BEIJING ENTERPRISES HOLDINGS LIMITED

ANNUAL REPORT 2010

STOCK CODE : 392

北京控股有限公司

BEIJING ENTERPRISES HOLDINGS LIMITED

CONTENTS

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

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

CORPORATE INFORMATION

PROFESSIONALS:

Auditors

Ernst & Young

Legal Advisers

as to Hong Kong law:
DLA Piper
Mayor Brown JSM

as to PRC law:
Haiwen & Partners

as to US law:
Mayor Brown JSM

PRINCIPAL BANKERS:

In Hong Kong

Bank of China, Hong Kong Branch
Bank of Communications, Hong Kong Branch
China Construction Bank, Hong Kong Branch
Mizuho Corporate Bank Ltd., Hong Kong Branch

In Mainland China

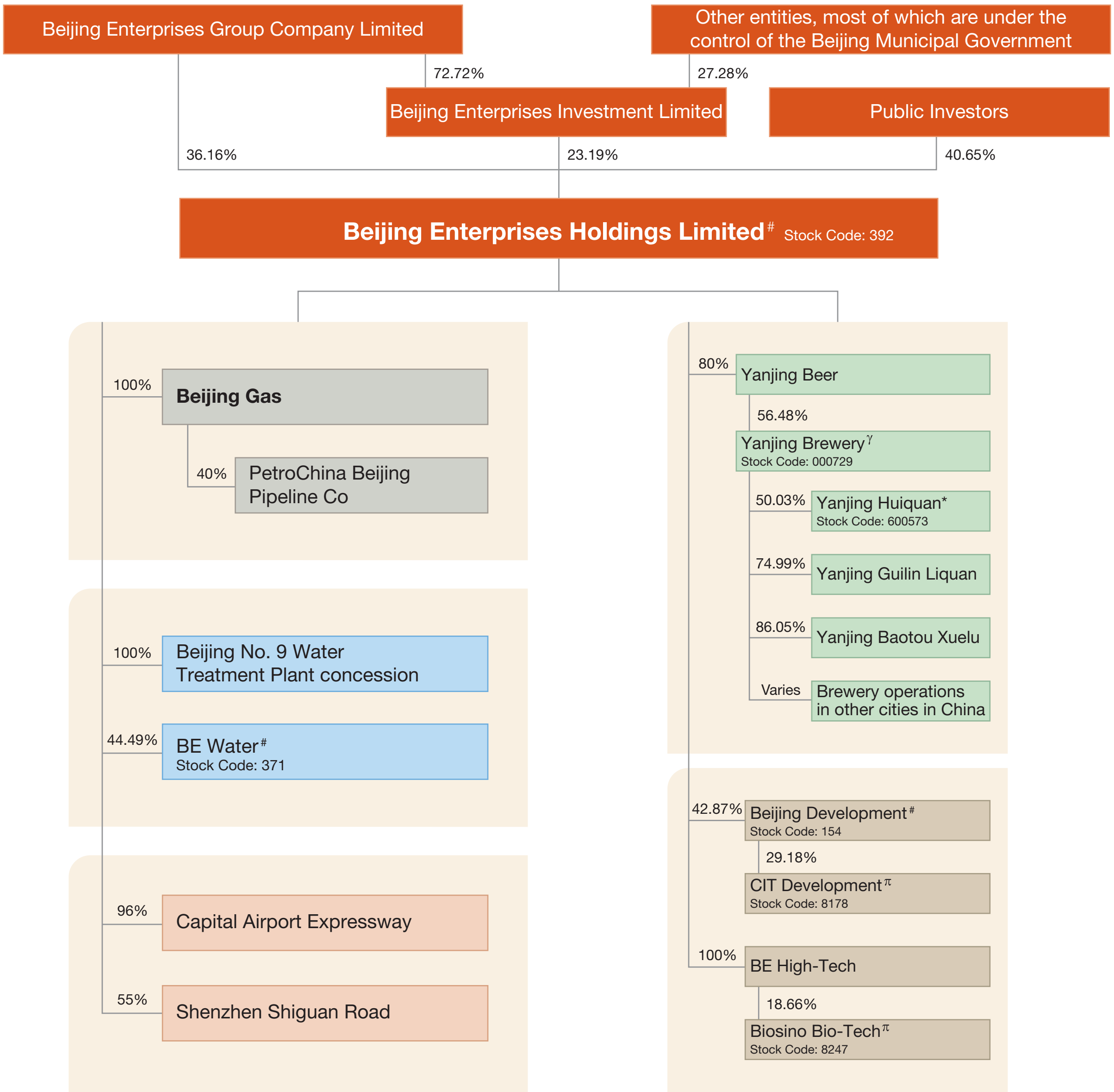
Agricultural Bank of China
Bank of China
China Construction Bank
Guangdong Development Bank
The Industrial and Commercial Bank of China

ADR Depository Bank

The Bank of New York

CORPORATE STRUCTURE

AS AT 31 MARCH 2011



* *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")

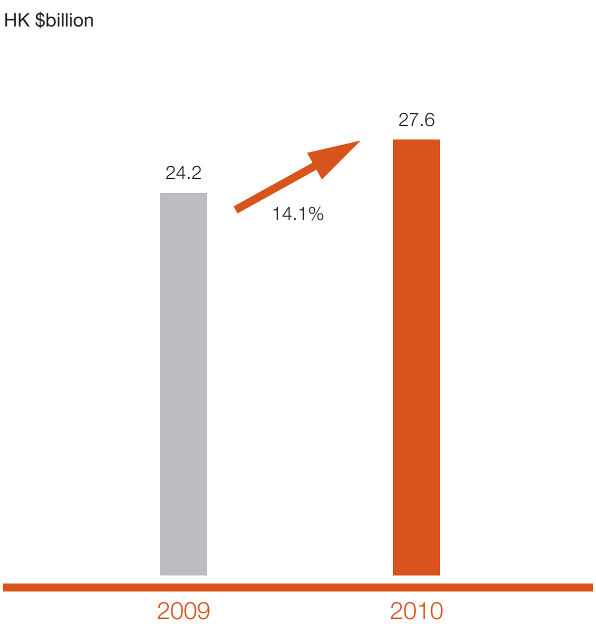
π *Listed on The Growth Enterprise Market of the Stock Exchange*

HIGHLIGHTS

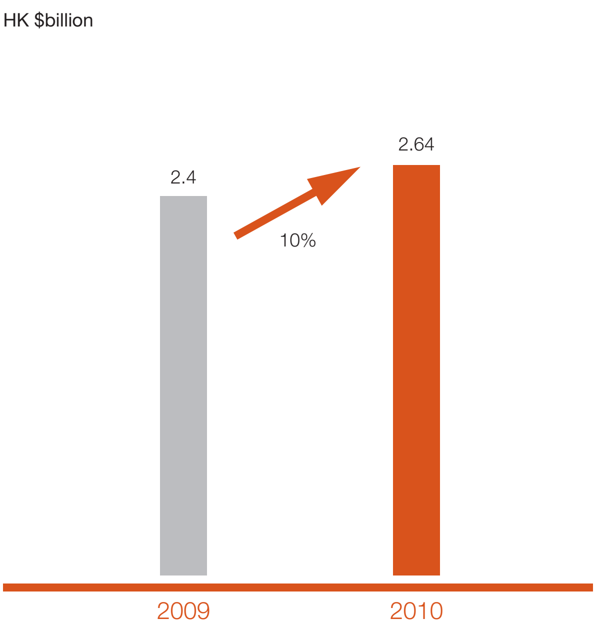
FINANCIAL HIGHLIGHTS (AUDITED)

	2010 *(HK$'000)*	2009 *(HK$'000)*	**Change**
Revenue	**27,612,778**	24,208,430	+14.1%
Gross Profit	**6,399,225**	5,818,511	+10%
Profit Attributable to Shareholders of the Company	**2,639,278**	2,398,883	+10%
Basic Earning Per Share (HK dollar)	**2.32**	2.11	+10%
Annual Dividend (HK cent)	**70**	65	+7.7%

Revenue



Profit attributable to shareholders of the Company



CHAIRMAN'S STATEMENT

In 2010, with the successive introduction of austerity policies by the government, the business sectors in which Beijing Enterprises Holdings Limited (the "Company" or "Group") engaged in also put forward adjustment measures one after another. This had caused different degrees of impact on the development of the daily operation and investment activities of the Company. By timely and seriously responding to these changes as depicted by the macroeconomic policies and the overall business environment, the Company and its subsidiaries strived to capture the development opportunities and promoted the further expansion in scale of its core businesses while keeping our earnings sustainable and in stable growth.

During the year, the principal businesses of the Company were affected by the adverse factors in different extent, including the uncertainty of the progress in finalizing the pass-on of price increase mechanism, surging breweries raw materials prices and the further intensifying competition of water projects. However, as appropriate measures were adopted timely, the results of our principal business were satisfactory during the period and the performance of some businesses has exceeded expectation.

According to the financial statements prepared under the Hong Kong Financial Reporting Standards, as at 2010, revenue of the Company was HK$27.61 billion, representing an increase of 14% year on year; profit attributable to the shareholders of the Company amounted to HK$2.64 billion, representing an increase of 10% year on year. The Board proposed to distribute a final dividend of HK45 cents per share.

Looking forward into 2011, as the inaugural year of the State's "12th Five-Year Plan", based on the serious discussion of the overall development plan and industry policies of the State and Beijing municipality, comprehensive analysis of both the internal and external environments of the Company's development, we believe that the core businesses of the Group will have good development prospects during the "12th Five-Year Period".

With the continuous strong domestic economic growth and the on-going acceleration of urbanization development, it will inevitably bring about a significant growth in natural gas demand. As the country's largest city in terms of scale of natural gas pipeline network, the volume of natural gas supplied in Beijing will increase from 6.8 billion cubic meters at the end of the "11th Five-Year Plan" to 15-18 billion cubic meters during the "12th Five-Year Plan" period, of which, the development in the suburban markets will represent a significant proportion with tremendous development potential. Under the government's energy saving and emission reduction and other supporting policies, by benefiting from the drive of strong market demand, coupled with its own advantages in resources and pipeline network, Beijing Gas Group Company Limited ("Beijing Gas"), as the largest city gas operator in the PRC, will continue to maintain its leading market position and stable profit growth.

CHAIRMAN'S STATEMENT

In recent years, Yanjing Beer has achieved a rapid development with its sufficient financial strength, leading market position, diversified brand and product portfolios, and nation-wide production and distribution capacities. In 2010, the total brand value of four major brands "Yanjing", "Liquan", "Huiquan" and "Xuelu" under Yanjing Beer had exceeded RMB24.5 billion. In the years to come, as the world's largest beer market in terms of sales volume, the China beer industry will continue to maintain a stable growth as a result of further prosperity of Chinese economy, continuing urbanization development and increasing consumer brand awareness, thus it will bring about a optimistic development prospect for Yanjing Beer.

Given the growing problems of water resources scarcity and accelerating progress of urbanization, rapid economic growth will result in more demanding requirements in terms of water resources utilization, The PRC Government will continuously launch various measures including increase in water tariff, water industry commercialization and increase in investments to improve the quality of water resources. With its one-stop integration of comprehensive business model, leading market position and diversified regional projects base, industry qualifications in leading technology and good relationship with the government, Beijing Enterprises Water Group Limited ("BE Water") (Stock code: 371) will bring about a unique development advantage under the new round of business opportunities.

Our next steps in business expansion:

Firstly, we will bring our resources advantages into full play and focus on suburban areas and new cities, integrate the construction of major towns and industrial parks, speed up the natural gas main pipeline construction in remote rural villages, improve the coverage of suburban markets and complete the strategic layout of the rural districts. At the same time, by leveraging on the synergy effect, we will vigorously promote the development of those municipal natural gas markets in the peripheral of Beijing and Bohai Rim Region to expand our market share. We will continue to focus on the in-depth development of gas industry chain, further optimize the resources allocation and maintain the gas supply. At the same time, we will proactively identify investment and development opportunities in coal gas, coal-bed gas and other mining areas to promote the supply of Beijing natural gas to more diversified resources. We will intensify the development of cooling-heating-power supply project, gas-fired boilers and LNG markets to enable the application arena spreading and developing in all directions.

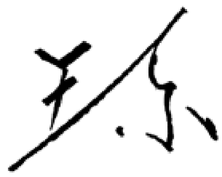
Secondly, based on the policy follow-up and market research, we will further integrate our advantageous resources to intensify our momentum in water business market development. We will proactively cope with the much more competitive market environment in securing projects. We will adjust our strategies in a timely manner, further establish and maintain public relationships and fully explore the market opportunities. We will leverage the existing matured investment models like BOT, TOT and joint ventures to grasp the market demand, to explore a comprehensive and multi-level commercial model, and to seek strategic co-operation opportunities in seizing bigger market share.

Thirdly, for beer business, in view of the market features like intense competition in high-end beer market and increasing market concentration, we will adopt more counteracting measures, further enhance market competitiveness and enlarge market strengths. While maintaining our market position in the five major core markets, we will further enhance our marketing networks, adjust products mix and market mix, focus our efforts on market developments of capital cities. We will develop the acquisition and merger processes and asset restructure promptly, achieve nationwide market layout so as to establish stronger competitive advantages in the industry. We will continue to develop new profit growing points and strive to achieve diversified development. At the same time, we will enhance our brand building with an aim to improve our brand value and to internationalize the brand name.

CHAIRMAN'S STATEMENT

Fourthly, we will further deepen our study of the industry layout, proactively explore the positioning, development directions and commercial models of the overall strategic layout of the new emerging business opportunities including solid waste treatment businesses, and develop as quickly as possible the sustainable strategic structure for entering into the inner part of the principal low carbon green industry.

Currently, developing a low-carbon and ecological economy with low energy consumption, low pollution and low emission has become a new economic development model. Not only will it bring substantial benefits for real macro-economy, it will also achieve real growing prospects for our enterprise. As an integrated public utility enterprise with Beijing municipal governmental background, the Company will strive to capture the valuable opportunities brought by the optimization of Beijing's energy structure in near future, endeavour to nourish new growing aspects of our principal business for developing a brand new network layout with green economy industry as its core so as to form a sustainable development platform. At the same time, we will achieve faster and better quality development through various means like capital operation, industry operation, technology innovation and system innovation.



Chairman

Hong Kong
31 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

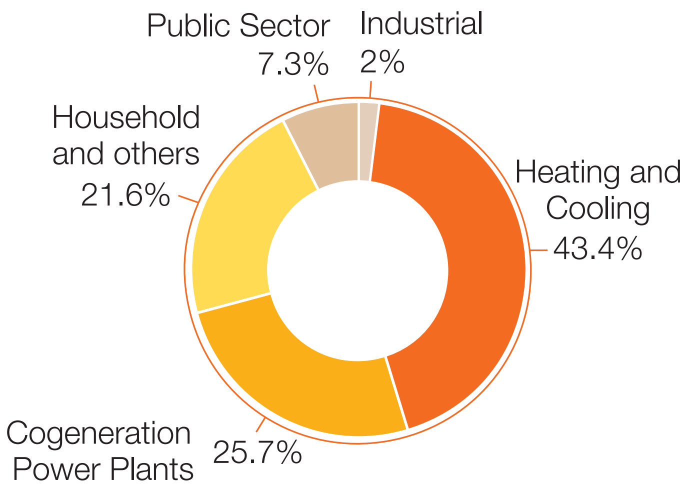
I. BUSINESS REVIEW

Natural Gas Distribution Business

Beijing Gas Group Company Limited ("Beijing Gas") recorded a gas sales volume of 6.46 billion cubic meters in 2010, representing a year-on-year growth of 13.5%. The revenue amounted to HK$14.12 billion, representing a year-on-year growth of 18.2%. Net profit amounted to HK$0.78 billion, representing a year-on-year growth of 6.3%.

In 2010, there were about 285,000 new subscribers, of which 282,000 were household subscribers and 2,812 were public sector subscribers. At the end of 2010, total number of natural gas subscribers had reached 4,110,000 and operation pipelines increased to over 13,100 kilometres.

The sales volume of Beijing Gas in 2010 is approximately 6.46 billion cubic meters, the analysis by user sector is as follows:



In respect of market development, Beijing suburban market entered into a new layout of comprehensive development. With the registration of Beijing Gas Huairou Company and Miyun Company during the year, the "Co-operation Agreement on Natural Gas Development" with Fangshan district government was signed. Meanwhile, Beijing Gas had reached an understanding with the Management Committee of Yizhuang Development Zone and obtained the dominant rights of the 12 square kilometres natural gas market in the South District of Yizhuang. Beijing Gas had determined the co-operation methods and pipeline network construction plans with Shunyi district and reached a co-operation understanding with Mentougou on a preliminary basis. During the year, the Company accelerated the development of natural gas in new cities and key towns, completed the gas supply works for piped natural gas and compressed natural gas in numerous key towns and built more liquefied gas stations. In addition, some key infrastructures like Phase II of the 6th Ring Road Gas Project and No. 3 Shaanxi-Beijing Pipeline Urban Reception Project were progressing smoothly as scheduled.

I. BUSINESS REVIEW (continued)

Natural Gas Distribution Business (continued)

During the year, Beijing Gas progressively boosted the construction of natural gas ancillary projects for the proposed four largest thermal power centers in Beijing. Also, Beijing Gas signed strategic co-operative framework agreements with those companies like Datang International（大唐國際）, Huaneng International（華能國際）and Huadian Operation（華電營運）respectively and determined the gas supply plans for Phase II of Huaneng and Caoqiao Thermal Power Center. Furthermore, with the co-operation made among various district governments and headquarters of certain state-owned enterprises, Beijing Gas also developed the tri-generation application model and opened up new business arena.

Natural Gas Transmission Business

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."), a company in which Beijing Gas holds 40% of its interests, achieved a gas transmission volume of 17.24 billion cubic meters in 2010, a year-on-year increase of 19.8%. Profit after taxation attributable to the Company amounted to HK$1.17 billion, a year-on-year increase of 7%. The slowdown in profit growth was mainly attributable to the impact of additional amortization and depreciation of the compression system pertaining to No. 2 Shaanxi-Beijing Pipeline and increase in relevant electricity expenses. At the end of 2010, Phase I of No. 3 Shaanxi-Beijing Pipeline had formally commenced its gas supply and relevant capital expenditures of approximately RMB7 billion were transferred to fixed assets. The initial gas transmission capacity of Phase I of No. 3 Pipeline can reach 6-7 billion cubic meters per annum.

Beer Business

Beijing Yanjing Brewery Co., Ltd.（北京燕京啤酒有限公司）("Yanjing Beer") achieved excellent operating results in 2010, with sales volume of beer reaching 5.03 million thousand-litres, representing a year-on-year increase of 7.7%, and accounted for 11.22% of the total 44.83 million thousand-litres national beer sales volume, which was above national industry average growth rate of 6.28%, and ranked the eighth in the world beer industry. Revenue amounted to HK$10.54 billion, marking an increase of 8.1% over last year. Profit attributable to shareholders of the Company amounted to approximately HK$0.41 billion, marking an increase of 19.3% over last year. Yanjing Beer maintained a faster profit increase over its growth in sales revenue, and a positive growth momentum in terms of faster revenue increase over its sale volume growth. For the production and sales volume, revenue and profit all recorded historical high. The reasons of achieving excellent results were mainly due to brand and products profitability improvement, accurately analysing the price movement of raw material and leveraging on the advantages of Group's economies of scale in achieving low cost purchases, thereby production costs were contained accordingly.

