u>2,077,489</u>
Income tax	(156,387)	(132,975)	(34,908)	(21,448)	(548)	-	(346,266)
Profit for the period	<u>1,040,400</u>	<u>444,519</u>	<u>145,996</u>	<u>65,832</u>	<u>46,274</u>	<u>(11,798)</u>	<u>1,731,223</u>
Profit attributable to shareholders of the Company	<u>1,040,271</u>	<u>172,106</u>	<u>118,954</u>	<u>65,163</u>	<u>33,382</u>	<u>(11,798)</u>	<u>1,418,078</u>

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 3. OPERATING SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's assets and equity by operating segment:

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
<b>Total assets:</b>		
Piped gas operations	<b>29,339,591</b>	28,199,858
Brewery operation	<b>16,429,835</b>	14,337,407
Sewage and water treatment operations	<b>15,255,510</b>	9,833,492
Expressway and toll road operations	<b>2,407,813</b>	2,394,378
Corporate and others	<b>8,140,701</b>	8,098,831
Eliminations	<b>(3,966,339)</b>	(3,758,656)
	<b>67,607,111</b>	59,105,310
<b>Total equity:</b>		
Piped gas operations	<b>22,132,516</b>	20,819,028
Brewery operation	<b>9,664,741</b>	9,023,958
Sewage and water treatment operations	<b>5,558,901</b>	5,091,618
Expressway and toll road operations	<b>1,695,815</b>	1,946,805
Corporate and others	<b>2,193,625</b>	2,159,624
Eliminations	<b>(24,032)</b>	(24,032)
	<b>41,221,566</b>	39,017,001

Since over 90% of the Group's revenue from external customers is generated in the People's Republic of China (the "PRC") and 90% of the assets of the Group are located in the PRC, in the opinion of the directors, the presentation of geographic information is not meaningful to the users of financial statements, and accordingly, no geographic information is presented.

During each of the six months ended 30 June 2010 and 2009, none of the Group's revenue was derived from transactions with individual external customers amounting to 10 per cent or more of the Group's revenue.

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 4. OTHER INCOME AND GAINS, NET

	For the six months ended 30 June	
	2010	2009
	Unaudited	Unaudited
	HK\$'000	HK\$'000
<b>Other income</b>		
Bank interest income	49,256	43,517
Others	137,879	179,600
	<u>187,135</u>	<u>223,117</u>
<b>Gains, net</b>		
Gain on deemed disposal of interest in a subsidiary	–	134,071
Gain on disposal of available-for-sale investments	–	7,021
Others	9,044	1,128
	<u>9,044</u>	<u>142,220</u>
	<u><u>196,179</u></u>	<u><u>365,337</u></u>

## 5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2010	2009
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Depreciation	675,811	648,554
Amortisation of operating concessions*	54,112	54,740
	<u><u>675,811</u></u>	<u><u>648,554</u></u>
	<u><u>54,112</u></u>	<u><u>54,740</u></u>

\* The amortisation of operating concessions for the period is included in "Cost of sales" on the face of the condensed consolidated income statement.

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 6. FINANCE COSTS

	For the six months ended 30 June	
	2010	2009
	Unaudited HK\$'000	Unaudited HK\$'000
Interest on bank loans and other loans wholly repayable within five years	160,318	153,017
Interest on convertible bonds	51,710	23,813
Interest on other loans	16,761	5,686
	<hr/>	<hr/>
Total interest expense	228,789	182,516
Increase in discounted amount of provision for major overhauls arising from the passage of time	2,763	1,753
	<hr/>	<hr/>
Total finance costs	231,552	184,269
Less: interest included in cost of construction contracts	(6,655)	(1,092)
	<hr/>	<hr/>
	<b>224,897</b>	<b>183,177</b>
	<hr/> <hr/>	<hr/> <hr/>

## 7. INCOME TAX

	For the six months ended 30 June	
	2010	2009
	Unaudited HK\$'000	Unaudited HK\$'000
Current – the PRC		
Hong Kong	–	7
Mainland China	372,656	330,321
Deferred	16,927	15,938
	<hr/>	<hr/>
Total tax charge for the period	<b>389,583</b>	<b>346,266</b>
	<hr/> <hr/>	<hr/> <hr/>

No provision for Hong Kong profits tax has been made during the period ended 30 June 2010 as the Group did not generate any assessable profits in Hong Kong during the period. Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period ended 30 June 2009. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. In accordance with the relevant tax rules and regulations in Mainland China, certain of the Company's subsidiaries enjoy income tax exemptions and reductions.