I. BUSINESS REVIEW (continued)

Beer Business (continued)

In 2010, the total value of the four brands in Yanjing Beer amounted to RMB24.523 billion, of which, "Yanjing" brand value amounted to RMB16.833 billion, the total value of the remaining three brands, namely, "Liquan（漓泉）", "Huiquan（惠泉）"and "Xuelu（雪鹿）", amounted to RMB7.69 billion. The Company continued to optimize the product mix, brand and market structure to ensure the growth in market development and economic benefits.

Yanjing Beer has regarded maintaining its 85% market share in Beijing market as a primary mission. Hence, the Company first initiated the price mechanism in the beginning of the year and adjusted the price of its leading products with huge sales volume, the "10˚C Refreshing Beer" and other 10˚C products upwards slightly to ensure product profitability. In 2010, sales volume of beer in Beijing area amounted to 1.22 million thousand-litres, representing an increase of 6.7%.

The major economic indicators of enterprises outside Beijing had maintained a steady growth in 2010, of which, sales volume of products had reached 3.81 million thousand-litres, representing an increase of 7.3%. Revenue amounted to HK$7.5 billion, representing an increase of 8%. In 2010, the product and sales volume of "1+3" brand for enterprises outside Beijing were 3.26 million thousand-litres, representing 88% of the total sales volume of business outside Beijing, of which, "Yanjing" brand represented 1.83 million thousand-litres for enterprises outside Beijing. During the year, some major markets outside Beijing like Guangxi, Guangdong and Inner Mongolia had maintained a leading market position.

A new bottling plant of Yanjing Beer with an investment amount RMB250 million and annual production capacity of 0.2 million thousand-litres was established in Jinzhong, Shanxi Province. Its phase one beer production capacity was 0.1 million thousand-litres and operation was commenced in February 2011. Furthermore, the designed annual production capacity of Yanjing Beer (Kunming) Company Limited（燕京啤酒（昆明）有限公司）, established in Kunming, was 0.4 million thousand-litres. RMB360 million had already been invested in its phase one construction and its annual production capacity was 0.2 million thousand-litres, and operation was commenced in September 2010. Through merger & acquisition, Yanjing Beer invested RMB227.5 million to acquire Henan Yueshan Beer Company Limited（河南月山啤酒有限公司）in August 2010 with an annual capacity 0.4 million thousand-litres. During the period, Yanjing Beer also invested RMB152 million to acquire the 95.9% equity interest in Inner Mongolia Jinchuan Healthy Beer High-Tech Company Limited（內蒙古金川保健啤酒高科技股份有限公司）. The two acquisitions have tremendous profound effects and implications in strengthening the Beijing market and expanding the Northern China market.

I. BUSINESS REVIEW (continued)

Sewage and Water Treatment Operation

The sewage treatment business of the Group carried out through Beijing Enterprises Water Group Limited ("BE Water") (stock code: 371) continued to achieve a flourish development in 2010. During the year, the Group secured 16 traditional water projects in both contracts and tenders, with a new growth of water processing capacity of 2.41 million tons/day, ahead of other sewage operators.

As of 31 December, in the 14 provinces across the country, BE Water owned a total of 79 water plants of different categories, of which, 62 were sewage treatment plants, 13 were water treatment plants, 3 were reclaimed water plants and 1 was desalination plant. The total designed water processing capacity was 5.91 million tons/day, of which, sewage processing capacity was 4.37 million tons/day, water supply capacity was 1.28 million tons/day, reclaimed water capacity was 0.21 million tons/day and desalination capacity was 0.05 million tons/day. The actual treatment volume was 611 million tons in 2010, representing a growth of 46% over last year. Revenue from operation of BE water was HK$6.35 billion, and profit attributable to its shareholders was HK$0.51 billion, representing a growth of 166% over last year. Net profit for the year attributable to the Company was HK$0.25 billion, representing a growth of 119% over last year. The relative faster profit growth in 2010 was primarily due to the construction service revenue and significant increase in profit, and the simultaneous soaring increase in processing charges and consulting service revenue after the new sewage treatment plants were put into operation.

As for water purification business, net profit of water concession of Beijing No. 9 Water Treatment Plant attributable to the Group was approximately HK$138 million (2009: HK$154 million) with its concession term still has 8 years to go.

Toll Roads Business

The toll charging traffic volume of the Airport Expressway in 2010 further came down to 28.03 million (2009: 30.17 million) vehicles. This was due to the full year impact of the implementation of a one-way payment system for return trip of vehicles leaving Beijing. The toll revenue in 2010 amounted to HK$312 million, representing a year-on-year decrease of 6.1%. Profit attributable to shareholders of the Company was HK$85 million, posting a year-on-year decline of 21.6%. In 2010, Shenzhen Shiguan Road contributed HK$2.9 million to the Company's earnings.

MANAGEMENT DISCUSSION AND ANALYSIS

II. PROSPECTS

Natural Gas Distribution Business

The development of the ten sub-urban districts and counties in Beijing by Beijing Gas is progressing well with main trunk lines construction in sub-urban districts completed one after another. This has supported the long-term gas consumption growth in Greater Beijing district. As the political, cultural and financial service center of China, the Beijing property sector is developing vigorously. The number of resident subscribers will grow steadily and civilian gas demand in city districts will also have a corresponding growth.

On the other hand, the National Development and Reform Commission in principle approved the proposal of transforming the three coal fire power plants into natural gas power plants in 2010 and that will further enhance the long-term demand of natural gas for power generation. The ratio of natural gas consumption for power generation purpose will continue to increase. As Beijing is pushing very hard to develop clean energy resources, the re-structuring of coal burning steam room and the facilitation of tri-generation application model will increase the demand for natural gas.

Natural Gas Transmission Business

PetroChina Beijing Pipeline Co. had completed the first stage of No. 3 Shaanxi-Beijing gas transmission project and began its first gas transmission at the end of 2010. Gas transmission capacity for the first stage of No. 3 Shaanxi-Beijing gas transmission project could reach 6 to 7 billion cubic meters per year, which would make integrated annual gas transmission capacity for Shaanxi-Beijing System increased to 26 billion cubic meters or above. When No. 3 Shaanxi-Beijing gas transmission project is fully completed, total gas transmission capacity could reach 35 billion cubic meters per year, which was sufficient to meet the growth demand in next 5 year.

Beer Business

The strength of Yanjing Beer as a national brand name becomes stronger and stronger and is very encouraging in the development of Yanjing Beer business. Yanjing Beer will continue its regional markets integration and product range optimisation. Both the sales volume and profitability are expected to achieve a stable growth. Furthermore, Yanjing Beer will continue to invest and make merger and acquisition to expand its capacity with a target of reaching a production capacity and sales volume of 8 million thousand-litres within five years.

II. PROSPECTS (continued)

Sewage and Water Treatment Operation

BE Water is pushing forward the construction works of the authorised water treatment projects aggressively and speed up the improvement of our sewage treatment capabilities. The sewage treatment projects are developing rapidly and both the revenue and profitability of BE Water are expected to maintain a rapid growth.

Toll Roads Business

Tianzhu Terminal of Capital Airport Expressway had commenced its one-way payment policy for return trip of vehicles leaving Beijing and tolled traffic volume had decreased significantly and profit base had decreased significantly compared with that of peak in the past. Both the traffic volume and profit of Shenzhen Shiguan Toll Road flattened with lack luster prospects. In view of the unpromising development prospect of the two toll roads, the Group will exit these businesses should opportunities arise and will invest our resources into those businesses with more promising prospects.

III. FINANCIAL REVIEW

Revenue

The revenue of the Group in 2010 was approximately HK$27.61 billion, increased by 14.1% compared with the revenue of HK$24.21 billion in 2009. This was mainly driven by the stable growth of Beijing Gas' revenue and Yanjing Beer's revenue. Other business contributed an aggregate of not more than 11% of the total revenue.

Cost of Sales

Cost of sales increased by 15.4% to HK$21.21 billion. 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, wage expenses and absorption of certain indirect overhead.

Gross Profit Margin

Overall gross profit margin was 23.2% as compared to 24% in 2009. The decrease in gross profit margin was mainly attributable to the increase in cost of sales of Beijing Gas. The decline in gross profit margin of natural gas distribution business of Beijing Gas compared with that of last year was mainly due to delay on pass on of wellhead price increase. Natural gas distribution business had average gross profit 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.

Other Income

Other income was mainly comprised of total interest income amounted to HK$107 million; government grants and other gains in aggregate amounted to HK$238 million and so on.

III. FINANCIAL REVIEW (continued)

Selling and Distribution Costs

Selling and distribution costs of the Group in 2010 increased by 21.5% to HK$1.65 billion and was mainly due to launching of more new bottling plants of Yanjing Beer during the year and higher increase in marketing expenses.

Administration Expenses

Administration expenses of the Group in 2010 was HK$2.12 billion, increased by 18% comparing to last year. The increase in administration expenses was mainly due to the continuing expansion of the scale of beer business and gas distribution business and increase in related wages and fixed costs.

Finance Costs

Finance costs of the Group in 2010 was HK$374 million, sightly increased by 3% comparing to HK$364 million in 2009, which was mainly due to higher interest rate.

Share of Profits and Losses of Jointly-Controlled Entities

This mainly represents the 40% share of the profit after taxation of PetroChina Beijing Pipeline Co.. PetroChina Beijing Pipeline Co. is 40% owned by Beijing Gas and 60% owned by PetroChina. The primary business of PetroChina Beijing Pipeline Co. is natural gas transmission which supplies natural gas to city gas operators along the three long piped lines with an approximate total length of 3,000 kilometers owned by PetroChina Beijing Pipeline Co.. The decrease in gross profit margin of PetroChina Beijing Pipeline Co. was mainly due to the increase in the proportion of transmission to nearby city and full year amortization of capital expenditures of No. 2 Shaanxi-Beijing Pipeline compression project and additional electricity expenses.

Share of Results of Associate Companies

The Group’s share of net profits of BE Water amounted to HK$250 million and share of net losses of Beijing Development (Hong Kong) Limited, amounted to HK$10 million in 2010, both companies were major associates.

Tax

After deducting the non-taxable other income of more than HK$446 million, the effective income tax rate is approximately 20.5%. The increase in effective income tax rate in 2010 was mainly due to an additional provision of prior years’ corporate income tax for certain water treatment operations was made during the year; additional withholding income taxes were charged in relation to distribution of dividends from PRC subsidiaries as well as the tax losses not recognised as deferred tax.

Profit Attributable to Shareholders

The profit attributable to the shareholders of the Company for the year ended 31 December 2010 was HK$2.639 billion (2009: HK$2.399 billion).

IV. FINANCIAL POSITION OF THE GROUP

Cash and Bank Borrowings

As at 31 December 2010, cash and bank deposits held by the Group amounted to HK$14.57 billion. At the end of the reporting period, the Group had a strong net working capital of HK$6.99 billion. The Group will maintain 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$12.2 billion as at 31 December 2010, which mainly comprised of five year syndicated loans amounting to HK$5.1 billion and convertible bonds amounting to HK$2.65 billion with the rest working capital loans of HK$4.45 billion denominated in Renminbi and Hong Kong dollars. Around 59.4% of the bank loans were denominated in Hong Kong dollars with the rest mainly in Renminbi. The Group was in a net cash position of HK$2.37 billion as at 31 December 2010.

Liquidity and Capital Resources

The downstream gas distribution business and brewery business has been constantly contributing to the operating cash flow of the Group and significantly increased its liquidity. During the year under review, there was no significant movement in the issued capital of the Company. As at the end of 2010, the issued capital of the Company amounted to 1,137,371,000 shares and the shareholders' equity grew to HK$34.27 billion. Total equity was HK$40.94 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. The Group will continue its stable dividend distribution policy and at least 30% of its recurring earnings per share will be used for dividend distribution.

V. EMPLOYEES

At 31 December 2010, the Group had approximately 41,000 employees. The employees are remunerated based on their work performance, professional experiences and prevailing market 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.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

WANG Dong, aged 45, is the Chairman of the Company and Beijing Enterprises Group Company Limited. Mr. Wang graduated from Mining Mechanical Engineering Faculty of Beijing Institute of Iron and Steel in 1986, holds a master degree in Public Administration from People's University of China and the title of Senior Engineer. Mr. Wang has held various senior positions in many large and medium size state-owned enterprises. From 2001 to 2008, Mr. Wang served as the Deputy General Manager, subsequently the Executive Deputy General Manager and finally the Chairman of BBMG Group Company Limited. From 2008 to 2009, he served as Head of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Wang has extensive experience in corporate management, finance and state-owned assets supervision. Mr. Wang joined the Group in August 2009.

ZHANG Honghai, aged 58, is the Vice Chairman and 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) and the Chairman and Executive Director of 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. Mr. Zhang currently is the 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.

LI Fucheng, aged 56, is the Vice Chairman of the Company. He has held various positions with Yanjing Beer Factory since 1983, including Deputy Secretary, Deputy Director and Director, etc and is currently 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.

BAI Jinrong, aged 60, is the 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)

ZHOU Si, aged 54, is the Vice Chairman of the Company. He is also the Director of Beijing Enterprises Group Company Limited, the Chairman of Beijing Gas Group Co., Ltd and the Chairman and Executive Director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Zhou received a bachelor's degree in science (Physics) from Capital Normal University in 1982 and an MBA degree from school of Economics and Management, Tsinghua University in 1998. From 1984 to 2003, he was the Chief Officer of the General Planning Division and subsequently Deputy Division Head, Division Head, Deputy Director and Senior Economist 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.

E Meng, aged 52, is the Executive Director and Executive Vice President of the Company. Mr. E also serves as the Chief Financial Officer of Beijing Enterprises Group Company Limited, the Chairman and Executive Director 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.

LIU Kai, aged 57, is the Executive Director and Vice President of the Company. Mr. Liu also serves as an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) and Vice Chairman of Beijing Holdings Limited. 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.

GUO Pujin, aged 57, is the 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.

EXECUTIVE DIRECTORS (continued)

LEI Zhengang, aged 57, a PRC senior accountant, is the Executive Director of the Company and 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.

JIANG Xinhao, aged 46, is the Executive Director and Vice President of the Company. Mr. Jiang also serves as the Chief Operational Officer of Beijing Enterprises Group Company Limited, an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) and Beijing Properties (Holdings) Limited (stock code: 925). Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, then he served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. In 1992, he was granted a master's degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Vice President of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was 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. Mr. Jiang has many years of experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

TAM Chun Fai, Jimmy, aged 48, is the Executive Director, Chief Financial Officer and Company Secretary of the Company. Mr. Tam also serves as the Independent Non-executive Director of Hi Sun Technology (China) Limited (stock code: 818) and KWG Property Holding Limited (stock code: 1813). Mr. Tam graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy and is a regular member of Chartered Financial Analyst and a member of Hong Kong Institute of Certified Public Accountants. Mr. Tam has extensive experience in auditing and corporate advisory services with major international accounting firms. He was involved in floatation and audit work of a wide variety of businesses, including electronics, electrical appliances, athletic shoes manufacturing, banking, insurance, securities and property development. Mr. Tam joined the Group in April 1997.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

WU Jiesi, aged 59, holds a doctorate degree in Economics. Mr. Wu also serves as Non-executive Director and Vice Chairman of China Aoyuan Property Group Limited (stock code: 3883), Independent Non-executive Director of China Taiping Insurance 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), Shenzhen Investment Limited (stock code: 604) and Silver Base Group Holdings Limited (stock code: 886). He conducted post-doctoral research work in theoretical economics at the Nankai University in the PRC and was conferred the professorship qualification by the Nankai University in 2001. During the period from 1984 to 1995, Mr. Wu worked at the Industrial and Commercial Bank of China in a number of positions, including as the President of Shenzhen Branch. From 1995 to 1998, Mr. Wu was Vice Mayor of Shenzhen Municipal Government and from 1998 to 2000 he was the assistant to the Governor of Guangdong province. He was the Chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, 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.

Robert A. THELEEN, aged 65, 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.

LAM Hoi Ham *JP*, aged 72, 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.

FU Tingmei, aged 44, has extensive experiences in law, investment, finance and business management. Mr. Fu graduated from the University of London with a master's degree and a doctorate degree in Law in 1989 and 1993, respectively. Between 1992 and 2003, he conducted many corporate finance transactions in investment banking firms based in Hong Kong, including serving as a director of Peregrine Capital Limited, and a deputy managing director and subsequently a managing director of BNP Paribas Peregrine Capital Limited. Mr. Fu is currently engaged in private investment business. He is currently also an independent non-executive director of CPMC Holdings Limited (stock code: 906) and Guotai Junan International Holdings Limited (stock code: 1788), both listed on the Stock Exchange. Mr. Fu joined the Group in July 2008.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

LI Yongcheng, aged 49, is 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.

XIAO Xifa, aged 47, is 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 chairman 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.

REPORT OF THE DIRECTORS

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 2010.

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 21 to the financial statements. There was no significant change 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 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 171.

An interim dividend of HK25 cents per ordinary share was paid on 28 October 2010. The directors recommend the payment of a final dividend of HK45 cents per ordinary share in respect of the year to shareholders on the register of members on 28 June 2011. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the final dividend will be paid on or around 28 July 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 23 June 2011 to Tuesday, 28 June 2011 (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 for attending the forthcoming annual general meeting of the Company to be held on Tuesday, 28 June 2011, 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, 22 June 2011.

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 2009 is set out on page 172. 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 15 and 16 to the financial statements, respectively.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

There were no movements in either the Company's authorised, issued share capital or share options during the year. Details of movements in the Group's convertible bonds during the year, together with the reasons therefor, are set out in note 35 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2010, 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$537,181,000, of which HK$511,817,000 has been proposed as final dividend for the year. In addition, the Company's share premium account, in the amount of HK$20,733,395,000, may be distributed in the form of fully paid bonus shares.

DONATIONS

The Group's charitable and other donations during the year amounted to HK$721,000.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for less than 30% of the Group's turnover and total purchases for the year, respectively.

DIRECTORS

The directors of the Company during the year were:

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)*

DIRECTORS (continued)

Independent non-executive directors:

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

In accordance with articles 96 and 105(A) of the Company's articles of association and the recommendation of the board of directors, Messrs. Bai Jinrong, Zhou Si, E Meng, Liu Kai and Robert A. Theleen 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.

BOARD CHANGES

There has been no change in the Board of Directors of the Company since the date of the 2010 Interim Report.

CHANGES IN DIRECTORS' INFORMATION

Changes in directors' information since the date of the 2010 Interim Report are set out below:

	Appointment (effective)	**Cessation of Office** (effective)
Mr. Zhang Honghai		
– China Information Technology Development Limited (stock code: 8178)		
Non–executive director and chairman	–	20 September 2010
Mr. Zhou Si		
– Beijing Properties (Holdings) Limited (stock code: 925)		
executive director and chairman	1 January 2011	–
Mr. Lei Zhengang		
– Beijing Properties (Holdings) Limited (stock code: 925)		
executive director and chairman	–	1 January 2011
Mr. Jiang Xinhao		
– Beijing Properties (Holdings) Limited (stock code: 925)		
executive director	1 January 2011	–

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 17 to 21 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 2009, 17 June 2008 and 16 January 2010, respectively, with respective unexpired periods of approximately 23 months, 6 months and 24 months as at 31 December 2010.

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 32 to 35 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 2010, 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 of Hong Kong Limited (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#	0.0011%
Mr. E Meng	40,000#	0.0035%
Mr. Jiang Xinhao	20,000#	0.0018%
Mr. Tam Chun Fai	2,000#	0.0002%

All interests are directly beneficially owned by the director.