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 8. INTERIM DIVIDEND

On 31 August 2010, the Board declared an interim cash dividend of HK25 cents per share (six months ended 30 June 2009: HK20 cents per share), totalling HK\$284,343,000 (six months ended 30 June 2009: HK\$227,456,000).

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts for the period is based on the unaudited profit attributable to shareholders of the Company for the period, and the weighted average number of 1,137,371,000 (2009: 1,137,034,591) ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts for the period is based on the profit for the period attributable to shareholders of the Company, adjusted to reflect the effect of the deemed conversion of all dilutive convertible bonds of the Group, 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 and the deemed conversion of those convertible bonds of the Group which are convertible into ordinary shares of the Company.

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

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
<b>Earnings:</b>		
Profit for the period attributable to shareholders of the Company, used in the basic earnings per share calculation	<b>1,562,883</b>	1,418,078
Imputed interest expense for the period relating to the liability component of the dilutive convertible bonds of the Group	<b>36,946</b>	23,109
Decrease in profit for the period as a result of the dilution of interest in Beijing Enterprises Water Group Limited ("BE Water") assuming the exercise of all dilutive convertible bonds issued by BE Water	<b>(6,445)</b>	(127,973)
Profit for the period attributable to shareholders of the Company, used in the diluted earnings per share calculation	<b>1,593,384</b>	1,313,214

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (Continued)

	For the six months ended 30 June	
	2010 Unaudited	2009 Unaudited
<b>Number of ordinary shares:</b>		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	<b>1,137,371,000</b>	1,137,034,591
Effect of dilution – weighted average number of ordinary shares:		
Share options	<b>225,950</b>	390,573
Convertible bonds	<b>50,000,000</b>	7,458,563
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	<b><u>1,187,596,950</u></b>	<b><u>1,144,883,727</u></b>

## 10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

In respect of the Group's receivables under service concession arrangements, the various group companies have different credit policies, depending on the requirements of the locations in which they operate. Aged analysis of receivables under service concession arrangements are closely monitored in order to minimise any credit risk associated with the receivables.

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

	30 June 2010 Unaudited HK\$'000	31 December 2009 Audited HK\$'000
Billed:		
Within one year	<b>405,819</b>	413,028
One to two years	<b>400,506</b>	246,538
	<b>806,325</b>	659,566
Unbilled	<b>3,510,763</b>	3,414,841
	<b>4,317,088</b>	4,074,407
Portion classified as current assets	<b>(806,325)</b>	(659,566)
Non-current portion	<b><u>3,510,763</u></b>	<b><u>3,414,841</u></b>

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 11. TRADE AND BILLS RECEIVABLES

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

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

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
Billed:		
Within one year	<b>914,999</b>	449,129
One to two years	<b>41,836</b>	35,162
Two to three years	<b>14,102</b>	10,403
Over three years	<b>31,739</b>	28,168
Balance with extended credit period	<b>51,828</b>	51,710
	<b>1,054,504</b>	574,572
Unbilled	<b>228,168</b>	574,794
	<b>1,282,672</b>	1,149,366
Portion classified as current assets	<b>(1,230,844)</b>	(1,097,656)
Non-current portion	<b>51,828</b>	51,710

## 12. SHARE CAPITAL

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.1 each	<b>200,000</b>	200,000
Issued and fully paid:		
1,137,371,000 ordinary shares of HK\$0.1 each	<b>113,737</b>	113,737

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 13. CONVERTIBLE BONDS

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

<b>Group</b>	<b>ZKC Convertible Bonds 1*</b> <i>(note (a))</i>	<b>ZKC Convertible Bonds 2*</b> <i>(note (a))</i>	<b>Guaranteed Convertible Bonds</b> <i>(note (b))</i>
Issuance date	24/7/2008	6/4/2009	2/6/2009
Maturity date	23/7/2013	23/7/2013	1/6/2014
Original principal amount <i>(HK\$'000)</i>	589,304	238,696	2,175,000
Coupon rate	Zero	Zero	2.25%
Conversion price per ordinary share of <i>(HK\$)</i> :			
– The Company	N/A	N/A	43.5
– BE Water	0.69	0.69	N/A

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

Except for the Guaranteed Convertible Bonds, each batch of these convertible bonds is bifurcated into a liability component and an equity component for accounting purpose. In the opinion of the directors, the equity component of the Guaranteed Convertible Bonds is not significant to the Group and accordingly, the whole amount of the Guaranteed Convertible Bonds, net of transaction costs, is accounted for as a financial liability of the Group.