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

(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 in the section "Share option scheme" below.

(c) Long positions in shares of associated corporations

Director	Associated corporation	Number of shares	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%
Mr. Tam Chun Fai	Beijing Development@	200,000#	0.030%

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

All interests are directly beneficially owned by the director.

(d) Long positions in underlying shares of associated corporations

Directors	Associated corporation	Number of share options
Mr. Zhang Honghai	Beijing Development@	6,800,000 (i)
Mr. E Meng	Beijing Development@	4,500,000 (i) 1,500,000 (ii) 3,000,000 (iii)

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:

(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 exercisable at any time commencing on 1 May 2008 and, if not otherwise exercised, will lapse on 17 June 2011. The vesting period is from the date of grant to the commencement date of the exercise period.

(iii) These 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.

Save as disclosed above, as at 31 December 2010, 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 as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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. Further details of the Scheme are disclosed in note 33 to the financial statements.

The following set out the movements in the share options granted under the Scheme during the year ended 31 December 2010:

	Number of share options			
Participant	**At 1 January 2010**	**Granted during the year**	**Exercised during the year**	**At 31 December 2010**
Director:				
Mr. Zhou Si	300,000	–	–	300,000

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.

Saved as disclosed above, 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 subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

At 31 December 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 [(a)]	263,780,288	23.19%
Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI")	411,250,000	263,780,288 [(b)]	675,030,288	59.35%
Beijing Enterprises Group Company Limited ("Beijing Enterprises Group")	–	675,030,288 [(c)]	675,030,288	59.35%
JPMorgan Chase & Co.	3,075,252	56,854,601[(d)]	59,929,853	5.27%

Short position:

Name	Number of shares directly beneficially owned	Percentage of the Company's issued share capital
JPMorgan Chase & Co.	2,059,355	0.18%

Lending position:

Name	Number of ordinary shares	Percentage of the Company's issued share capital
JPMorgan Chase & Co.	53,839,601	4.73%

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 Beijing Enterprises Group. Accordingly, Beijing Enterprises Group is deemed to be interested in the shares held by BE Group BVI, BEIL and Modern Orient Limited.

(d) The interest disclosed includes 3,015,000 shares held as an investment manager and 53,839,601 shares held as a custodian corporation/approved lending agent.

Save as disclosed above, as at 31 December 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 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 49 to the financial statements.

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 52 to the financial statements.

LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OBLIGATIONS 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 facilities, which contains covenants requiring performance obligations of the Company's holding companies.

In 2007 and 2010, the Company obtained a five-year HK$2.1 billion syndicated loan facility and a five-year HK$3 billion syndicated loan facility, respectively. The loan agreements include certain conditions imposing specific performance obligations on the Company's holding companies, among which are the following events which would constitute an event of default on the loan facilities:

1. If Beijing Enterprises Group does not or ceases to own, directly or indirectly, at least 40% or 50%, where applicable, of the beneficial interest of the Company; and

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

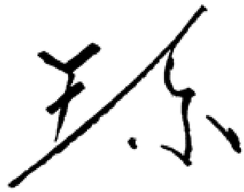
SUFFICIENCY OF PUBLIC FLOAT

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
31 March 2011

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 (the "Listing Rules") for the year ended 31 December 2010.

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 2010.

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 provides guidance on business plans and monitors the results of such plans implemented by the management; reviews and approves the Company's financial objectives, plans and major financial activities. The Board is also responsible for the establishment of the internal control system and the risk management system of the Company; the Board discusses with the management regularly to ensure that such systems are operating effectively. The Board promotes a culture of integrity at the Company and requires all members of the Board and the management to comply with guidance related to integrity and ethics, including conflicts of interest, related party transactions and the treatment of confidential information. There is no relationship (including financial, business, family or other material/relevant relationships) among the Board members (including the chairman and the chief executive officer).

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three Independent Non-executive Directors. In addition, at least one Independent Non-executive Director possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Board considers that all Independent Non-executive Directors meet the specific independence criteria as required by the Listing Rules. The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

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

BOARD OF DIRECTORS (continued)

Composition and role (continued)

The individual attendance of board meetings is set out below:

Name	Attendance
Executive Directors	
Mr. Wang Dong	1/2
Mr. Zhang Honghai	2/2
Mr. Li Fucheng	2/2
Mr. Bai Jinrong	2/2
Mr. Zhou Si	2/2
Mr. E Meng	2/2
Mr. Liu Kai	2/2
Mr. Guo Pujin	2/2
Mr. Lei Zhengang	2/2
Mr. Jiang Xinhao	2/2
Mr. Tam Chun Fai	2/2
Independent Non-executive Directors	
Mr. Wu Jiesi	2/2
Mr. Robert A. Theleen	2/2
Mr. Lam Hoi Ham	2/2
Mr. Fu Tingmei	2/2

Chairman and Chief Executive Officer

The Chairman of the Board of the Company is Mr. Wang Dong while 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
Mr. Liu Kai

The majority of the Remuneration Committee members are Independent Non-executive Directors. The duties of the Remuneration Committee include: advises the Board on the Company's overall policy and structure for the remuneration of Directors and senior management of the Company; determines the specific remuneration packages for executive directors; and makes recommendation to the Board of the remuneration of non-executive directors. 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 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, no Remuneration Committee meeting was held as the terms of employment of directors remained unchanged.

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

During the year ended 31 December 2010, fees paid to the Company's external auditors for audit services were approximately HK$8 million; the fees paid for non-audit services were approximately HK$2.6 million, which represented an agreed-upon procedures engagement in connection with the Group's interim financial report, tax compliance service and internal control review service.

AUDIT COMMITTEE

The current members of the Audit Committee are:

Mr. Lam Hoi Ham – Committee Chairman
Mr. Wu Jiesi
Mr. Fu Tingmei

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.

During the year ended 31 December 2010, the individual attendance of Audit Committee meetings is set out below:

Name	**Attendance**
Mr. Wu Jiesi	2/2
Mr. Lam Hoi Ham	2/2
Mr. Fu Tingmei	2/2

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

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 2010 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

The Board has delegated power to oversee the internal control system of the Company to ensure that such system is operating effectively. During the year under review, the Board conducted an annual review and engaged in a discussion with the management on the effectiveness of the internal control system to satisfy itself that the internal control system of the Company was designed and operated effectively during the year. The review has covered all material controls, including financial, operational and compliance controls and risk management functions.

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 171, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

INDEPENDENT AUDITORS' REPORT (continued)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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
Hong Kong
31 March 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 *HK$'000*	2009 *HK$'000*
REVENUE	5	**27,612,778**	24,208,430
Cost of sales		**(21,213,553)**	(18,389,919)
Gross profit		**6,399,225**	5,818,511
Gain on deemed disposal of interest in a subsidiary	6	**170,911**	105,426
Other income and gains, net	5	**421,951**	440,783
Selling and distribution costs		**(1,653,117)**	(1,360,112)
Administrative expenses		**(2,117,412)**	(1,794,372)
Fair value loss on the derivative component of convertible bonds	36	**(214,184)**	–
Other operating expenses, net		**(203,457)**	(325,430)
PROFIT FROM OPERATING ACTIVITIES	7	**2,803,917**	2,884,806
Finance costs	8	**(374,458)**	(363,574)
Share of profits and losses of:			
Jointly-controlled entities	22(a)	**1,168,658**	1,092,074
Associates	23(a)	**196,449**	(7,920)
PROFIT BEFORE TAX		**3,794,566**	3,605,386
Income tax	11	**(684,850)**	(558,997)
PROFIT FOR THE YEAR		**3,109,716**	3,046,389
ATTRIBUTABLE TO:			
Shareholders of the Company	12	**2,639,278**	2,398,883
Non-controlling interests		**470,438**	647,506
		3,109,716	3,046,389
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	14		
Basic		**HK$2.32**	HK$2.11
Diluted		**HK$2.27**	HK$2.02

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	2010 *HK$'000*	2009 *HK$'000*
PROFIT FOR THE YEAR	**3,109,716**	3,046,389
OTHER COMPREHENSIVE INCOME		
Changes in fair value of available-for-sale investments	**6,372**	–
Exchange differences on translation of foreign operations	**1,318,909**	14,397
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX OF NIL	**1,325,281**	14,397
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**4,434,997**	3,060,786
ATTRIBUTABLE TO:		
Shareholders of the Company	**3,730,335**	2,413,044
Non-controlling interests	**704,662**	647,742
	4,434,997	3,060,786

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	15	**22,244,006**	19,045,485
Investment properties	16	**215,637**	204,371
Prepaid land premiums	17	**1,233,403**	1,129,884
Goodwill	18	**7,245,773**	8,649,068
Operating concessions	19	**1,255,902**	1,697,362
Other intangible assets	20	**14,208**	26,911
Investments in jointly-controlled entities	22	**6,102,491**	5,397,326
Investments in associates	23	**3,109,858**	899,778
Amounts due from contract customers	26	**223,672**	1,286,205
Receivables under service concession arrangements	19	**1,699,231**	3,414,841
Trade and bills receivables	27	**–**	51,710
Prepayments, deposits and other receivables	28	**301,228**	270,829
Available-for-sale investments	24	**1,005,154**	290,000
Deferred tax assets	40	**598,157**	564,490
Total non-current assets		**45,248,720**	42,928,260
Current assets:			
Prepaid land premiums	17	**27,643**	26,433
Inventories	25	**3,726,623**	2,995,039
Amounts due from contract customers	26	**2,105**	55,089
Receivables under service concession arrangements	19	**900,524**	659,566
Trade and bills receivables	27	**1,347,008**	1,097,656
Prepayments, deposits and other receivables	28	**899,533**	1,653,855
Other taxes recoverable		**303,906**	85,141
Restricted cash and pledged deposits	30	**125,932**	118,245
Cash and cash equivalents	31	**14,446,800**	9,486,026
Total current assets		**21,780,074**	16,177,050
TOTAL ASSETS		**67,028,794**	59,105,310

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	32	**113,737**	113,737
Reserves	34(a)(i)	**33,642,355**	30,679,528
Proposed final dividend	13	**511,817**	511,817
		34,267,909	31,305,082
Non-controlling interests		**6,668,352**	7,711,919
TOTAL EQUITY		**40,936,261**	39,017,001
Non-current liabilities:			
Bank and other borrowings	35	**7,227,253**	5,264,237
Liability component of convertible bonds	36	**2,650,489**	2,721,488
Derivative component of convertible bonds	36	**292,384**	–
Defined benefit plans	37	**470,515**	423,947
Provision for major overhauls	38	**140,192**	184,499
Other non-current liabilities	39	**157,081**	196,055
Deferred tax liabilities	40	**364,053**	413,139
Total non-current liabilities		**11,301,967**	9,203,365
Current liabilities:			
Trade and bills payables	41	**4,553,753**	1,408,103
Amounts due to contract customers	26	**59,409**	48,342
Other payables and accruals	42	**6,862,394**	5,436,612
Income tax payables		**626,774**	522,316
Other taxes payables		**367,927**	431,623
Bank and other borrowings	35	**2,320,309**	3,037,948
Total current liabilities		**14,790,566**	10,884,944
TOTAL LIABILITIES		**26,092,533**	20,088,309
TOTAL EQUITY AND LIABILITIES		**67,028,794**	59,105,310

Wang Dong
Director

Zhang Honghai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Notes	Attributable to shareholders of the Company													
	Notes	Issued capital *HK$'000*	Share premium account *HK$'000*	Capital redemption reserve *HK$'000* *(note 34(a)(ii))*	Share option reserve *HK$'000* *(note 34(a)(iii))*	Capital reserve *HK$'000* *(note 34(a)(iv))*	Available-for-sale investment revaluation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	PRC reserve funds *HK$'000* *(note 34(a)(v))*	Retained profits *HK$'000*	Proposed final dividend *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'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
Profit for the year		–	–	–	–	–	–	–	–	–	2,398,883	–	2,398,883	647,506	3,046,389
Other comprehensive income for the year:															
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	14,161	–	–	–	14,161	236	14,397
Total comprehensive income for the year		–	–	–	–	–	–	–	14,161	–	2,398,883	–	2,413,044	647,742	3,060,786
Exercise of share options	33(a)	37	6,089	–	(1,482)	–	–	–	–	–	–	–	4,644	–	4,644
Capital contribution by non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	309,336	309,336
Acquisition of subsidiaries	43	–	–	–	–	–	–	–	–	–	–	–	–	50,069	50,069
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(177,999)	(177,999)
Disposal of subsidiaries	44(a)	–	–	–	–	72,265	–	–	(11,075)	(12,052)	(60,213)	–	(11,075)	(3,846)	(14,921)
Deemed disposal of interest in a subsidiary		–	–	–	–	105,426	–	–	–	–	(105,426)	–	–	410,969	410,969
Share of reserves of associates		–	–	–	–	(131,812)	–	–	682	333	136,425	–	5,628	–	5,628
Final 2008 dividends		–	–	–	–	–	–	–	–	–	–	(511,650)	(511,650)	–	(511,650)
Interim 2009 dividend	13	–	–	–	–	–	–	–	–	–	(227,457)	–	(227,457)	–	(227,457)
Proposed final 2009 dividend	13	–	–	–	–	–	–	–	–	–	(511,817)	511,817	–	–	–
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	(202,874)	(202,874)
Transfer to reserves		–	–	–	–	–	–	–	–	926,284	(926,284)	–	–	–	–
At 31 December 2009 and 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
Profit for the year		–	–	–	–	–	–	–	–	–	2,639,278	–	2,639,278	470,438	3,109,716
Other comprehensive income for the year:															
Changes in fair value of available-for-sale investments		–	–	–	–	–	6,372	–	–	–	–	–	6,372	–	6,372
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	1,084,685	–	–	–	1,084,685	234,224	1,318,909
Total comprehensive income for the year		–	–	–	–	–	6,372	–	1,084,685	–	2,639,278	–	3,730,335	704,662	4,434,997
Deemed contribution from the ultimate holding company	34(b)	–	–	–	–	13,220	–	–	–	–	–	–	13,220	–	13,220
Capital contribution by non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	582,797	582,797
Acquisition of subsidiaries	43	–	–	–	–	–	–	–	–	–	–	–	–	159,572	159,572
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(23,006)	(23,006)
Deconsolidation of subsidiaries	44(b)	–	–	–	–	–	–	–	–	–	–	–	–	(2,721,783)	(2,721,783)
Deemed disposal of interest in a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	720,716	720,716
Share of reserves of a jointly-controlled entity		–	–	–	–	14,691	–	–	–	–	–	–	14,691	–	14,691
Share of reserves of associates		–	–	–	–	741	–	–	–	–	–	–	741	–	741
Final 2009 dividend		–	–	–	–	–	–	–	–	–	–	(511,817)	(511,817)	–	(511,817)
Interim 2010 dividend	13	–	–	–	–	–	–	–	–	–	(284,343)	–	(284,343)	–	(284,343)
Proposed final 2010 dividend	13	–	–	–	–	–	–	–	–	–	(511,817)	511,817	–	–	–
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	(466,525)	(466,525)
Transfer to reserves		–	–	–	–	198	–	–	–	607,369	(607,567)	–	–	–	–
At 31 December 2010		113,737	20,733,395*	228*	1,162*	997,272*	6,372*	29,893*	3,550,099*	2,810,203*	5,513,731*	511,817	34,267,909	6,668,352	40,936,261

* These reserve accounts comprise the consolidated reserves of HK$33,642,355,000 (2009: HK$30,679,528,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,794,566**	3,605,386
Adjustments for:			
Interest income	5	**(92,368)**	(90,070)
Transfer of assets from customers	5	**(62,599)**	–
Gain on disposal of subsidiaries, net	5	**–**	(60,830)
Gain on deemed disposal of interest in a subsidiary		**(170,911)**	(105,426)
Fair value gain on investment properties	5	**(5,616)**	(5,603)
Gain on deemed disposal of partial interest in an associate	5	**(36,928)**	–
Gain on disposal of available-for-sale investments carried at cost, net	5	**(244)**	(7,021)
Gain on disposal of financial assets at fair value through profit or loss, net	5	**–**	(363)
Depreciation	7	**1,383,427**	1,305,884
Amortisation of operating concessions	7	**100,570**	105,139
Amortisation of patents	7	**15**	56
Amortisation of computer software	7	**4,659**	3,780
Impairment of items of property, plant and equipment	7	**40,980**	76,820
Impairment of other intangible assets	7	**75,637**	–
Impairment of an available-for-sale investment carried at cost	7	**–**	11,358
Loss on disposal of items of property, plant and equipment, net	7	**14,433**	18,381
Fair value loss on derivative component of convertible bonds		**214,184**	–
Provision against inventories, net	7	**30,560**	21,005
Impairment of receivables under service concession arrangements, net	7	**–**	61,841
Impairment of trade and bills receivables, net	7	**90,651**	49,644
Net impairment/(reversal of impairment) of other receivables, net	7	**(75,874)**	22,019
Finance costs	8	**374,458**	363,574
Share of profits and losses of jointly-controlled entities and associates		**(1,365,107)**	(1,084,154)
Operating profit before working capital changes		**4,314,493**	4,291,420

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES (continued)		
Operating profit before working capital changes	**4,314,493**	4,291,420
Increase in prepaid land premiums	**(49,735)**	(58,484)
Decrease/(increase) in inventories	**(606,330)**	55,733
Increase in amounts due from contract customers	**(1,514,838)**	(1,026,581)
Increase in receivables under service concession arrangements	**(645,658)**	(744,039)
Increase in trade and bills receivables	**(326,909)**	(139,164)
Decrease/(increase) in prepayments, deposits and other receivables	**317,933**	(552,100)
Increase in other taxes recoverable	**(218,765)**	(12,268)
Increase in trade and bills payables	**3,574,088**	177,188
Increase/(decrease) in amounts due to contract customers	**11,067**	(59,489)
Increase in other payables and accruals	**881,056**	579,347
Increase/(decrease) in other taxes payable	**(67,463)**	70,587
Increase in defined benefit plans	**45,776**	34,329
Increase in provision for major overhauls	**58,050**	59,472
Decrease in other non-current liabilities	**(29,269)**	(24,650)
Cash generated from operations	**5,743,496**	2,651,301
Dividends received from jointly-controlled entities and associates	**1,779,830**	883,557
Mainland China income tax paid	**(581,218)**	(441,368)
Net cash flows from operating activities	**6,942,108**	3,093,490

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(3,797,469)**	(2,250,169)
Proceeds from disposal of items of property, plant and equipment		**22,279**	62,585
Purchases of operating concessions		**–**	(44,043)
Purchases of other intangible assets		**(1,548)**	(15,773)
Proceeds from disposal of other intangible assets		**–**	76
Acquisition of subsidiaries	43	**(247,100)**	4,140
Acquisition of non-controlling interests		**(23,006)**	(47,015)
Disposal of subsidiaries	44(a)	**–**	136,531
Deconsolidation of interest in a subsidiary	44(b)	**(2,063,579)**	–
Acquisition of and increase in investments in jointly-controlled entities and associates		**(1,339,500)**	(753,935)
Proceeds from disposal of interests in associates		**–**	6,925
Decrease/(increase) in amounts due from/to and loans to jointly-controlled entities and associates		**605**	(123,703)
Purchases of available-for-sale investments		**(611,427)**	–
Proceeds from disposal of an available-for-sale investment		**1,731**	7,021
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	1,929
Increase in time deposits with maturity of more than three months when acquired		**(218,593)**	(1,248,305)
Increase in pledged deposits		**(649,906)**	(53,832)
Interest received		**92,336**	89,634
Net cash flows used in investing activities		**(8,835,177)**	(4,227,934)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options	32	**–**	4,644
Deemed contribution from the ultimate holding company	34(b)	**13,220**	–
Capital contributions by non-controlling equity holders		**513,953**	613,064
Issue of convertible bonds		**558,127**	2,369,537
New loans		**11,510,266**	6,951,653
Repayment of loans		**(4,783,408)**	(5,980,743)
Interest paid		**(332,286)**	(311,201)
Dividends paid		**(796,160)**	(739,107)
Dividends paid to non-controlling equity holders		**(466,525)**	(202,874)
Net cash flows from financing activities		**6,217,187**	2,704,973