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 13. CONVERTIBLE BONDS (Continued)

The following tables summarise the movements in the principal amounts and the liability component of the Group's convertible bonds during the period:

	<b>ZKC Convertible Bonds 1 Unaudited</b> <i>HK\$'000</i> <i>(note (a))</i>	<b>ZKC Convertible Bonds 2 Unaudited</b> <i>HK\$'000</i> <i>(note (a))</i>	<b>Guaranteed Convertible Bonds Unaudited</b> <i>HK\$'000</i> <i>(note (b))</i>	<b>Total Unaudited</b> <i>HK\$'000</i>
<b>Principal amount outstanding</b>				
At 1 January 2010	555,059	193,287	2,175,000	2,923,346
Conversion to ordinary shares of BE Water	(68,150)	–	–	(68,150)
At 30 June 2010	<u>486,909</u>	<u>193,287</u>	<u>2,175,000</u>	<u>2,855,196</u>
<b>Liability component</b>				
At 1 January 2010	424,468	158,269	2,138,751	2,721,488
Interest expense <i>(note 6)</i>	14,385	4,568	32,757	51,710
Conversion to ordinary shares of BE Water	(52,397)	–	–	(52,397)
Interest paid	–	–	(28,546)	(28,546)
At 30 June 2010	<u>386,456</u>	<u>162,837</u>	<u>2,142,962</u>	<u>2,692,255</u>

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 13. CONVERTIBLE BONDS (Continued)

Notes:

- (a) The ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 were issued to Besto Holdings Limited ("Besto"), Tenson Investment Limited ("Tenson") and Newton Finance Holdings Limited ("Newton") (collectively the "BE-ZKC Vendors") as part of the consideration payable by the Group for the acquisition of the 100% equity interest in Gainstar Limited, which held indirectly an 88.43% equity interest in BE-ZKC, pursuant to a sale and purchase agreement (the "BE-ZKC Acquisition Agreement") entered into between, among others, BE Water and the BE-ZKC Vendors.

Besto, Tenson and Newton became 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 1 and ZKC Convertible Bonds 2 are set out in BE Water's circular dated 30 June 2008.

- (b) On 2 June 2009, Power Regal Group Limited, a wholly-owned subsidiary of the Company, issued convertible bonds with an aggregate principal amount of HK\$2.175 billion (the "Guaranteed Convertible Bonds") to certain institutional investors, pursuant to a convertible bond subscription agreement dated 25 April 2009. The convertible bonds bear an annual interest at a rate of 2.25% and will mature at the fifth anniversary of the issue date, i.e., 2 June 2009. The conversion price was set at HK\$43.5 per share of the Company and the outstanding principal amount of the convertible bonds, if not converted, will be repaid on the maturity date at 100% of the outstanding amount. Further details of the Guaranteed Convertible Bonds are set out in the Company's announcement dated 27 April 2009.

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

## 14. TRADE AND BILLS PAYABLES

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

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
Within one year	<b>1,951,590</b>	1,345,637
One to two years	<b>67,512</b>	36,131
Two to three years	<b>14,275</b>	9,362
Over three years	<b>19,102</b>	16,973
	<b><u>2,052,479</u></b>	<b><u>1,408,103</u></b>

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 15. CONTINGENT LIABILITY

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
Guarantee given in respect of a specific performance of an infrastructure project to be undertaken by a jointly-controlled entity	<b>92,993</b>	92,993

## 16. COMMITMENTS

### (a) CAPITAL COMMITMENTS

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

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
Contracted, but not provided for:		
Buildings	<b>166,175</b>	–
Gas pipelines	–	285,854
Plant and machinery	<b>381,485</b>	1,037,758
Purchase of operating concession of a sewage treatment plant	<b>409,556</b>	405,026
Capital contribution to a jointly-controlled entity	<b>3,010,681</b>	3,085,416
	<b>3,967,897</b>	4,814,054
Authorised, but not contracted for:		
Plant and machinery	<b>40,577</b>	52,013
Capital contribution to a jointly-controlled entity	<b>1,464,897</b>	648,342
	<b>1,505,474</b>	700,355
Total capital commitments	<b>5,473,371</b>	5,514,409

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 16. COMMITMENTS (Continued)

### (a) CAPITAL COMMITMENTS (Continued)

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

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
Contracted, but not provided for	<b><u>1,706,932</u></b>	<u>2,643,526</u>

### (b) OTHER COMMITMENTS

In addition to the capital commitments as disclosed above, the Group had the following commitments at the end of the reporting period:

	<b>30 June 2010 Unaudited HK\$'000</b>	31 December 2009 Audited HK\$'000
Purchase of plant and equipment under service concession arrangements:		
Authorised, but not contracted for	<b>162,856</b>	11,884
Contracted, but not provided for	<b><u>284,707</u></b>	<u>363,359</u>
	<b><u>447,563</u></b>	<u>375,243</u>

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 17. RELATED PARTY DISCLOSURES

The Group entered into the following material transactions with related parties during the period:

Name of related party	Nature of transaction	Notes	For the six months ended 30 June	
			2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
<i>Fellow subsidiaries:</i>				
北京北燃實業有限公司 and its subsidiaries	Sale of piped natural gas	(a)	<b>90,747</b>	93,018
	Service contract income	(b)	<b>1,801</b>	5,200
	Sale of raw materials	(c)	–	17,495
	Purchase of raw materials	(d)	<b>7,775</b>	24,306
	Repair and maintenance expenses	(c)	<b>2,376</b>	7,629
北京京泰國際貿易有限公司	Purchase of construction materials	(d)	–	17,223
<i>Jointly-controlled entity:</i>				
中石油北京天然氣管道有限公司	Natural gas transmission fee expenses	(a)	<b>1,841,902</b>	1,446,234
<i>Joint venture partners of subsidiaries and their associates:</i>				
Beijing Yanjing Beer Group Company ("Yanjing Beer Group") and its associates	Purchase of bottle labels	(e)	<b>63,200</b>	55,396
	Purchase of bottle caps	(e)	<b>39,330</b>	40,775
	Import of raw materials	(f)	–	149,382
	Sales of beer	(g)	–	5,826
	Canning service fees paid	(h)	<b>16,411</b>	13,396
	Comprehensive support service fees paid	(i)	<b>8,927</b>	8,819
	Land rent expenses	(j)	<b>1,062</b>	1,049
	Trademark licensing fees paid	(k)	<b>26,119</b>	22,254
	Less: Refund for advertising subsidies	(k)	<b>(3,280)</b>	(3,248)

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

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 17. RELATED PARTY DISCLOSURES (Continued)

Notes:

- (a) The selling price of piped natural gas and the natural gas transmission fee were prescribed by the PRC government.
- (b) The service 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.
- (c) The selling prices of raw materials and the repair and maintenance expenses paid were determined on a cost-plus basis.
- (d) The purchase prices of raw materials and construction materials were determined by reference to the then prevailing market rates.
- (e) The purchase prices for bottle labels and bottle caps were determined by reference to the agreed prices for the preceding year and an annual adjustment determined by reference to the price index in Beijing for the preceding year.
- (f) The import of certain raw materials for the Group's brewery operations 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.
- (g) The selling prices of the beer were determined by reference to the then prevailing market rates.
- (h) The canning service fees were charged at a rate equal to the costs of the canning services incurred by Yanjing Beer Group plus a mutually agreed profit margin.
- (i) The comprehensive support service fees paid included the following:
  - 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.
- (j) The land rent expenses were charged at a mutually agreed amount of RMB1,849,000 per annum.
- (k) The trademark licensing fees paid were for the use of "Yanjing" trademark and were determined based on 1% of the annual sales of beer and mineral water products made by Yanjing Brewery and RMB0.008 per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Beer Group would refund 20% of the trademark licensing fees received.