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2010

	Notes	**2010**	2009
		HK$'000	*HK$'000*
NET INCREASE IN CASH AND CASH EQUIVALENTS		**4,324,118**	1,570,529
Cash and cash equivalents at beginning of year		**7,827,362**	6,256,581
Effect of foreign exchange rate changes, net		**354,981**	252
CASH AND CASH EQUIVALENTS AT END OF YEAR		**12,506,461**	7,827,362
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	31	**12,158,352**	5,714,023
Time deposits	31	**2,412,225**	3,810,872
Cash equivalents	31	**2,155**	79,376
Less: Restricted cash and pledged deposits	31	**(125,932)**	(118,245)
Cash and cash equivalents as stated in the consolidated statement of financial position		**14,446,800**	9,486,026
Less: Time deposits with maturity of more than three months when acquired		**(1,940,339)**	(1,658,664)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**12,506,461**	7,827,362

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	**31 December 2010** HK$'000	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
ASSETS				
Non-current assets:				
Property, plant and equipment	15	**2,637**	4,039	5,540
Investment properties	16	**41,765**	38,617	36,650
Investments in subsidiaries	21	**29,053,029**	26,576,142	25,851,490
Investments in jointly-controlled entities	22	**2,588**	2,584	2,598
Investments in associates	23	**92,439**	93,044	92,982
Available-for-sale investments	24	**229,617**	132,572	132,494
Total non-current assets		**29,422,075**	26,846,998	26,121,754
Current assets:				
Trade and bills receivables	27	**1,035**	999	999
Prepayments, deposits and other receivables	28	**137,267**	125,631	119,303
Financial assets at fair value through profit or loss		**–**	–	1,566
Cash and cash equivalents	31	**1,344,840**	1,205,903	210,664
Total current assets		**1,483,142**	1,332,533	332,532
TOTAL ASSETS		**30,905,217**	28,179,531	26,454,286

STATEMENT OF FINANCIAL POSITION (continued)

31 December 2010

	Notes	31 December 2010 HK$'000	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
EQUITY AND LIABILITIES				
Equity:				
Issued capital	32	**113,737**	113,737	113,700
Reserves	34(b)	**20,830,139**	20,760,287	20,814,133
Proposed final dividend	13	**511,817**	511,817	511,650
TOTAL EQUITY		**21,455,693**	21,385,841	21,439,483
Non-current liabilities:				
Bank and other borrowings	35	**5,567,937**	2,607,202	2,095,267
Due to subsidiaries	21	**3,642,488**	4,059,812	2,512,458
Total non-current liabilities		**9,210,425**	6,667,014	4,607,725
Current liabilities:				
Other payables and accruals	42	**152,063**	116,697	100,799
Other taxes payable		**10,036**	9,979	9,979
Bank and other borrowings	35	**77,000**	–	296,300
Total current liabilities		**239,099**	126,676	407,078
TOTAL LIABILITIES		**9,449,524**	6,793,690	5,014,803
TOTAL EQUITY AND LIABILITIES		**30,905,217**	28,179,531	26,454,286

Wang Dong
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")

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

- the construction of sewage and water treatment plants and other infrastructural facilities, 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

- 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

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

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, certain available-for-sale investments and the derivative component of convertible bonds which have been measured at fair value, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 38 included in *Improvements to HKFRSs 2009* and HK Interpretation 5, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements* (continued)

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 standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited 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 changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 1 *Presentation of Financial Statements*: States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

  Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

  The Group has reassessed its leases in Hong Kong and Mainland China, previously classified as finance leases and operating leases, respectively, upon the adoption of the amendments and concluded that the classification of these leases remained unchanged.

- HKAS 36 *Impairment of Assets*: Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in HKFRS 8 *Operating Segments* before aggregation for financial reporting purposes.

- HKAS 38 *Intangible Assets*: Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented in the standard for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The interpretation requires a term loan that contains a clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current in the statement of financial position. This is irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement. The interpretation has no impact on these financial statements as the loan agreements in respect of the Group's bank and other borrowings do not contain a repayment on demand clause.

2.3 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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKFRS 12 Amendments	Amendments to HKFRS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

1 *Effective for annual periods beginning on or after 1 February 2010*
2 *Effective for annual periods beginning on or after 1 July 2010*
3 *Effective for annual periods beginning on or after 1 January 2011*
4 *Effective for annual periods beginning on or after 1 July 2011*
5 *Effective for annual periods beginning on or after 1 January 2012*
6 *Effective for annual periods beginning on or after 1 January 2013*

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

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

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

(a) HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in the income statement, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in the income statement. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

(b) HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011.

As the Group's current policy for related party disclosure aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

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

(c) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

- HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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 investments 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any 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 investments 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.

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 investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any 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 investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising on the acquisition of associates, is included as part of the Group's investments in associates and is not individually tested for impairment. 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 investments in associates are treated as non-current assets and are stated at cost less any accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations prior to 1 January 2010 but after 1 January 2004

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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.

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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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 at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in 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, sewage and water pipelines, buildings, structures, plant and machinery and other property, plant and equipment under construction or installation, construction materials (which include materials for construction projects and equipment that needs to be installed) and prepayments for large-scale equipment. Construction in progress is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

Gains or losses arising from changes in the fair values of investment properties are included in 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 periods; and any remaining part of the increase in the carrying amount is credited directly to equity in the property revaluation reserve. On subsequent disposal of the property, the relevant portion of the property revaluation reserve realised is transferred to retained profits as a movement in reserves.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

Construction or upgrade services

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

Operating services

Revenue 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 any upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

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

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

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in 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 are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 40 years.

Patents

Purchased patents are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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

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 the end of each reporting period 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

Initial recognition and measurement

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. The Group determines the classification of its financial assets at initial recognition. 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.

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

Subsequent measurement

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

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

Financial assets at fair value through profit or loss are equity investments held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in "Other income and gains, net" or "Other operating expenses, net" in the income statement. These net fair value change do not include any dividends on these financial assets, which are recognised in accordance with the policy for "Other investment income" set out in "Revenue recognition" below.

(b) Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

(c) Available-for-sale investments

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to "Other operating expense, net" in the income statement.

Available-for-sale investments carried at fair value

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale investments carried at cost

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

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 when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are all classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

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

Financial liabilities at fair value through profit or loss represent conversion options of convertible bonds that exhibit characteristics of an embedded derivative. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(b) Loans and borrowings

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

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

Financial guarantee contracts

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

Convertible bonds containing an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component (conversion option).

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, 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 or a current liability, as appropriate, 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, the carrying amount of the equity component is transferred to retained profits as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognised in the income statement. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds (continued)

Convertible bonds containing a derivative component

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative component of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest rate method. The derivative component of the convertible bonds is measured at fair value with changes in fair value recognised in the income statement. Upon the exercise of the conversion options, the resulting shares issued are recorded by the relevant entity 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 derivative components of the convertible bonds over the nominal value of the shares issued is recorded in the entity's share premium account. When convertible bonds are redeemed, any difference between the amount paid and the total carrying amounts of the liability and derivative components is recognised in the income statement.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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 other valuation models.

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 (i) the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of Build-Transfer ("BT") contracts and/or fixed price construction contracts; and (ii) construction revenue recognised under Build-Operate-Transfer ("BOT") contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from BT contracts and 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts (continued)

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

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

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

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

Contracts for services

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

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

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

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

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

Cash and cash equivalents

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

For the purpose of the statements of financial position, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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.

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

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

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

(h) from the trading of listed or unlisted investments, on the trade dates.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

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. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Pension schemes

The Group has joined a number of defined contribution pension schemes organised by certain PRC provincial or municipal governments for certain of its employees, the assets of which are held separately from those of the Group. Contributions are made based on a percentage of the eligible employees' salaries and are charged to 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 benefit scheme in Hong Kong (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the 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.

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 exceed 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.

The past service costs are recognised as an expense on the straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the pension plan, past service costs are recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

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

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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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 Mainland China and overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognised in the income statement.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Estimate of gas and water consumption

Determination of the revenue for the distribution and sale of piped gas and water 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, with respect to the distribution and sale of piped gas, 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 statement of financial position as at 31 December 2010 were HK$1,255,902,000 (2009: HK$1,697,362,000), and HK$2,599,755,000 (2009: HK$4,074,407,000), respectively, details of which are set out in note 19 to the financial statements.

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

Revenue from the construction of a sewage treatment plant under the terms of a BOT contract 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 on various stock exchanges in the world. Criteria for selection include:

(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.

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

The Group has contractual obligations which it must fulfil 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 end of the reporting period. 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 statement of financial position as at 31 December 2010 was HK$140,192,000 (2009: HK$184,499,000), further details of which are set out in note 38 to the financial statements.

Useful lives and residual values of property, plant and equipment

The Group's management determines the useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values 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 useful lives or residual values 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 carried as assets in the consolidated statement of financial position as at 31 December 2010 was HK$7,588,439,000 (2009: HK$8,704,690,000) in aggregate, details of which are set out in notes 18 and 23 to the financial statements.

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

The carrying amounts of items of property, plant and equipment and 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 statement of financial position as at 31 December 2010 were HK$22,244,006,000 (2009: HK$19,045,485,000), and HK$1,270,110,000 (2009: HK$1,724,273,000), respectively, details of which are set out in notes 15, 19 and 20 to the financial statements.

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 estimated value of an investment is less than its cost; and the financial health of and the short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows. The carrying amount of available-for-sale investments carried as assets in the consolidated statement of financial position as at 31 December 2010 was HK$1,005,154,000 (2009: HK$290,000,000), details of which are set out in note 24 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

The Group's management determines the provision for impairment of receivables under service concession arrangements, trade and bills receivables and other receivables. This estimate is based on the evaluation of collectibility and aged analysis of 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 receivables under service concession arrangements, trade and bills receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2010 were HK$2,599,755,000 (2009: HK$4,074,407,000), HK$1,347,008,000 (2009: HK$1,149,366,000) and HK$1,147,756,000 (2009: HK$1,840,444,000), respectively, details of which are set out in notes 19, 27 and 28 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 the end of each reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period.

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 statement of financial position as at 31 December 2010 was HK$3,726,623,000 (2009: HK$2,995,039,000), details of which are set out in note 25 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Defined benefit plans

The present value of the retirement benefit obligations under the various defined benefit plans of the Group depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligations. Key assumptions for the obligations are based in part on the current market conditions. The carrying amount of the obligations carried as liabilities in the consolidated statement of financial position under defined benefit plans as at 31 December 2010 was HK$473,646,000 (2009: HK$424,739,000), details of which are disclosed in note 37 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 a liability in the consolidated statement of financial position as at 31 December 2010 was HK$626,774,000 (2009: HK$522,316,000).

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried in the consolidated statement of financial position as at 31 December 2010 were HK$598,157,000 (2009: HK$564,490,000) and HK$364,053,000 (2009: HK$413,139,000), respectively, details of which are set out in note 40 to the financial statements.

4. 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. Particulars of the Group's reportable operating segments are summarised as follows:

(a) the piped gas operation segment engages in the distribution and sale of piped natural gas, the provision of 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 sewage and water treatment operations segment engages in the construction of sewage and water treatment plants and other infrastructural facilities, 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;

(d) 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; 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, property investment and corporate income and expense items.

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 year of each reportable operating segment, which is measured consistently with the Group's profit for the year.

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

4. OPERATING SEGMENT INFORMATION (continued)

Group

Year ended 31 December 2010

	Piped gas operation HK$'000	Brewery operation HK$'000	Sewage and water treatment operations HK$'000	Expressway and toll road operations HK$'000	Corporate and others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Segment revenue	14,119,396	10,544,813	2,405,268	391,833	151,468	–	27,612,778
Cost of sales	(12,076,724)	(6,924,332)	(1,846,283)	(246,621)	(119,593)	–	(21,213,553)
Gross profit	2,042,672	3,620,481	558,985	145,212	31,875	–	6,399,225
Profit/(loss) from operating activities	1,080,382	1,103,462*	480,999	122,868	16,206	–	2,803,917
Finance costs	(53,391)	(93,021)	(96,860)	(2,970)	(128,216)	–	(374,458)
Share of profits and losses of:							
Jointly-controlled entities	1,168,755	–	(97)	–	–	–	1,168,658
Associates	1,215	(2,117)	168,035	–	29,316	–	196,449
Profit/(loss) before tax	2,196,961	1,008,324	552,077	119,898	(82,694)	–	3,794,566
Income tax	(240,544)	(225,091)	(101,708)	(23,921)	(93,586)	–	(684,850)
Profit/(loss) for the year	1,956,417	783,233	450,369	95,977	(176,280)	–	3,109,716
Segment profit/(loss) attributable to shareholders of the Company	1,948,718	406,090	386,760	87,978	(190,268)	–	2,639,278
Segment assets	35,433,124	18,054,446	4,540,104	2,019,887	11,473,793	(4,492,560)	67,028,794
Segment equity	23,203,314	10,782,468	3,268,465	1,609,654	2,096,392	(24,032)	40,936,261
Other segment information:							
Depreciation	594,290	760,607	5,741	10,469	12,320	–	1,383,427
Amortisation of operating concessions	–	–	13,933	86,637	–	–	100,570
Amortisation of other intangible assets	4,199	–	228	–	247	–	4,674
Impairment/provision/(reversal of impairment/provision) against segment assets, net **	104,206	16,073	–	(82,080)	123,755	–	161,954
Fair value gain on investment properties	–	–	–	–	5,616	–	5,616
Provision for major overhauls	–	–	12,100	–	40,293	–	52,393
Capital expenditure ***	1,482,009	1,991,145	15,419	24,878	353,412	–	3,866,863

* The amount included a fair value loss on the derivative component of convertible bonds of HK$214,184,000, which was wholly attributable to non-controlling shareholders of the relevant subsidiary and therefore did not affect the profit for the year attributable to shareholders of the Company.

4. OPERATING SEGMENT INFORMATION (continued)

Group (continued)

Year ended 31 December 2009

	Piped gas operation HK$'000	Brewery operation HK$'000	Sewage and water treatment operations HK$'000	Expressway and toll road operations HK$'000	Corporate and others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Segment revenue	11,942,601	9,758,104	1,970,004	410,035	222,420	(94,734)	24,208,430
Cost of sales	(10,143,219)	(6,657,955)	(1,217,767)	(245,805)	(195,875)	70,702	(18,389,919)
Gross profit	1,799,382	3,100,149	752,237	164,230	26,545	(24,032)	5,818,511
Profit from operating activities	1,002,607	1,138,709	577,077	140,277	53,258	(27,122)	2,884,806
Finance costs	(42,760)	(112,850)	(125,753)	(9,156)	(76,145)	3,090	(363,574)
Share of profits and losses of:							
Jointly-controlled entities	1,092,074	–	–	–	–	–	1,092,074
Associates	–	(814)	–	–	(7,106)	–	(7,920)
Profit/(loss) before tax	2,051,921	1,025,045	451,324	131,121	(29,993)	(24,032)	3,605,386
Income tax	(220,405)	(160,535)	(72,877)	(23,896)	(81,284)	–	(558,997)
Profit/(loss) for the year	1,831,516	864,510	378,447	107,225	(111,277)	(24,032)	3,046,389
Segment profit/(loss) attributable to shareholders of the Company	1,826,124	340,550	267,875	106,539	(118,173)	(24,032)	2,398,883
Segment assets	28,199,858	14,337,407	9,833,492	2,394,378	8,098,831	(3,758,656)	59,105,310
Segment equity	20,819,028	9,023,958	5,091,618	1,946,805	2,159,624	(24,032)	39,017,001
Other segment information:							
Depreciation	543,047	729,669	16,587	11,068	5,513	–	1,305,884
Amortisation of operating concessions	–	–	19,426	85,713	–	–	105,139
Amortisation of other intangible assets	256	–	3,454	–	126	–	3,836
Impairment/provision/(reversal of impairment/provision) against segment assets, net **	138,343	16,353	65,177	11,456	11,358	–	242,687
Fair value gain on investment properties	–	–	–	–	5,603	–	5,603
Provision for major overhauls	–	–	20,772	38,700	–	–	59,472
Capital expenditure ***	1,134,127	1,059,484	112,260	3,131	8,285	–	2,317,287

** These amounts included impairment/provision/(reversal of impairment/provision) against items of property, plant and equipment, other intangible assets, receivables under service concession arrangements, an available-for-sale investment carried at cost, inventories, trade and bills receivables and other receivables.

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

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

Information about major customers

During each of the years ended 31 December 2010 and 2009, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers for these years.

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, net of business tax; (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:

	2010	2009
	HK$'000	*HK$'000*
Revenue		
Piped gas operation	**14,119,396**	11,942,601
Brewery operation	**10,544,813**	9,758,104
Sewage and water treatment operations[δ]	**2,405,268**	1,875,270
Expressway and toll road operations	**391,833**	410,035
Corporate and others	**151,468**	222,420
	27,612,778	24,208,430

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

	2010 HK$'000	2009 HK$'000
Other income		
Bank interest income	**92,336**	89,634
Imputed interest income on interest-free other receivables	**32**	436
Rental income#	**18,503**	22,173
Service income	**23,198**	20,392
Government grants*	**141,585**	142,197
Transfer of assets from customers *(note 15)*	**62,599**	–
Sludge treatment income	**2,854**	12,791
Others	**38,056**	79,343
	379,163	366,966
Gains, net		
Fair value gain on investment properties *(note 16)*	**5,616**	5,603
Gain on disposal of subsidiaries, net *(note 44(a))*†	**–**	60,830
Gain on deemed disposal of partial interest in an associate@	**36,928**	–
Gain on disposal of available-for-sale investments carried at cost, net	**244**	7,021
Gain on disposal of financial assets at fair value through profit or loss, net	**–**	363
	42,788	73,817
Other income and gains, net	**421,951**	440,783

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

δ Imputed interest income on receivables under service concession arrangements of HK$284,144,000 (2009: HK$411,763,000) 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.

* 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 subsidiaries recognised during the year ended 31 December 2009 was attributable to the disposal of the Group's entire 100% equity interest in Pacific Target Holdings Limited ("Pacific Target") and the disposal of the Group's entire 86.86% equity interest in 四川中科成投資管理有限公司 ("Sichuan ZKC Investment Management"), further details of which are set out in notes 44(a)(i) and (ii) to the financial statements, respectively.

@ The gain on deemed disposal of partial interest in an associate recognised during the year ended 31 December 2010 represented the gain attributable to recognising the Group's retained interest in Biosino Bio-Technology and Science Incorporation ("Biosino"), a former associate of the Group, at its fair value at the date when the Group lost significant influence over it, as a result of placement of new shares by Biosino to an investor during the year. Following the share placement by Biosino, the Group's equity interest in Biosino was diluted from 24.5% to 18.66% and the Group no longer has significant influence over BioSino. Accordingly, the Group's investment in Biosino has been reclassified from investments in an associate to available-for-sale investments since then.