### Compensation of key management personnel of the Group

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Short term employee benefits	<b>9,072</b>	8,885
Pension scheme contributions	<b>10</b>	10
Total compensation paid to key management personnel	<b>9,082</b>	8,895

# NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 18. EVENTS AFTER THE REPORTING PERIOD

On 2 August 2010, the Company as borrower entered into a term loan facility agreement (the “Facility Agreement”) with several banks for a term loan facility (“Loan Facility”) in the amount of HK\$3 billion. The Loan Facility is for a term of 5 years commencing from the date of the Facility Agreement, i.e. 2 August 2010. Pursuant to the Facility Agreement, it shall be an event of default if Beijing Enterprises Group Company Limited (“BE Group”) ceases to hold, directly or indirectly, at least 40% of the issued share capital of the Company, or ceases to supervise the Company, or ceases to be the single largest shareholder of the Company, or ceases to be wholly-owned, supervised and controlled by the State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality (北京市人民政府國有資產監督管理委員會). As at the date of this report, BE Group holds indirectly approximately 59.35% of the issued share capital of the Company.

On 26 July 2010 and 18 August 2010, certain convertible bonds in aggregate amount of HK\$665,104,645 were converted into 963,919,775 new ordinary shares of BE Water at a conversion price of HK\$0.69. Upon the allotments, the Company’s interest in BE Water was diluted to approximately 43.9%.

The Group is not yet in a position to disclose any financial impact of these transactions on the Group.

## 19. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2010 amounted to HK\$6,442,941,000 (31 December 2009: HK\$5,292,106,000) and HK\$52,106,877,000 (31 December 2009: HK\$48,220,366,000), respectively.

# DISCLOSEABLE INFORMATION

## BOARD CHANGES

There has been no change in the Board of Directors of the Company since the date of the 2009 Annual Report.

## CHANGES IN DIRECTORS' INFORMATION

Changes in directors' information since the date of the 2009 Annual Report are set out below:

	<b>Appointment (effective)</b>	<b>Cessation of Office (effective)</b>
<b>Mr. Fu Tingmei</b>		
<ul style="list-style-type: none"><li>• Guotai Junan International Holdings Limited (stock code: 1788)* – independent non-executive director</li></ul>	19 June 2010	–

*Note\**: Guotai Junan International Holdings Limited was listed on The Main Board of The Stock Exchange of Hong Kong Limited on 8 July 2010.

Directors' updated biographies are available on the Company's website.

Save for the information disclosed in this section "Board and Committees", there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Main Board Listing Rules.

# DISCLOSEABLE INFORMATION

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

At 30 June 2010, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

### (a) Long positions in shares of the Company

Director	Number of shares	Percentage of the Company's issued share capital
Mr. Li Fucheng	12,000 <sup>#</sup>	0.0011%
Mr. E Meng	40,000 <sup>#</sup>	0.0035%
Mr. Jiang Xinhao	20,000 <sup>#</sup>	0.0018%

<sup>#</sup> All interests are directly beneficially owned by the directors.

### (b) Long positions in underlying shares of the Company

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

### (c) Long positions in shares of associated corporations

Director	Associated corporation	Number of shares	Percentage of the associated corporations' issued share capital
Mr. Zhang Honghai	Beijing Development (Hong Kong) Limited <sup>®</sup> ("Beijing Development")	4,000,000 <sup>#</sup>	0.590%
Mr. Li Fucheng	Beijing Yanjing Brewery Company Limited <sup>®</sup>	38,898 <sup>#</sup>	0.003%
Mr. E Meng	Beijing Development <sup>®</sup>	601,000 <sup>#</sup>	0.089%
Mr. Tam Chun Fai	Beijing Development <sup>®</sup>	200,000 <sup>#</sup>	0.030%

<sup>®</sup> All interests in these associated corporations are indirectly held by the Company

<sup>#</sup> All interests are directly beneficially owned by the director

# DISCLOSEABLE INFORMATION

## (d) Long positions in underlying shares of associated corporations

Director	Associated corporation	Number of share options
Mr. Zhang Honghai	Beijing Development <sup>®</sup>	6,800,000 <sup>(i)</sup>
	China Information Technology Development Limited <sup>®</sup> ("CIT Development")	20,000,000 <sup>(iv)</sup>
Mr. E Meng	Beijing Development <sup>®</sup>	4,500,000 <sup>(i)</sup>
		1,500,000 <sup>(ii)</sup>
		3,000,000 <sup>(iii)</sup>

### Notes:

- (i) These share options were granted on 30 October 2007 at an exercise price of HK\$4.03\* per ordinary share of Beijing Development. The 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.
- (ii) These share options were granted on 4 February 2008 at an exercise price of HK\$3.17\* per ordinary share of Beijing Development. The closing price of Beijing Development's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK\$3.11. The share options may be exercised at any time commencing on 1 May 2008, and if not otherwise exercised, will lapse on 17 June 2011. The vesting period is from the date of grant to the commencement date of the exercise period.
- (iii) These 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.
- (iv) 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.

<sup>®</sup> All interests in these associated corporations are indirectly held by the Company

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

Save as disclosed above, as at 30 June 2010, none of the directors or chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEMES

The Company 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 board of directors of the Company may, at their discretion, invite employees (including executive directors) and non-executive directors of the Company and any of its subsidiaries, to take up options to subscribe for ordinary shares of the Company at HK\$1 per grant of options.

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

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

The period during which an option granted under the Scheme may be exercised will be determined by the board of directors at its 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 board of directors, but may not be less than the highest of (i) the closing price of the Company’s ordinary shares on the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the Company’s ordinary shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of an ordinary share of the Company.

# DISCLOSEABLE INFORMATION

The following set out the movements in the share options granted under the Scheme during the period ended 30 June 2010:

Participant	Number of share options			At 30 June 2010
	At 1 January 2010	Granted during the period	Exercised during the period	
Directors: Mr. Zhou Si	300,000	–	–	300,000

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 30 June 2010, the Company had 300,000 share options outstanding under the Scheme, which represented approximately 0.03% 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 300,000 additional ordinary shares of the Company and additional share capital of HK\$30,000 and share premium of HK\$3,735,000 (before any issue expenses).

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR CONVERTIBLE BONDS

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

# DISCLOSEABLE INFORMATION

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

At 30 June 2010, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

Name	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Others	Total	
Modern Orient Limited	100,050,000	–	100,050,000	8.80%
Beijing Enterprises Investments Limited (“BEIL”)	163,730,288	100,050,000 <sup>(a)</sup>	263,780,288	23.19%
Beijing Enterprises Group (BVI) Company Limited (“BE Group BVI”)	411,250,000	263,780,288 <sup>(b)</sup>	675,030,288	59.35%
Beijing Enterprises Group Company Limited (“BE Group”)	–	675,030,288 <sup>(c)</sup>	675,030,288	59.35%
JPMorgan Chase & Co.	2,822,752 <sup>(e)</sup>	54,313,658 <sup>(d)(e)</sup>	57,136,410 <sup>(e)</sup>	5.02%

### Short position:

Name	Number of shares directly beneficially owned	Percentage of the Company's issued share capital
JPMorgan Chase & Co.	2,288,855 <sup>(e)</sup>	0.20%

### Lending position:

Name	Number of shares	Percentage of the Company's issued share capital
JPMorgan Chase & Co.	52,256,658 <sup>(e)</sup>	4.59%

# DISCLOSEABLE INFORMATION

## 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 2,057,000 shares held as an investment manager and 52,256,658 shares held as a custodian corporation/approved lending agent.
- (e) The information was extracted from the Disclosure of Interest Form filed by JPMorgan Chase & Co. in respect of the relevant event happened on 14 May 2010.

Save as disclosed above, as at 30 June 2010, no person, other than the directors of the Company, whose interests are set out in the section “Directors’ and chief executive’s interests and short positions in shares and underlying shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s shares during the six months ended 30 June 2010.

# CORPORATE GOVERNANCE

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

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the directors believe that the Company has complied with the code provisions (the "Code Provisions") contained in Appendix 14 "Code on Corporate Governance Practices" to the Listing Rules throughout the six months ended 30 June 2010.

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

## COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SHARE DEALING

The Company has adopted Appendix 10 "Model Code" to the Listing Rules to govern securities transactions by the directors. After having made specific enquiry to all directors, all directors confirm that they complied with the "Model Code" during the half year ended 30 June 2010.

## AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors of the Company, namely, Mr. Wu Jiesi, Mr. Lam Hoi Ham (Chairman of Audit Committee) and Mr. Fu Tingmei. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting process and internal controls of the Company. The Audit Committee of the Company has already reviewed the unaudited interim results for the six months ended 30 June 2010 and considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.