6. GAIN ON DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

The gain on deemed disposal of interest in a subsidiary recognised during the years ended 31 December 2010 and 2009 arose from the dilution of the Group's equity interest in Beijing Enterprises Water Group Limited ("BE Water"), a former indirectly-held subsidiary of the Company acquired by the Group during the year ended 31 December 2008, from 57.35% to 43.72% (2009: from 64.32% to 57.35%) upon the conversion of BE Water's convertible bonds into new ordinary shares of BE Water by bondholders during these years and the amount recognised during the year ended 31 December 2010 included a gain of HK$170,911,000 attributable to recognising the investment retained in BE Water at its fair value at the date when control is lost. The Group lost its control over BE Water as a result of the dilution of interest during the year and BE Water became an associate of the Group accordingly. Further details of the conversion of convertible bonds of BE Water and the deconsolidation of BE Water and its subsidiaries are disclosed in notes 36 and 44(b) to the financial statements, respectively.

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2010 HK$'000	2009 HK$'000
Cost of inventories sold		**18,909,095**	16,577,373
Cost of services provided		**2,203,873**	1,707,351
Depreciation	15	**1,383,427**	1,305,884
Amortisation of prepaid land premiums	17	**27,517**	29,092
Amortisation of operating concessions*	19	**100,570**	105,139
Amortisation of patents*	20	**15**	56
Amortisation of computer software**	20	**4,659**	3,780
Research and development expenditure		**21,481**	8,268
Loss on disposal of items of property, plant and equipment, net		**14,433**	18,381
Minimum lease payments under operating leases:			
Land and buildings		**158,831**	116,051
Plant and machinery		**4,086**	601
		162,917	116,652
Auditors' remuneration		**8,000**	8,400
Employee benefit expense (including directors' remuneration *(note 9)*):			
Salaries, allowances and benefits in kind		**2,493,854**	2,067,461
Net pension scheme contributions		**280,195**	219,883
Cost of defined benefit plans**	37(a)	**35,957**	35,106
		2,810,006	2,322,450

7. PROFIT FROM OPERATING ACTIVITIES (continued)

	Notes	2010 HK$'000	2009 HK$'000
Provision for major overhauls	38	**52,393**	59,472
Impairment of items of property, plant and equipment, net***	15	**40,980**	76,820
Impairment of other intangible assets***	20	**75,637**	–
Impairment of receivables under service concession arrangements, net	19(d)	**–**	61,841
Impairment of an available-for-sale investment carried at cost		**–**	11,358
Provision against inventories, net		**30,560**	21,005
Impairment of trade and bills receivables, net	27(c)	**90,651**	49,644
Net impairment/(reversal of impairment) of other receivables due from:	28(b)		
Related parties		**–**	23,619
Others		**(75,874)**	(1,600)
		(75,874)	22,019
Write-off of an other receivable		**8,614**	–
Net rental income on investment properties less direct operating expenses of HK$1,305,000 (2009: HK$1,291,000)		**(15,327)**	(18,217)
Foreign exchange differences, net		**16,460**	6,749

* 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 impairments of items of property, plant and equipment and other intangible assets for the year are included in "Other operating expenses, net" on the face of the consolidated income statement.

8. FINANCE COSTS

		Group	
		2010	2009
	Notes	*HK$'000*	*HK$'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years		**282,139**	285,814
Interest on other loans		**1,210**	874
Interest on convertible bonds	36	**58,328**	32,423
Imputed interest on convertible bonds	36	**27,031**	40,782
Imputed interest on an interest-free other loan from a non-controlling equity holder		**8,237**	7,396
Total interest expense		**376,945**	367,289
Increase in discounted amounts of provision for major overhauls arising from the passage of time	38	**4,168**	3,587
Total finance costs		**381,113**	370,876
Less: Interest included in cost of construction contracts		**(6,655)**	(7,302)
		374,458	363,574

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	
	2010	2009
	HK$'000	*HK$'000*
Fees:		
Executive directors	**1,850**	1,825
Independent non-executive directors	**720**	720
	2,570	2,545
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**20,669**	20,318
Pension scheme contributions	**19**	19
	20,688	20,337
	23,258	22,882

9. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2010	2009
	HK$'000	*HK$'000*
Mr. Wu Jiesi	**180**	180
Mr. Robert A. Theleen	**180**	180
Mr. Lam Hoi Ham	**180**	180
Mr. Fu Ting Mei	**180**	180
	720	720

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2010				
Mr. Wang Dong	150	3,618	–	3,768
Mr. Zhang Honghai	150	3,019	–	3,169
Mr. Li Fucheng	500	–	–	500
Mr. Bai Jinrong	150	2,978	–	3,128
Mr. Zhou Si	150	2,913	–	3,063
Mr. Liu Kai	120	2,172	–	2,292
Mr. Guo Pujin	150	–	–	150
Mr. E Meng	120	2,172	–	2,292
Mr. Lei Zhengang	120	–	–	120
Mr. Jiang Xinhao	120	2,172	–	2,292
Mr. Tam Chun Fai	120	1,625	19	1,764
	1,850	20,669	19	22,538

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors (continued)

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2009				
Mr. Yi Xiqun	150	2,640	–	2,790
Mr. Wang Dong	75	1,002	–	1,077
Mr. Zhang Honghai	150	3,018	–	3,168
Mr. Li Fucheng	400	–	–	400
Mr. Bai Jinrong	150	2,981	–	3,131
Mr. Zhou Si	150	2,598	–	2,748
Mr. Liu Kai	120	2,172	–	2,292
Mr. Guo Pujin	150	–	–	150
Mr. E Meng	120	2,172	–	2,292
Mr. Lei Zhengang	120	–	–	120
Mr. Jiang Xinhao	120	2,172	–	2,292
Mr. Tam Chun Fai	120	1,563	19	1,702
	1,825	20,318	19	22,162

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 each of the years ended 31 December 2010 and 2009 are directors of the Company, details of their remuneration for these years are set out in note 9 to the financial statements.

11. INCOME TAX

No provision for Hong Kong profits tax has been made during the year ended 31 December 2010 as the Group did not generate any assessable profits in Hong Kong during the year (2009: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries enjoy PRC corporate income tax exemptions and reductions.

	2010	2009
	HK$'000	*HK$'000*
Current – PRC:		
Mainland China	**696,050**	542,074
Overprovision in prior years	**(21,175)**	(36,495)
Deferred *(note 40)*	**9,975**	53,418
Total tax charge for the year	**684,850**	558,997

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

Group – 2010

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	142,534		3,652,032		3,794,566	
Tax at the statutory tax rate	23,519	16.5	920,207	25.2	943,726	24.9
Lower tax rate for specific provinces or enacted by local authority	–	–	(178,584)	(4.9)	(178,584)	(4.7)
Adjustments in respect of current tax of previous periods	–	–	(25,965)	(0.7)	(25,965)	(0.7)
Profits and losses attributable to jointly-controlled entities and associates	(26,054)	(18.3)	(296,020)	(8.1)	(322,074)	(8.5)
Income not subject to tax	(65,895)	(46.2)	(52,353)	(1.4)	(118,248)	(3.1)
Expenses not deductible for tax	34,301	24.1	118,363	3.2	152,664	3.9
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	–	–	87,804	2.4	87,804	2.3
Tax losses not recognised as deferred tax assets	34,129	23.9	115,868	3.2	149,997	4.0
Tax losses utilised from previous periods	–	–	(4,470)	(0.1)	(4,470)	(0.1)
Tax charge at the Group's effective rate	–	–	684,850	18.8	684,850	18.0

11. INCOME TAX (continued)

Group – 2009

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(33,888)		3,639,274		3,605,386	
Tax at the statutory tax rate	(5,592)	16.5	909,819	25.0	904,227	25.1
Lower tax rate for specific provinces or enacted by local authority	–	–	(146,626)	(4.0)	(146,626)	(4.1)
Adjustments in respect of current tax of previous periods	–	–	(36,495)	(1.0)	(36,495)	(1.0)
Profits and losses attributable to jointly-controlled entities and associates	11,377	(33.6)	(275,379)	(7.6)	(264,002)	(7.3)
Income not subject to tax	(42,691)	126.0	(65,552)	(1.8)	(108,243)	(3.0)
Expenses not deductible for tax	9,170	(27.1)	49,475	1.4	58,645	1.6
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	–	–	80,977	2.2	80,977	2.2
Tax losses not recognised as deferred tax assets	27,736	(81.8)	70,915	1.9	98,651	2.7
Tax losses utilised from previous periods	–	–	(28,137)	(0.8)	(28,137)	(0.8)
Tax charge at the Group's effective rate	–	–	558,997	15.3	558,997	15.4

12. 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 2010 includes a loss of HK$53,277,000 (2009: HK$22,608,000) which has been dealt with in the financial statements of the Company.

A reconciliation of the amount of consolidated profit for the year attributable to shareholders of the Company dealt with in the financial statements of the Company to the Company's profit for the year is as follows:

	2010	2009
	HK$'000	*HK$'000*
Amount of consolidated profit for the year attributable to shareholders of the Company dealt with in the financial statements of the Company	**(53,277)**	(22,608)
Final dividends from subsidiaries attributable to the profits of the previous financial year approved and payable during the year	**866,860**	703,429
Company's profit for the year *(note 34(b))*	**813,583**	680,821

13. DIVIDENDS

	2010	2009
	HK$'000	*HK$'000*
Interim – HK$0.25 (2009: HK$0.20) per ordinary share	**284,343**	227,457
Proposed final – HK$0.45 (2009: HK$0.45) per ordinary share	**511,817**	511,817
	796,160	739,274

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

14. 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 for the year 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 of the Group at the beginning of the year 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 at the beginning of the year.

14. 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:

	2010 HK$'000	2009 HK$'000
Earnings:		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	**2,639,278**	2,398,883
Interest expense for the year relating to the liability component of the dilutive convertible bonds of the Group	**57,740**	32,423
Imputed expense for the year relating to the liability component of the dilutive convertible bonds of the Group	**–**	40,782
Decrease in profit for the year as a result of the dilution of interest in BE Water assuming the conversion of all dilutive convertible bonds issued by BE Water	**–**	(119,197)
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	**2,697,018**	2,352,891

	2010	2009
Number of ordinary shares:		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**1,137,371,000**	1,137,162,342
Effect of dilution – weighted average number of ordinary shares		
Share options	**226,990**	342,838
Convertible bonds	**50,000,000**	28,904,109
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**1,187,597,990**	1,166,409,289

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	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 2010									
At 31 December 2009 and 1 January 2010:									
Cost		6,054,583	15,619	7,996,367	9,469,163	568,971	476,801	1,943,109	26,524,613
Accumulated depreciation and impairment		(1,177,196)	(11,936)	(951,540)	(4,683,105)	(323,344)	(202,345)	(129,662)	(7,479,128)
Net carrying amount		4,877,387	3,683	7,044,827	4,786,058	245,627	274,456	1,813,447	19,045,485
Net carrying amount:									
At 1 January 2010		4,877,387	3,683	7,044,827	4,786,058	245,627	274,456	1,813,447	19,045,485
Acquisition of subsidiaries	43	85,854	5,288	–	179,193	16,876	8,877	13,544	309,632
Additions		80,094	1,570	24,722	195,025	93,223	59,822	3,342,015	3,796,471
Transfer of assets from customers	5	–	–	23,341	39,258	–	–	–	62,599
Transfer from construction in progress		779,058	–	888,999	601,590	30,279	2,077	(2,302,003)	–
Transfer to operating concessions	19	(132,475)	–	(5,033)	(683)	(71,339)	(1,012)	–	(210,542)
Depreciation provided during the year		(178,126)	(2,979)	(371,328)	(727,865)	(54,329)	(48,800)	–	(1,383,427)
Reversal of impairment/(impairment) during the year recognised in the income statement, net		–	–	–	(46,465)	–	–	5,485	(40,980)
Disposals		(7,529)	(10)	–	(22,675)	(3,316)	(3,182)	–	(36,712)
Deconsolidation of subsidiaries	44(b)	(11,584)	(228)	–	(647)	(9,417)	(17,029)	–	(38,905)
Reclassification		5,774	1,035	–	25,089	(31,898)	–	–	–
Exchange realignment		187,781	437	265,754	177,774	7,556	9,793	91,290	740,385
At 31 December 2010		5,686,234	8,796	7,871,282	5,205,652	223,262	285,002	2,963,778	22,244,006
At 31 December 2010:									
Cost		7,060,544	27,814	9,237,111	10,801,302	581,805	527,027	3,092,457	31,328,060
Accumulated depreciation and impairment		(1,374,310)	(19,018)	(1,365,829)	(5,595,650)	(358,543)	(242,025)	(128,679)	(9,084,054)
Net carrying amount		5,686,234	8,796	7,871,282	5,205,652	223,262	285,002	2,963,778	22,244,006

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Notes	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 2009									
At 1 January 2009:									
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
Net carrying amount:									
At 1 January 2009		4,268,887	5,821	6,981,131	4,799,320	187,578	230,589	1,514,890	17,988,216
Acquisition of subsidiaries	43	39,331	–	–	115,618	14,979	1,640	–	171,568
Additions		153,394	63	24,499	73,265	108,473	80,674	1,817,103	2,257,471
Transfer from construction in progress		597,612	–	432,209	467,524	8,027	4,004	(1,509,376)	–
Transfer from prepaid land premiums	17	–	–	–	–	–	–	90,968	90,968
Depreciation provided during the year		(171,011)	(2,201)	(347,551)	(695,330)	(56,702)	(33,089)	–	(1,305,884)
Impairment during the year recognised in the income statement		(18)	–	(13,719)	(1,831)	–	–	(61,252)	(76,820)
Disposals		(4,397)	–	–	(26,422)	(1,092)	(10,107)	(38,948)	(80,966)
Reclassification		(6,618)	–	(32,033)	53,577	(15,661)	735	–	–
Exchange realignment		207	–	291	337	25	10	62	932
At 31 December 2009		4,877,387	3,683	7,044,827	4,786,058	245,627	274,456	1,813,447	19,045,485

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2010				
At 31 December 2009 and 1 January 2010:				
Cost	**8,427**	**5,577**	**2,276**	**16,280**
Accumulated depreciation	**(5,430)**	**(5,577)**	**(1,234)**	**(12,241)**
Net carrying amount	**2,997**	**–**	**1,042**	**4,039**
Net carrying amount:				
At 1 January 2010	**2,997**	**–**	**1,042**	**4,039**
Depreciation provided during the year	**(1,035)**	**–**	**(367)**	**(1,402)**
At 31 December 2010	**1,962**	**–**	**675**	**2,637**
At 31 December 2010:				
Cost	**8,427**	**5,577**	**2,276**	**16,280**
Accumulated depreciation	**(6,465)**	**(5,577)**	**(1,601)**	**(13,643)**
Net carrying amount	**1,962**	**–**	**675**	**2,637**
Year ended 31 December 2009				
At 1 January 2009:				
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
Net carrying amount:				
At 1 January 2009	4,067	120	1,353	5,540
Depreciation provided during the year	(1,070)	(120)	(311)	(1,501)
At 31 December 2009	2,997	–	1,042	4,039

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) The buildings of the Group included above as at 31 December 2010 are held under the following lease terms:

Group

	Hong Kong	Elsewhere	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
Long term leases	**29,170**	**–**	**29,170**
Medium term leases	**–**	**7,031,374**	**7,031,374**
	29,170	**7,031,374**	**7,060,544**

(b) In the prior year, as at 31 December 2009, certain buildings, plant and machinery of the Group with an aggregate net carrying amount of HK$4,592,000 were pledged to secure bank and other loans granted to Group *(note 35(d)(i))*.

16. INVESTMENT PROPERTIES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount at 1 January	**204,371**	198,759	**38,617**	36,650
Fair value gain on revaluation	**5,616**	5,603	**3,148**	1,967
Exchange realignment	**5,650**	9	**–**	–
Carrying amount at 31 December	**215,637**	204,371	**41,765**	38,617

16. INVESTMENT PROPERTIES (continued)

Notes:

(a) The investment properties of the Group as at 31 December 2010 are held under the following lease terms:

Group

	Hong Kong *HK$'000*	Elsewhere *HK$'000*	Total *HK$'000*
Long term leases	**9,870**	**–**	**9,870**
Medium term leases	**–**	**205,767**	**205,767**
	9,870	**205,767**	**215,637**

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

(b) At 31 December 2010, 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.

17. PREPAID LAND PREMIUMS

Group

	Notes	**2010** *HK$'000*	2009 *HK$'000*
Carrying amount at 1 January		**1,156,317**	1,160,714
Acquisition of subsidiaries	43	**40,382**	28,005
Additions		**77,252**	88,561
Transfer to construction in progress	15	**–**	(90,968)
Transfer to operating concessions	19	**(27,704)**	–
Amortisation provided during the year		**(27,517)**	(29,092)
Disposals		**–**	(985)
Deconsolidation of subsidiaries	44(b)	**(267)**	–
Exchange realignment		**42,583**	82
Carrying amount at 31 December		**1,261,046**	1,156,317
Portion classified as current assets		**(27,643)**	(26,433)
Non-current portion		**1,233,403**	1,129,884

All leasehold land of the Group as at 31 December 2010 were held under medium term leases.

In the prior year, as at 31 December 2009, certain leasehold land of the Group with an aggregate then carrying amount of HK$71,508,000 were pledged to secure certain bank and other loans granted to the Group *(note 35(d)(i))*.

18. GOODWILL

The amount of goodwill capitalised as assets in the consolidated statement of financial position, arising on the acquisition of subsidiaries and non-controlling interests, is as follows:

Group

	Notes	2010 HK$'000	2009 HK$'000
Cost and net carrying amount:			
At 1 January		**8,649,068**	8,537,759
Acquisition of subsidiaries	43	**159,089**	20,607
Acquisition of non-controlling interests		**–**	87,925
Deconsolidation of subsidiaries	44(b)	**(1,576,674)**	–
Exchange realignment		**14,290**	2,777
At 31 December		**7,245,773**	8,649,068

Notes:

(a) As further 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 goodwill remaining in the consolidated capital reserve, arising on the acquisition of subsidiaries prior to 1 January 2001, amounted to HK$6,048,000 and there was no movement during the years ended 31 December 2010 and 2009.

(b) **Impairment testing of goodwill**

The carrying amount of the goodwill acquired through acquisitions of subsidiaries and non-controlling interests has been allocated to the relevant business units of the following individual operating segments of the Group for impairment testing, which is summarised as follows:

	Notes	Group 2010 HK$'000	2009 HK$'000
Piped gas operation	(i)	**6,836,993**	6,836,993
Brewery operation	(ii)	**374,214**	205,392
Sewage and water treatment operations	(iii)	**–**	1,575,292
Others		**34,566**	31,391
		7,245,773	8,649,068

18. GOODWILL (continued)

Notes: (continued)

(b) Impairment testing of goodwill (continued)

(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 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 11% (2009: 10.5%), 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% (2009: 3%) is used for the perpetual period.

(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 Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), the underlying cash-generating unit to which the goodwill relates, held by the Group as at 31 December 2010.

(iii) The recoverable amounts of the relevant business units in the sewage and water treatment operations as at 31 December 2009 were determined by reference to a business valuation performed by CB Richard Ellis Limited, independent professionally qualified valuers, on a fair value less costs to sell estimation 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 size of the sewage and water treatment operations remains constant perpetually. The discount rate applied to the cash flow projections for the first ten-year period is 11%, which was determined by reference to the average rates for similar industry and the business risk of the relevant business unit. A growth rate of 3% was used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2010 (2009: Nil).

Key assumptions used in value in use calculations/fair value less costs to sell estimations

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.

18. GOODWILL (continued)

Notes: (continued)

(b) Impairment testing of goodwill (continued)

Key assumptions used in value in use calculations/fair value less costs to sell estimations (continued)

* *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 is the 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 budget year, increased for expected efficiency improvements.

* *Discount rates*

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

* *Business environment*

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

– As the gas supply network has already been set up in most urban areas in Beijing, where the Group's piped gas operation is located, and due to the high degree of idiosyncratic features 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 agreements, 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 size of the sewage treatment and water distribution operations are expected to remain constant perpetually which enable the Group to generate income perpetually.

19. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China on a BOT or a Transfer-Operate-Transfer ("TOT") basis in respect of its expressway and toll road operations and sewage and water treatment operations. These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; (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 generally entitled to, where appropriate, use all the property, plant and equipment of the infrastructures, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the infrastructures, and retain the beneficial entitlement to any residual interest in the infrastructures at the end of the term of the service concession periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental 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 intangible assets (operating concessions) and financial assets (receivables under service concession arrangements) are set out under the heading of "Service concession arrangements" in note 2.4 to the financial statements.

19. 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))	Total HK$'000
Year ended 31 December 2010				
At 31 December 2009 and 1 January 2010:				
Cost		2,327,426	467,714	2,795,140
Accumulated amortisation		(1,029,196)	(68,582)	(1,097,778)
Net carrying amount		1,298,230	399,132	1,697,362
Net carrying amount:				
At 1 January 2010		1,298,230	399,132	1,697,362
Transfer from property, plant and equipment	15	–	210,542	210,542
Transfer from prepaid land premiums	17	–	27,704	27,704
Amortisation provided during the year		(86,637)	(13,933)	(100,570)
Deconsolidation of subsidiaries	44(b)	–	(632,137)	(632,137)
Exchange realignment		44,309	8,692	53,001
At 31 December 2010		1,255,902	–	1,255,902
At 31 December 2010:				
Cost		2,410,766	–	2,410,766
Accumulated amortisation		(1,154,864)	–	(1,154,864)
Net carrying amount		1,255,902	–	1,255,902

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Operating concessions (continued)

Group (continued)

	Expressway and toll road operations HK$'000 (note (a))	Sewage and water treatment operations HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2009			
At 1 January 2009:			
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
Net carrying amount:			
At 1 January 2009	1,383,905	429,589	1,813,494
Additions	–	44,043	44,043
Amortisation provided during the year	(85,713)	(19,426)	(105,139)
Reclassification to receivables under service concession arrangements	–	(55,099)	(55,099)
Exchange realignment	38	25	63
At 31 December 2009	1,298,230	399,132	1,697,362

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements

	Group	
	2010	2009
	HK$'000	*HK$'000*
Sewage and water treatment operations	**2,648,420**	4,188,825
Impairment *(note (d))*	**(48,665)**	(114,418)
Receivables under service concession arrangements, net of impairment *(note (c))*	**2,599,755**	4,074,407
Portion classified as current assets	**(900,524)**	(659,566)
Non-current portion	**1,699,231**	3,414,841

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 Main Board of 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 were injected into Capital Expressway Company as part of the capital contributions from one of its equity holders.

At 31 December 2010, the remaining term of this service concession arrangement was approximately 16 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.

At 31 December 2010, the remaining term of this service concession arrangement was approximately 11 years and 4 months.

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under 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 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.

During the year ended 31 December 2010, the Group lost its control over BE Water, resulting from the dilution of BE Water's interest upon the issurance of new ordinary shares by BE Water during the year and BE Water became an associate of the Group. Accordingly, all operating concessions and receivables under service concession arrangements attributable to the BE Water Group were deconsolidated during the year. Further details of which are set out in notes 6 and 44(b) to the financial statements.

A summary of the major terms of the principal service concession arrangements of the BE Water Group as at 31 December 2009 was set out in note 19(b) to the Company's published consolidated financial statements for the year ended 31 December 2009, which were approved and authorised for issue by the board of directors on 31 March 2010.

At 31 December 2009, certain sewage treatment concession rights of the BE Water Group in an aggregate net carrying amount of HK$85,376,000, together with certain of the property, plant and equipment of the related sewage treatment plants, were pledged to secure certain bank loans granted to the Group *(note 35(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. Beijing Water had 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.

During the year, the Beijing Municipal Government had agreed in-principle the change of the annual guaranteed net cash inflow from RMB210 million to RMB190 million. The revised concession agreement has not yet been entered into between the Group and Beijing Water as at the date of approval of these financial statements.

At 31 December 2010, the remaining term of this service concession arrangement was approximately 8 years.

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

(c) 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 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:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Billed:		
Within one year	**357,509**	413,028
One to two years	**288,782**	246,538
Two to three years	**254,233**	–
	900,524	659,566
Unbilled	**1,699,231**	3,414,841
	2,599,755	4,074,407

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

(d) The movements in provision for impairment of the Group's receivables under service concession arrangements during the year are as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**114,418**	54,863
Impairment during the year recognised in the income statement, net *(note 7)*	**–**	61,841
Amount written off as uncollectible	**(61,102)**	(2,286)
Deconsolidation of subsidiary	**(7,062)**	–
Exchange realignment	**2,411**	–
At 31 December	**48,665**	114,418

The above provision for impairment of receivables under service concession arrangements represented provision for individually impaired receivables under service concession arrangements with an aggregate carrying amount of HK$1,009,583,000 (2009: HK$635,935,000). The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
Neither past due nor impaired	**–**	43,626
Less than one year past due	**357,509**	369,339
Over one year past due	**543,015**	246,601
	900,524	659,566

The above receivables were mainly due from government authorities in Mainland China as grantors in respect of the Group's sewage and water treatment businesses. 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 the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

20. OTHER INTANGIBLE ASSETS

Group

	Patents *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
Year ended 31 December 2010			
At 31 December 2009 and 1 January 2010:			
Cost	7,348	51,744	59,092
Accumulated amortisation	(505)	(31,676)	(32,181)
Net carrying amount	6,843	20,068	26,911
Net carrying amount:			
At 1 January 2010	6,843	20,068	26,911
Additions	68,844	1,548	70,392
Amortisation provided during the year	(15)	(4,659)	(4,674)
Impairment during the year recognised in the income statement	(75,637)	–	(75,637)
Deconsolidation of subsidiaries *(note 44(b))*	(35)	(3,327)	(3,362)
Exchange realignment	–	578	578
At 31 December 2010	–	14,208	14,208
At 31 December 2010:			
Cost	75,637	51,225	126,862
Accumulated amortisation and impairment	(75,637)	(37,017)	(112,654)
Net carrying amount	–	14,208	14,208
Year ended 31 December 2009			
At 1 January 2009:			
Cost	555	42,759	43,314
Accumulated amortisation	(449)	(27,896)	(28,345)
Net carrying amount	106	14,863	14,969
Net carrying amount:			
At 1 January 2009	106	14,863	14,969
Acquisition of subsidiaries *(note 43)*	–	81	81
Additions	6,793	8,980	15,773
Amortisation provided during the year	(56)	(3,780)	(3,836)
Disposals	–	(76)	(76)
At 31 December 2009	6,843	20,068	26,911

21. INTERESTS IN SUBSIDIARIES

		Company		
		31 December 2010	31 December 2009	1 January 2009
	Notes	***HK$'000***	*HK$'000*	*HK$'000*
			(Restated)	*(Restated)*
Investments in subsidiaries, included in non-current assets				
Unlisted shares or investments, at cost		**19,767,252**	20,355,982	20,429,253
Due from subsidiaries	(a)	**9,590,113**	6,565,250	5,767,327
Impairment of unlisted shares or investments	(b)	**(89,789)**	(124,227)	(124,227)
Impairment of amounts due from subsidiaries	(c)	**(214,547)**	(220,863)	(220,863)
		29,053,029	26,576,142	25,851,490
Due to subsidiaries, included in non-current liabilities	(a)	**(3,642,488)**	(4,059,812)	(2,512,458)
Interests in subsidiaries		**25,410,541**	22,516,330	23,339,032

Notes:

(a) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts due from subsidiaries are considered as quasi-equity loans to the subsidiaries.

The amounts due to subsidiaries are unsecured, interest-free and are expected to be repayable after one year.

(b) An impairment was recognised for certain unlisted shares or investments with an aggregate carrying amount of HK$197,000,000 (before deducting the impairment loss) (2009: HK$231,438,000) as at the end of the reporting period because these subsidiaries have been loss-making for some time.

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

	Company	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**220,863**	220,863
Deregistration of subsidiaries	**(6,316)**	–
At 31 December	**214,547**	220,863

21. 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 Company	Percentage of attributable equity interest held by Group	Principal activities
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	RMB268,736,900	–	33.88†	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	–	34.33†	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	RMB310,660,000	–	43.54†	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	RMB260,817,189	–	58.90	Production and sale of beer
燕京啤酒(四川)有限公司	PRC/ Mainland China	RMB200,000,000	–	45.18†	Production and sale of beer
燕京啤酒(晉中)有限公司	PRC/ Mainland China	RMB250,000,000	–	45.18†	Production and sale of beer
燕京啤酒(昆明)有限公司	PRC/ Mainland China	RMB360,000,000	–	45.18†	Production and sale of beer

21. 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
廣東燕京啤酒有限公司	PRC/ Mainland China	RMB716,000,000	–	58.89	Production and sale of beer
新疆燕京農產品開發有限公司	PRC/ Mainland China	RMB230,000,000	–	45.18†	Production and sale of raw materials
Beijing Bei Kong Water Production Co., Ltd.Ω	PRC/ Mainland China	US$85,000,000	100	100	Water treatment
Beijing Capital Expressway Development Co., Ltd.	PRC/ Mainland China	US$64,053,700	–	96	Operations of an expressway
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	100	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.

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

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.

Further details of the acquisition of subsidiaries during the year are disclosed in note 43 to the financial statements.

During the year, the Group lost its control over BE Water, resulting from the dilution of the Group's equity interest in BE Water upon the issuance of new ordinary shares by BE Water during the year and BE Water became an associate of the Group accordingly, further details of which are set out in notes 6 and 44(b) to the financial statements.

22. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

		Group		Company	
		2010	2009	**2010**	2009
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets	(a)	**5,944,489**	5,244,694	**–**	–
Due from jointly-controlled entities	(b)	**158,002**	152,632	**2,588**	2,584
		6,102,491	5,397,326	**2,588**	2,584

Notes:

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

	2010	2009
	HK$'000	*HK$'000*
Share of the jointly-controlled entities' assets and liabilities		
Non-current assets	**10,753,507**	8,813,528
Current assets	**454,347**	281,742
Non-current liabilities	**(4,005,366)**	(3,072,630)
Current liabilities	**(1,254,940)**	(771,819)
Non-controlling interests	**(3,059)**	(6,127)
Net assets	**5,944,489**	5,244,694
Share of the jointly-controlled entities' results		
Revenue	**3,227,528**	2,836,670
Other income	**5,910**	14,415
Total revenue	**3,233,438**	2,851,085
Total expenses	**(1,667,871)**	(1,379,991)
Profit before tax	**1,565,567**	1,471,094
Income tax	**(396,909)**	(379,020)
Profit for the year	**1,168,658**	1,092,074

(b) The amounts due from jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment except for an amount of RMB116,400,000 (equivalent to HK$136,941,000) (2009: RMB116,400,000 (equivalent to HK$132,213,000)) due from a jointly-controlled entity, which bears interest at a rate of 5.76% per annum and is repayable in 2014.

22. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Notes: (continued)

(c) Particulars of the principal jointly-controlled entity, which is indirectly held by the Company, 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
中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas")	PRC/ Mainland China	RMB10,240,000,000	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.

23. INVESTMENTS IN ASSOCIATES

		Group		Company	
		2010	2009	**2010**	2009
	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**	46,814
Share of net assets	(a)	**2,767,735**	844,094	**–**	–
Due from associates	(b)	**–**	62	**–**	62
Due to associates	(b)	**(543)**	–	**(543)**	–
Goodwill on acquisition	(c)	**342,666**	55,622	**–**	–
		3,109,858	899,778	**92,439**	93,044

23. INVESTMENTS IN ASSOCIATES (continued)

Notes:

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

	2010	2009
	HK$'000	*HK$'000*
Share of the associates' assets and liabilities		
Non-current assets	**4,047,922**	383,207
Current assets	**5,019,678**	887,672
Non-current liabilities	**(1,607,285)**	(91,838)
Current liabilities	**(4,159,005)**	(301,755)
Non-controlling interests	**(533,575)**	(33,192)
Net assets	**2,767,735**	844,094
Share of the associates' results		
Revenue	**2,311,453**	469,911
Other income	**50,122**	41,433
Total revenue	**2,361,575**	511,344
Total expenses	**(2,118,601)**	(507,535)
Profit before tax	**242,974**	3,809
Income tax	**(46,525)**	(11,729)
Profit/(loss) for the year	**196,449**	(7,920)

(b) The amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of repayment.

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**55,622**	55,622
Acquisition of an additional interest in an associate	**1,941**	–
Goodwill recognised at initial recognition upon the loss of control over a subsidiary	**285,103**	–
At 31 December	**342,666**	55,622

23. INVESTMENTS IN ASSOCIATES (continued)

Notes: (continued)

(c) (continued)

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 as at 1 January 2009, arising on the acquisition of associates prior to 1 January 2001, was HK$76,236,000 and was transferred to retained profits upon the disposal of an associate during the year ended 31 December 2009. The amount of goodwill was stated at cost.

(d) Particulars of the principal associates 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 activities
Beijing Enterprises Water Group Limited π	Bermuda/ Hong Kong	HK$456,675,646	43.72	43.72	43.72	Investment holding
Beijing Development (Hong Kong) Limited Ω	Hong Kong	HK$677,460,150	42.86	42.86	42.86	Investment holding
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

π 43.72% equity interest of BE Water is indirectly held by a wholly-owned subsidiary of the Company. Shares of BE Water are listed on the Main Board of the Stock Exchange. The market value of the shares of BE Water held by the Group as at 31 December 2010, based on its then published price quotation, amounted to approximately HK$5,732,700,000.

Ω 2.17% and 40.69% equity interests of Beijing Development are directly 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 market value of the shares of Beijing Development held by the Group as at 31 December 2010, based on its then published price quotation, amounted to approximately HK$406,503,000.

* 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.

24. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed equity investments, at fair value	**101,500**	–	**97,045**	–
Unlisted equity investments, at cost	**915,012**	301,358	**132,572**	132,572
Impairment	**(11,358)**	(11,358)	**–**	–
	1,005,154	290,000	**229,617**	132,572

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 an available-for-sale investment stated at cost less any accumulated impairment losses recognised in the income statement amounted to HK$244,000 (2009: HK$7,021,000). The carrying amount of the investment being disposed of during the year amounted to HK$1,487,000 at the time of disposal and the investment being disposed during the year ended 31 December 2009 was fully impaired in prior years.

25. INVENTORIES

	Group	
	2010	2009
	HK$'000	*HK$'000*
Raw materials	**3,120,085**	2,477,135
Work in progress	**311,451**	306,006
Finished goods	**295,087**	211,898
	3,726,623	2,995,039

26. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group	
	2010	2009
	HK$'000	*HK$'000*
Amounts due from contract customers:		
Non-current portion	**223,672**	1,286,205
Current portion	**2,105**	55,089
	225,777	1,341,294
Amounts due to contract customers	**(59,409)**	(48,342)
	166,368	1,292,952
Contract costs incurred plus recognised profits less recognised losses to date	**345,433**	1,445,972
Less: Progress billings received and receivable	**(179,065)**	(153,020)
	166,368	1,292,952

27. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bills receivables	**1,722,160**	1,440,236	**1,035**	999
Impairment *(note (c))*	**(375,152)**	(290,870)	**–**	–
	1,347,008	1,149,366	**1,035**	999
Portion classified as current assets	**(1,347,008)**	(1,097,656)	**–**	–
Non-current portion	**–**	51,710	**1,035**	999

27. TRADE AND BILLS RECEIVABLES (continued)

Notes:

(a) Included in the Group's trade and bills receivables as at 31 December 2010 was an aggregate amount of HK$54,516,000 (2009: HK$55,495,000) due from certain fellow subsidiaries of the Group 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 Group to its major customers.

(b) 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 end of the reporting period, based on the invoice date and net of impairment, is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Billed:				
Within one year	**586,580**	449,129	**1,035**	–
One to two years	**25,166**	35,162	**–**	999
Two to three years	**33,216**	10,403	**–**	–
Over three years	**70,237**	28,168	**–**	–
Balance with extended credit period	**–**	51,710	**–**	–
	715,199	574,572	**1,035**	999
Unbilled	**631,809**	574,794	**–**	–
	1,347,008	1,149,366	**1,035**	999

27. TRADE AND BILLS RECEIVABLES (continued)

Notes: (continued)

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**290,870**	252,574
Acquisition of a subsidiary	**116**	–
Impairment during the year recognised in the income statement, net *(note 7)*	**90,651**	49,644
Amount written off as uncollectible	**(17,430)**	(11,357)
Deconsolidation of subsidiaries	**(1,235)**	–
Exchange realignment	**12,180**	9
At 31 December	**375,152**	290,870

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$435,361,000 (2009: HK$351,079,000). The individually impaired trade receivables relate to customers that were in financial difficulties or were in default or delinquency in principal payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Neither past due nor impaired	**105,903**	191,495	**–**	–
Less than one year past due	**480,677**	257,634	**1,035**	–
More than one year past due	**128,619**	125,443	**–**	999
	715,199	574,572	**1,035**	999

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.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2010	2009	**2010**	2009
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments		**53,005**	84,240	**2,413**	6,633
Deposits and other debtors	(a)	**895,704**	1,679,118	**115,508**	98,806
Due from holding companies	29	**275,954**	273,105	**82,355**	79,506
Due from fellow subsidiaries	29	**71,200**	42,766	**30,419**	29,925
Due from related parties	29	**21,013**	53,028	**1,774**	5,963
		1,316,876	2,132,257	**232,469**	220,833
Impairment of deposits and other debtors	(b)	**(116,115)**	(207,573)	**(95,202)**	(95,202)
		1,200,761	1,924,684	**137,267**	125,631
Portion classified as current assets		**(899,533)**	(1,653,855)	**(137,267)**	(125,631)
Non-current portion		**301,228**	270,829	**–**	–

Notes:

(a) The Group's deposits and other debtors as at 31 December 2010 included, inter alia, the following:

(i) an investment deposit of HK$178,259,000 (2009: HK$51,200,000) paid in connection with the acquisition of a subsidiary. The deposit is classified as a non-current asset.

(ii) deposits of HK$119,343,000 (2009: Nil) paid for construction of buildings and purchase of machinery. The deposits are classified as non-current assets.

The Group's deposits and other debtors as at 31 December 2009 also included, inter alia, the following:

(i) an aggregate amount of HK$5,812,000 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 were unsecured and interest-free.

(ii) the amortised cost of HK$4,814,000 of a loan advanced to 北京市八達嶺旅遊總公司, a former related company, by the Group in March 2006. The amount bore interest at a rate of 3.5% per annum and was fully settled during the year.

Interest income of HK$32,000 (2009: HK$436,000) was recognised in the consolidated income statement during the year ended 31 December 2010.

(iii) various tender deposits of RMB525,310,000 (equivalent to HK$596,672,000) in aggregate paid by the Group for the bidding of potential sewage treatment projects. These deposits were classified as current assets.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes: (continued)

(a) (continued)

(iv) an instalment of RMB154,000,000 (equivalent to HK$175,000,000) paid to a government authority in Mainland China for the procurement of a concession right to operate a sewage treatment plant in Shenzhen on a TOT basis. The balance was classified as a non-current asset.

(v) cash advances of RMB11,092,000 (equivalent to HK$12,599,000) in aggregate made to a contract customer of the Group in connection with a contract of service entered into between the two parties in 2008, pursuant to which the Group had provided (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. The balance was classified as current asset.

(b) The movements in provision for impairment of deposits and other debtors during the year are as follows:

	Group		**Company**	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	**207,573**	252,972	**95,202**	96,134
Impairment/(reversal of impairment) during the year recognised in the income statement, net *(note 7)*	**(75,874)**	22,019	**–**	–
Amount written off as uncollectible	**(14,079)**	(67,418)	**–**	(932)
Deconsolidation of subsidiaries	**(3,224)**	–	**–**	–
Exchange realignment	**1,719**	–	**–**	–
At 31 December	**116,115**	207,573	**95,202**	95,202

The above provision for impairment of deposits and other debtors of the Group and the Company represented provision for individually impaired deposits and other debtors with aggregate carrying amounts of HK$184,766,000 (2009: HK$276,224,000) and HK$95,202,000 (2009: HK$95,202,000), respectively.

29. 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 an amount of HK$88,235,000 (2009: HK$288,118,000) due to 北京燕京啤酒集團公司 ("Yanjing Beer Group", a joint venture partner of a subsidiary), which bears interest at the prevailing PRC one year bank loan rate published by the People's Bank of China. Interest expense of HK$5,126,000 (2009: HK$7,042,000) was recognised in the consolidated income statement during the year ended 31 December 2010.

The balances with related companies of the Group included in trade and bills receivables, deposits and other debtors, trade and bills payables, and other liabilities are disclosed in notes 27(a), 28(a), 41 and 42 to the financial statements, respectively.

30. RESTRICTED CASH AND PLEDGED DEPOSITS

		Group	
		2010	2009
	Notes	*HK$'000*	*HK$'000*
Restricted cash	(a)	**28,191**	27,217
Pledged deposits	(b)	**97,741**	91,028
Restricted cash and pledged deposits	(31)	**125,932**	118,245

Notes:

(a) The restricted cash represented the proceeds of a government surcharge collected by Beijing Gas, a wholly-owned subsidiary indirectly held the Company, from piped gas customers on behalf of 北京市發展和改革委員會 (the Beijing Municipal Commission of Development and Reform) (the "BMCDR") 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 42)*.

(b) Bank balances of HK$96,420,000 (2009: HK$60,800,000) and HK$1,321,000 (2009: HK$30,228,000) as at 31 December 2010 were pledged to secure certain trade finance facilities *(note 41)* and bank loans *(note 35(d))* granted to the Group.

31. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances other than time deposits	**12,158,352**	5,714,023	**1,344,760**	1,161,366
Time deposits	**2,412,225**	3,810,872	**–**	–
Cash equivalents	**2,155**	79,376	**80**	44,537
	14,572,732	9,604,271	**1,344,840**	1,205,903
Less: Restricted cash and pledged deposits *(note 30)*	**(125,932)**	(118,245)	**–**	–
Cash and cash equivalents	**14,446,800**	9,486,026	**1,344,840**	1,205,903

At 31 December 2010, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$12.5 billion (2009: HK$8.0 billion). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

32. SHARE CAPITAL

Shares

	2010	2009
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
1,137,371,000 ordinary shares of HK$0.10 each	**113,737**	113,737

32. SHARE CAPITAL (continued)

Shares (continued)

A summary of the movement in the Company's issued share capital during the years ended 31 December 2010 and 2009 is as follows:

	Number of ordinary shares in issue	Issued capital *HK$'000*	Share premium account *HK$'000*	Total *HK$'000*
At 1 January 2009	1,137,001,000	113,700	20,727,306	20,841,006
Exercise of share options*	370,000	37	6,089	6,126
At 31 December 2009, 1 January 2010 and at 31 December 2010	1,137,371,000	113,737	20,733,395	20,847,132

* *During the year ended 31 December 2009, the subscription rights attaching to 370,000 share options were exercised at a subscription price of HK$12.55 per ordinary share, resulting in the issue of 370,000 ordinary shares of the Company for a total cash consideration of HK$4,644,000. At the time when the share options were exercised, the fair value of these share options in an aggregate amount of HK$1,482,000 previously recognised in the share option reserve was transferred to the share premium account. Further details of the share options are set out in note 33 to the financial statements.*

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

33. SHARE OPTION SCHEME

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

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

33. SHARE OPTION SCHEME (continued)

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:

		2010		2009	
	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**	**300,000**	12.55	670,000
Exercised during the year	(b)	**–**	**–**	12.55	(370,000)
At 31 December	(a), (c)	**12.55**	**300,000**	12.55	300,000

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. All the share options, if not otherwise excised, will lapse on 19 July 2011.

(b) No share options were exercised during the year ended 31 December 2010. The weighted average closing price of the ordinary shares of the Company immediately before the dates on which the 370,000 share options were exercised during the year ended 31 December 2009 was HK$41.33.

(c) At 31 December 2010, the Company had 300,000 share options outstanding under the Scheme, which represented approximately 0.03% 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 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 issuance expenses and without taking into account of any transfer of share option reserve to the share premium account).

34. 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.

(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) 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 18(a) and 23(c) to the financial statements, respectively.

(v) 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 2010 were distributable in the form of cash dividends.

34. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2009		20,727,306	228	2,644	–	–	17,561	66,394	20,814,133
Profit for the year and total comprehensive income for the year	12	–	–	–	–	–	–	680,821	680,821
Exercise of share options	32	6,089	–	(1,482)	–	–	–	–	4,607
Interim 2009 dividend	13	–	–	–	–	–	–	(227,457)	(227,457)
Proposed final 2009 dividend	13	–	–	–	–	–	–	(511,817)	(511,817)
At 31 December 2009 and 1 January 2010		20,733,395	228	1,162	–	–	17,561	7,941	20,760,287
Profit for the year	12	–	–	–	–	–	–	813,583	813,583
Other comprehensive income for the year: Change in fair value of available-for-sale investments		–	–	–	–	39,209	–	–	39,209
Total comprehensive income for the year		–	–	–	–	39,209	–	813,583	852,792
Deemed contribution from the ultimate holding company*		–	–	–	13,220	–	–	–	13,220
Interim 2010 dividend	13	–	–	–	–	–	–	(284,343)	(284,343)
Proposed final 2010 dividend	13	–	–	–	–	–	–	(511,817)	(511,817)
At 31 December 2010		20,733,395	228	1,162	13,220	39,209	17,561	25,364	20,830,139

* *The amount represented compensation received from the ultimate holding company to mitigate the effect of adjusted toll policy for Beijing Capital Airport Expressway made by the Beijing Municipal Committee of Transport and the BMCDR in September 2009 and was accounted for as a deemed contribution from the ultimate holding company for accounting purposes. Further details of the compensation are set out in the Company's announcement dated 27 September 2009.*

35. BANK AND OTHER BORROWINGS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank loans:				
Secured	**321,499**	1,469,845	**–**	–
Unsecured	**7,430,286**	4,817,594	**5,134,367**	2,096,632
	7,751,785	6,287,439	**5,134,367**	2,096,632
Other loans, unsecured	**1,795,777**	2,014,746	**510,570**	510,570
Total bank and other borrowings	**9,547,562**	8,302,185	**5,644,937**	2,607,202
Analysed into:				
Bank loans repayable:				
Within one year	**2,238,277**	2,884,858	**77,000**	–
In the second year	**2,282,578**	217,338	**2,097,997**	–
In the third to fifth years, inclusive	**2,974,756**	2,577,653	**2,959,370**	2,096,632
Beyond five years	**256,174**	607,590	**–**	–
	7,751,785	6,287,439	**5,134,367**	2,096,632
Other loans repayable:				
Within one year	**82,032**	153,090	**–**	–
In the second year	**70,218**	68,310	**–**	–
In the third to fifth years, inclusive	**1,309,798**	1,295,679	**510,570**	510,570
Beyond five years	**333,729**	497,667	**–**	–
	1,795,777	2,014,746	**510,570**	510,570
Total bank and other borrowings	**9,547,562**	8,302,185	**5,644,937**	2,607,202
Portion classified as current liabilities	**(2,320,309)**	(3,037,948)	**(77,000)**	–
Non-current portion	**7,227,253**	5,264,237	**5,567,937**	2,607,202

35. 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	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**5,134,367**	2,598,078	**5,134,367**	2,096,632
RMB	**3,995,180**	5,274,676	**510,570**	510,570
TWD	**11,637**	–	**–**	–
Euro	**10,769**	12,497	**–**	–
US$	**395,609**	416,934	**–**	–
	9,547,562	8,302,185	**5,644,937**	2,607,202

(b) Included in the Group's bank and other borrowings as at 31 December 2010 are:

(i) amortised cost of interest-free loans of HK$145,446,000 (2009: HK$144,893,000) granted from a joint venture partner of a subsidiary;

(ii) certain bank and other loans, with an aggregate carrying amount of HK$528,764,000 (2009: HK$572,236,000), 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$11,692,000 (2009: HK$11,548,000), these loans bear interest at rates ranging from 2% to 6.3%;

(iii) loans of RMB450,000,000 (equivalent to HK$510,570,000) (2009: RMB450,000,000 (equivalent to HK$510,570,000)) and RMB500,000,000 (equivalent to HK$588,235,000) (2009: RMB500,000,000 (equivalent to HK$567,924,000)) granted by Beijing Enterprises Group to the Company and a subsidiary of the Company, respectively, which bear interest at a rate of 4.24% per annum and are fully repayable in 2014. Interest expense of HK$46,639,000 (2009: HK$26,273,000) was recognised in the consolidated income statement during the year ended 31 December 2010 in respect of the loans.

The Group's other borrowings as at 31 December 2009 also included an interest-free loan of HK$6,815,000 granted by a local government in Mainland China to finance a sewage treatment plant construction project of the Group.

(c) HK$188,235,000 (2009: HK$229,440,000) of the Group's unsecured bank loans as at 31 December 2010 were guaranteed by the joint venture partners of certain of the Group's PRC subsidiaries or their associates.

35. BANK AND OTHER BORROWINGS (continued)

Notes: (continued)

(d) Certain of the Group's secured bank loans as at 31 December 2010 are secured by pledges over certain of the Group's bank balances of HK$1,321,000 (2009: HK$30,228,000) in aggregate *(note 30(b))* and mortgage over the Group's concession right of a waste power plant.

The Group's secured bank loans as at 31 December 2009 were also secured by:

(i) mortgages over the Group's buildings and plant and machinery, and leasehold land with aggregate net carrying amounts as at 31 December 2009 of HK$4,952,000 *(note 15(b))* and HK$71,508,000 *(note 17)*, respectively.

(ii) mortgages over sewage treatment concession rights, land use rights and certain operating facilities of the sewage treatment plants which were under the management of the Group pursuant to the relevant service concession agreements signed with the grantors. These land use rights and operating facilities were normally registered under the names of the then relevant entities in the Group and were required to be returned to the grantors at the end of the respective service concession periods *(note 19(b)(i))*;

(iii) guarantees given by certain former subsidiaries; and

(iv) a pledge over the Group's 60% equity interest in a former subsidiary.

(e) The bank loans of the Group and the Company include a five-year HK$2.1 billion syndicated loan facility and a five-year HK$3 billion syndicated loan facility obtained by the Company in 2007 and 2010, respectively. The syndicated loans bear interest at HIBOR+0.285% and HIBOR+0.85%, respectively, and are fully repayable on 20 June 2012 and 2 August 2015, respectively.

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

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

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

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

36. CONVERTIBLE BONDS

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

Group

	Tranche 1 Bond* *(note (a))*	Tranche 2 Bond* *(note (a))*	ZKC Convertible Bonds 1* *(note (b))*	ZKC Convertible Bonds 2* *(note (b))*	Guaranteed Convertible Bonds *(note (c))*	Yanjing Brewery Convertible Bonds *(note (d))*
Issuance date	27/7/2007	31/3/2008	24/7/2008	6/4/2009	2/6/2009	15/10/2010
Maturity date	26/7/2010	30/3/2011	23/7/2013	23/7/2013	1/6/2014	14/10/2015
Original principal amount:						
HK$'000	100,000	100,000	589,304	238,696	2,175,000	N/A
RMB'000	N/A	N/A	N/A	N/A	N/A	429,804
Coupon rate	Zero	Zero	Zero	Zero	2.25%	0.5%-1.4%
Conversion price per ordinary share of:						
– The Company *(HK$)*	N/A	N/A	N/A	N/A	43.5	N/A
– BE Water *(HK$)*	0.40	0.40	0.69	0.69	N/A	N/A
– Yanjing Brewery *(RMB)*	N/A	N/A	N/A	N/A	N/A	21.86

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

36. CONVERTIBLE BONDS (continued)

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

Group

	Tranche 1 Bond	Tranche 2 Bond	ZKC Convertible Bonds 1	ZKC Convertible Bonds 2	Guaranteed Convertible Bonds	Yanjing Brewery Convertible Bonds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note (a))	*(note (a))*	*(note (b))*	*(note (b))*	*(note (c))*	*(note (d))*	
Principal amount outstanding							
At 1 January 2009	34,000	80,000	589,304	–	–	–	703,304
Issue of convertible bonds	–	–	–	238,696	2,175,000	–	2,413,696
Conversion to ordinary shares of BE Water	(34,000)	(80,000)	(34,245)	(45,409)	–	–	(193,654)
At 31 December 2009 and 1 January 2010	–	–	555,059	193,287	2,175,000	–	2,923,346
Issue of convertible bonds	–	–	–	–	–	564,610	564,610
Conversion to ordinary shares of BE Water	–	–	(555,059)	(193,287)	–	–	(748,346)
At 31 December 2010	–	–	–	–	2,175,000	564,610	2,739,610
Liability component							
At 1 January 2009	30,776	66,907	418,225	–	–	–	515,908
Issue of convertible bonds	–	–	–	186,257	2,175,000	–	2,361,257
Convertible bonds issue expenses	–	–	–	–	(44,159)	–	(44,159)
Interest expense *(note 8)*	–	–	–	–	32,423	–	32,423
Imputed interest expense *(note 8)*	713	2,087	30,569	7,413	–	–	40,782
Interest paid	–	–	–	–	(24,513)	–	(24,513)
Conversion to ordinary shares of BE Water	(31,489)	(68,994)	(24,326)	(35,401)	–	–	(160,210)
At 31 December 2009 and 1 January 2010	–	–	424,468	158,269	2,138,751	–	2,721,488
Issue of convertible bonds	–	–	–	–	–	493,460	493,460
Convertible bonds issue expenses	–	–	–	–	–	(6,483)	(6,483)
Interest expense *(note 8)*	–	–	–	–	57,740	588	58,328
Imputed interest expense *(note 8)*	–	–	17,958	5,829	–	3,244	27,031
Interest paid	–	–	–	–	(48,937)	–	(48,937)
Conversion to ordinary shares of BE Water	–	–	(442,426)	(164,098)	–	–	(606,524)
Exchange realignment	–	–	–	–	–	12,126	12,126
At 31 December 2010	–	–	–	–	2,147,554	502,935	2,650,489

36. CONVERTIBLE BONDS (continued)

Group (continued)

	Tranche 1 Bond HK$'000 (note (a))	Tranche 2 Bond HK$'000 (note (a))	ZKC Convertible Bonds 1 HK$'000 (note (b))	ZKC Convertible Bonds 2 HK$'000 (note (b))	Guaranteed Convertible Bonds HK$'000 (note (c))	Yanjing Brewery Convertible Bonds HK$'000 (note (d))	Total HK$'000
Derivative component							
At 1 January 2009, 31 December 2009 and 1 January 2010	–	–	–	–	–	–	–
Issue of convertible bonds	–	–	–	–	–	71,150	71,150
Fair value loss on revaluation	–	–	–	–	–	214,184	214,184
Exchange realignment	–	–	–	–	–	7,050	7,050
At 31 December 2010	–	–	–	–	–	292,384	292,384

Notes:

(a) Tranche 1 Bond and Tranche 2 Bond were issued to Pioneer Wealth Limited, a former 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 (as amended) 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. These convertible bonds were fully converted during the year ended 31 December 2009.

(b) 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 Beijing Enterprises Z.K.C Environmental Co., Ltd. ("BE-ZKC"), pursuant to a sale and purchase agreement entered into between, among others, BE Water and the BE-ZKC Vendors on 3 June 2008.

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.

These convertible bonds were fully converted by the BE-ZKC Venders during the year and the Group lost its control over BE Water as a result of the dilution of the Group's equity interest in BE Water upon the conversion of these convertible bonds and BE Water becomes an associate of the Group accordingly. Further details of the gain on deemed disposal and deconsolidation of BE Water are disclosed in notes 6 and note 44(b), respectively.

(c) On 2 June 2009, Power Regal Group Limited ("Power Regal", 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 are guaranteed by the Company, bear interest at a rate of 2.25% per annum and are convertible into ordinary shares of the Company at an initial conversion price of HK$43.5 per share of the Company, subject to adjustments in certain events. The outstanding principal amount of the convertible bonds, if not converted, will be repaid on the maturity date of 2 June 2014 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.

36. CONVERTIBLE BONDS (continued)

Notes: (continued)

(d) On 15 October 2010, Yanjing Brewery, a subsidiary held indirectly as to 45.18% by the Company, issued convertible bonds with an aggregate principal amount of RMB1.13 billion (the "Yanjing Brewery Convertible Bonds") to the then existing shareholders of Yanjing Brewery. The Yanjing Brewery Convertible Bonds are convertible, at the option of the bondholders, into fully-paid ordinary shares of Yanjing Brewery at an initial conversion price of RMB21.86 per share of Yanjing Brewery and the conversion period is from 15 October 2010 to 14 October 2015, both dates inclusive. The Yanjing Brewery Convertible Bonds bear interests at 0.5%, 0.7%, 0.9%, 1.1% and 1.4% per annum in each of the annual convertible period. Further details of the Yanjing Brewery Convertible Bonds are set out in the Company's announcement published in the Chinese website of the Stock Exchange on 12 October 2010.

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

The fair values of the derivative component of the Yanjing Brewery Convertible Bonds as at the date of issue and 31 December 2010 were determined by reference to valuations performed by CB Richard Ellis Limited, independent professionally qualified valuers, using the Binominal Option Pricing Model. Details of the variables and assumptions used in the model are as follows:

	Issue date	31 December 2010
Share price of Yanjing Brewery	RMB20.04	RMB18.99
Exercise price	RMB21.86	RMB21.86
Remaining life of the derivative	5 years	4.79 years
Risk-free rate	2.77%	3.58%
Expected volatility	46.40%	46.97%
Expected dividend yield	0.85%	0.85%

Expected volatility was determined by using historical volatility of Yanjing Brewery's share price before the issue date for the previous five years.

37. 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 statement of financial position for the respective plans:

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

Group	2010				
	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement benefit plan	Total	2009 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current service cost	9,010	2,559	–	11,569	15,556
Past service cost	15,498	5,355	–	20,853	9,361
Interest cost on benefit obligations	7,746	3,284	534	11,564	12,421
Net actuarial gain recognised in the year	(6,928)	(1,101)	–	(8,029)	(2,232)
Net benefit expense	25,326	10,097	534	35,957	35,106

(b) Benefit liabilities

Group	2010				
	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement benefit plan	Total	2009 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Defined benefit obligations	179,260	85,719	14,079	279,058	278,465
Unrecognised actuarial gains	162,675	30,091	1,822	194,588	146,274
Total benefit liabilities	341,935	115,810	15,901	473,646	424,739
Portion classified as current liabilities included in other payables and accruals *(note 42)*				(3,131)	(792)
Non-current portion				470,515	423,947

37. 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 2009	228,375	101,830	10,866	341,071
Current service cost	11,716	3,840	–	15,556
Past service cost	3,445	1,402	4,514	9,361
Interest cost	8,400	3,687	334	12,421
Benefits paid	(178)	(363)	(250)	(791)
Actuarial losses/(gains) on obligations	(68,939)	(31,279)	1,051	(99,167)
Exchange realignment	9	5	–	14
At 31 December 2009 and 1 January 2010	182,828	79,122	16,515	278,465
Current service cost	9,010	2,559	–	11,569
Past service cost	15,498	5,355	–	20,853
Interest cost	7,746	3,284	534	11,564
Benefits paid	(691)	(1,867)	(497)	(3,055)
Actuarial gains on obligations	(41,425)	(5,656)	(1,598)	(48,679)
Exchange realignment	6,295	2,921	(875)	8,341
At 31 December 2010	179,261	85,718	14,079	279,058

37. DEFINED BENEFIT PLANS (continued)

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

A four-year summary of the present value of the defined benefit obligations as at the end of the reporting period in respect of the Group's defined benefit plans is as follows:

Group

Year	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement benefit plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2010	**179,261**	**85,718**	**14,079**	**279,058**
2009	182,828	79,122	16,515	278,465
2008	228,375	101,830	10,866	341,071
2007	120,364	64,036	366	184,766

Note: Beijing Gas, to which the Group's defined benefit plans related, was acquired by the Group in the year ended 31 December 2007. Accordingly, only a four-year summary is disclosed in the table above.

(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:

	2010	2009
Discount rate	**4.00%**	4.00%
Salary increase rate of internal retirees	**4.50%**	4.50%
Average salary increase rate of Beijing city	**12.00%**	12.00%
Healthcare cost inflation rate	**8.00%**	8.00%

37. DEFINED BENEFIT PLANS (continued)

(d) Principal assumptions (continued)

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)	
	2010	2009
	HK$'000	*HK$'000*
Effect on the aggregate of the service cost and interest cost:		
One percentage point increase	**6,389**	6,387
One percentage point decrease	**(4,445)**	(4,431)
Effect on the defined benefit obligations:		
One percentage point increase	**58,218**	61,772
One percentage point decrease	**(42,131)**	(44,392)

38. 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 any 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 end of the reporting period. The future expenditure on these maintenance and restoration costs are collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis and revised where appropriate.

38. PROVISION FOR MAJOR OVERHAULS (continued)

The movements in provision for major overhauls of the expressway, the toll road, and sewage and water treatment plants during the year are as follows:

Group

	Notes	2010 HK$'000	2009 HK$'000
At 1 January		**184,499**	121,438
Additional provision		**52,393**	59,472
Increase in discounted amounts arising from the passage of time	8	**4,168**	3,587
Deconsolidation of subsidiaries	44(b)	**(106,525)**	–
Exchange realignment		**5,657**	2
At 31 December		**140,192**	184,499

39. OTHER NON-CURRENT LIABILITIES

	Group 2010 HK$'000	2009 HK$'000
Other liabilities – non-current portion *(note 42)*	**27,333**	48,244
Deferred income *(note)*	**129,748**	147,811
	157,081	196,055

Note: Deferred income of the Group as at 31 December 2010 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 assets.

40. DEFERRED TAX

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

Group

	2010	2009
	HK$'000	*HK$'000*
Deferred tax assets	**598,157**	564,490
Deferred tax liabilities	**(364,053)**	(413,139)
	234,104	151,351

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

Group

	Notes	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Depreciation allowances in excess of related depreciation *HK$'000*	Other temporary differences related to property, plant and equipment *HK$'000*	Transfer of assets from customers *HK$'000*	Revaluation of investment properties *HK$'000*	Impairment provision *HK$'000*	Provision for bonus and defined benefit plans *HK$'000*	Provision for major overhauls *HK$'000*	Temporary differences related to service concession arrangements *HK$'000*	Losses available for offsetting future taxable profits *HK$'000* *(note (b))*	Withholding tax *HK$'000*	Net deferred tax assets/ (liabilities) *HK$'000*
At 1 January 2009		165,773	(1,143)	26,643	–	(141)	108,055	120,787	70,993	(256,512)	–	(29,542)	204,913
Deferred tax credited/(charged) to the income statement during the year	11	(11,800)	(351)	1,767	–	–	50,230	2,364	9,860	(28,951)	4,440	(80,977)	(53,418)
Exchange realignment		–	–	–	–	–	–	–	–	(144)	–	–	(144)
At 31 December 2009 and 1 January 2010		153,973	(1,494)	28,410	–	(141)	158,285	123,151	80,853	(285,607)	4,440	(110,519)	151,351
Acquisition of subsidiaries	43	–	–	–	–	–	620	–	–	–	11,333	–	11,953
Deferred tax credited/(charged) to the income statement during the year	11	(15,397)	45	–	(15,650)	141	55,826	6,431	5,065	(11,492)	(792)	(34,152)	(9,975)
Deconsolidation of subsidiaries	44(b)	(50,497)	–	–	–	–	(2,679)	–	–	136,194	(2,149)	–	80,869
Exchange realignment		4,457	(47)	1,018	(386)	–	9,717	4,568	3,021	(22,462)	20	–	(94)
At 31 December 2010		92,536	(1,496)	29,428	(16,036)	–	221,769	134,150	88,939	(183,367)	12,852	(144,671)	234,104

Notes:

(a) At 31 December 2010, deferred tax assets have not been recognised in respect of unused tax losses of HK$981,567,000 (2009: HK$1,004,215,000) 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$961,859,000 (2009: HK$834,704,000) will expire in one to five years.

40. DEFERRED TAX (continued)

Notes: (continued)

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%, depending on the jurisdiction of the respective investment enterprises. The Group is therefore liable to withholding taxes on dividends declared by those subsidiaries, 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, jointly-controlled entities and associates in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$5,513,915,000 (2009: HK$1,396,724,000) as at 31 December 2010.

(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 the convertible bonds.

41. TRADE AND BILLS PAYABLES

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

	2010	2009
	HK$'000	*HK$'000*
Within one year	**4,521,600**	1,345,637
One to two years	**17,024**	36,131
Two to three years	**4,293**	9,362
Over three years	**10,836**	16,973
	4,553,753	1,408,103

Included in the Group's trade and bills payables as at 31 December 2010 are amounts of HK$11,609,000 (2009: HK$7,882,000) and HK$28,211,000 (2009: HK$22,756,000) 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 31 December 2010 are secured by a pledge over certain of the Group's bank balances with an aggregate amount of HK$96,420,000 (2009: HK$60,800,000) *(note 30(b))*.

42. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2010	2009	**2010**	2009
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accruals		**103,503**	103,247	**51,017**	50,478
Defined benefit plans – current portion	37(b)	**3,131**	792	**–**	–
Other liabilities		**6,379,427**	4,986,356	**16,615**	6,207
Due to the immediate holding company	29	**36,345**	26,273	**36,345**	12,293
Due to related parties	29	**367,321**	368,188	**48,086**	47,719
		6,889,727	5,484,856	**152,063**	116,697
Portion classified as current liabilities		**(6,862,394)**	(5,436,612)	**(152,063)**	(116,697)
Non-current portion	39	**27,333**	48,244	**–**	–

The Group's other liabilities as at 31 December 2010 included, inter alia, the following:

(i) an amount of HK$28,191,000 (2009: HK$27,217,000) 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 30(a) to the financial statements.

(ii) construction project costs of HK$72,960,000 (2009: HK$62,058,000) 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) machinery purchase costs of HK$20,423,000 (2009: Nil) payable to an associate of the Group. The balance with the associate are unsecured, interest-free and has no fixed terms of repayment.

The Group's other liabilities as at 31 December 2009 also included, inter alia, the following:

(i) outstanding considerations in the amounts of RMB3,680,000 (equivalent to HK$4,180,000) and RMB41,159,000 (equivalent to HK$46,750,000), 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 were repayable in two annual instalments of RMB15,000,000 and the last instalment of RMB14,839,000 being due for repayment in 2012.

(ii) outstanding considerations in the amounts of RMB100,000,000 (equivalent to HK$113,585,000) and RMB42,000,000 (equivalent HK$47,706,000) payable to Huangyan Government and Qingzhen Government for the transfers of sewage treatment facilities to the Group under TOT arrangements.

(iii) outstanding consideration of HK$111,755,000 payable to a third party for the acquisition of 100% equity interest in Chinese Profit Investment Limited, which held a 7.21% equity interest in BE-ZKC, in 2009.

43. BUSINESS COMBINATIONS

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 then respective carrying amounts, and are set out as follows:

	Notes	2010 HK$'000 (note (a))	2009 HK$'000 (note (b))
Net assets acquired:			
Property, plant and equipment	15	**309,632**	171,568
Prepaid land premiums	17	**40,382**	28,005
Other intangible assets	20	**–**	81
Investment in an a jointly-controlled entity		**60,751**	–
Deferred tax assets	40	**12,256**	–
Inventories		**41,777**	4,213
Amounts due from contract customers		**1,253,250**	112,201
Receivables under service concession arrangements		**–**	134,874
Trade and bills receivables		**96**	3,776
Prepayments, deposits and other receivables		**1,002,450**	8,139
Pledged deposits		**2,581**	–
Cash and bank balances		**212,056**	122,418
Trade and bills payables		**(162,286)**	(40,643)
Other payables and accruals		**(1,190,303)**	(67,843)
Income tax payables		**(17,246)**	(103)
Bank and other borrowings		**(1,059,347)**	(255,855)
Deferred income		**–**	(16,254)
Deferred tax liabilities	40	**(303)**	–
Non-controlling interests		**(159,572)**	(50,069)
		346,174	154,508
Goodwill on acquisition	18	**159,089**	20,607
		505,263	175,115
Satisfied by:			
Cash		**458,248**	56,837
Capital contribution to the acquiree in the form of cash		**908**	115,500
Reclassification from investment in a jointly-controlled entity to investment in a subsidiary		**46,107**	–
Costs associated with the acquisitions		**–**	2,778
		505,263	175,115
Profit for the year since acquisition		**133,563**	28,793

43. BUSINESS COMBINATIONS (continued)

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

	2010	2009
	HK$'000	*HK$'000*
	(note (a))	*(note (b))*
Cash and bank balances acquired	**212,056**	122,418
Cash consideration	**(458,248)**	(56,837)
Capital contribution to the acquiree in the form of cash	**(908)**	(115,500)
Cash consideration prepaid in prior year	**–**	56,837
Cash paid for costs associated with the acquisition	**–**	(2,778)
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	**(247,100)**	4,140

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$3,097,557,000 (2009: HK$3,045,999,000) and the Group's revenue (comprising turnover and other income and gains, net) would have been HK$28,968,954,000 (2009: HK$24,757,508,000).

Notes:

(a) Business combinations during the year ended 31 December 2010 mainly included, inter alia, the following transactions:

(i) In April 2010, the Group acquired a 54.7% equity interest in Compound Solar Technology Company Limited ("Compound Solar") for a cash consideration of TWD291,000,000 (equivalent to HK$70,548,000). Compound Solar is principally engaged in the development of solar energy technology in Taiwan.

(ii) Pursuant to a share subscription agreement entered into between the Group and China International Construction Investment Holding (Hong Kong) Limited ("CICI") on 23 April 2010, the Group acquired a 70% equity interest in CICI by subscription of 116,667 ordinary shares of CICI at US$1 each for a total cash consideration of US$116,667 (equivalent to HK$908,000). CICI and its subsidiaries are principally engaged in the construction of sewage and water treatment plants, and other infrastructural facilities in Yunnan Province, the PRC.

(iii) In October 2010, Yanjing Brewery acquired a 90% equity interest in Yanjiang Henan Yueshan Co., Ltd ("Yanjing Yueshan") and the entire equity interest of Yanjing Henan Zhumadian Co., Ltd ("Yanjing Zhumadian"), for cash considerations of RMB143,560,000 (equivalent to HK$164,822,000) and RMB97,720,000 (equivalent to HK$112,193,000), respectively. Yanjing Yueshan and Yanjing Zhumadian are principally engaged in the production and sale of beer in Mainland China.

(iv) In October 2010, the Group acquired an 80% equity interest in 武漢博瑞環保能源發展有限公司 ("Wuhan Bo Rui") for a cash consideration of RMB96,000,000 (equivalent to HK$110,218,000). Wuhan Bo Rui is principally engaged in a BOT project in respect of a waste power plant in Wuhan City, Hubei Province, the PRC.

43. BUSINESS COMBINATIONS (continued)

Notes: (continued)

(b) Business combinations during the year ended 31 December 2009 included the following transactions:

(i) Pursuant to the share transfer agreement entered into between BE Water and 貴港市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of People's Government of Guigang Municipality) on 17 November 2008 and as approved by BE Water's shareholders at a special general meeting held on 19 January 2009, BE Water acquired a 66.67% equity interest in Guigang Water for a cash consideration of RMB50,001,600 (equivalent to HK$56,837,000). The consideration was paid in advance by BE Water during the year ended 31 December 2008 and was included in deposits and other debtors of the Group as at 31 December 2008. Guigang Water and its subsidiaries are principally engaged in the operations of sewage treatment, water treatment and distribution and the provision of related services in Guigang Municipality, Guangxi Province, the PRC.

(ii) Pursuant to a joint venture agreement (the "Jinzhou Joint Venture Agreement") entered into between BE Water and a government authority (the "Jinzhou JV Partner") in Mainland China on 30 June 2009, 錦州市北控水務有限公司 ("Jinzhou Beikong") was established by BE Water and the Jinzhou JV Partner for the purpose of operating sewage and water treatment plants under service concession agreements (the "Jinzhou Sewage and Water Concessions") granted to Jinzhou Beikong. Jinzhou Beikong was established with an initial registered capital of RMB127,179,000, which was satisfied as to RMB101,743,000 (equivalent to HK$115,500,000) in cash by the Group and as to RMB25,436,000 in the form of the Jinzhou Sewage and Water Concessions and related liabilities by the Jinzhou JV Partner. The transaction was completed on 15 August 2009 and was accounted for as a business combination in accordance with HKFRS 3.

44. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES

(a) Disposal of subsidiaries

	2010	2009
	HK$'000	*HK$'000*
		(notes (i) and (ii))
Net assets disposed of:		
Investments in associates	–	90,329
Prepayments, deposits and other receivables	–	2,061
Cash and bank balances	–	242
Non-controlling interests	–	(3,846)
	–	88,786
Exchange fluctuation reserve realised	–	(11,075)
Gain on disposal of subsidiaries, net *(note 5)*	–	60,830
	–	138,541
Satisfied by cash	–	138,541

44. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES (continued)

(a) Disposal of subsidiaries (continued)

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

	2010	2009
	HK$'000	*HK$'000*
Cash and bank balances disposed of	–	(242)
Cash consideration	–	138,541
Cash consideration satisfied by offsetting current account *(note (ii))*	–	(1,768)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	136,531

Notes:

(i) Pursuant to a sale and purchase agreement dated 6 November 2009, the Group disposed of its entire equity interest in Pacific Target, a wholly-owned subsidiary indirectly held by the Company, to an independent third party for a cash consideration of HK$115,823,000. The main asset held by Pacific Target is a 26.01% equity interest in Beijing Peking University WBL Biotech Co., Ltd., a then associate of the Group.

(ii) During the year ended 31 December 2009, the Group disposed of its entire equity interest in Sichuan ZKC Investment Management, a 86.86% indirectly-owned subsidiary of BE Water, to certain related persons (the "Sichuan ZKC Investment Management Purchasers") for an aggregate cash consideration of RMB20,000,000 (equivalent to HK$22,718,000). Sichuan ZKC Investment Management was engaged in investment holding at the date of disposal.

Pursuant to a deed of setoff entered into between the Group and the Sichuan ZKC Investment Management Purchasers, part of the cash consideration of RMB1,567,000 (equivalent to HK$1,768,000) receivable from the Sichuan ZKC Investment Management Purchasers in respect of the disposal of Sichuan ZKC Investment Management was offset against the current accounts between the parties.

44. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES (continued)

(b) Deconsolidation of subsidiaries

	Notes	2010 HK$'000	2009 HK$'000
Net assets disposed of:			
Property, plant and equipment	15	**38,905**	–
Prepaid land premiums	17	**267**	–
Goodwill	18	**1,576,674**	–
Operating concessions	19	**632,137**	–
Other intangible assets	20	**3,362**	–
Investments in jointly-controlled entities		**49,760**	–
Available-for-sale investments		**459**	–
Deferred tax assets	40	**30,735**	–
Amounts due from contract customers		**3,903,581**	–
Receivables under service concession arrangements		**2,227,134**	–
Inventories		**9,260**	–
Trade and bills receivables		**83,641**	–
Prepayments, deposits and other receivables		**1,510,069**	–
Pledged deposits		**644,800**	–
Cash and bank balances		**2,063,579**	–
Trade and bills payables		**(715,772)**	–
Other payables and accruals		**(802,969)**	–
Income tax payables		**(27,216)**	–
Other taxes payable		**(9,780)**	–
Bank and other borrowings		**(6,730,035)**	–
Provision for major overhauls	38	**(106,525)**	–
Other non-current liabilities		**(59,245)**	–
Deferred tax liabilities	40	**(111,604)**	–
Non-controlling interests		**(2,721,783)**	–
		1,489,434	–
Reclassification from investment in a subsidiary to investment in an associate		**1,489,434**	–

44. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES (continued)

(b) Deconsolidation of subsidiaries (continued)

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

	2010	2009
	HK$'000	*HK$'000*
Cash and bank balances deconsolidated and net outflow of cash and cash equivalents in respect of the deconsolidation of subsidiaries	**(2,063,579)**	–

As detailed in note 6 to the financial statements, the Group's equity interest in BE Water was diluted from 57.35% to 43.72% as a result of issuance of new ordinary shares by BE Water to its convertible bond holders during the year. The Group lost control over BE Water as a result of the dilution in interest and BE Water becomes an associate of the Group effective from August 2010, at which time the Group deconsolidated BE Water and its subsidiaries.

45. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Apart from the transactions detailed in notes 6, 36, 43 and 44 to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2010 and 2009.

46. CONTINGENT LIABILITIES

At 31 December 2010, contingent liabilities not provided for in the financial statements was as follows:

	Group		**Company**	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantee given in respect of a specific performance of an infrastructure project to be undertaken by a jointly-controlled entity	**93,277**	92,993	**93,277**	92,993
Guarantee given in respect of the Guaranteed Convertible Bonds issued by Power Regal *(note 36(d))*	**–**	–	**2,175,000**	2,175,000
	93,277	92,993	**2,268,277**	2,267,993

47. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties *(note 16)* and certain portions of its buildings (including those that the Group was granted the right to use under service concession arrangements *(note 19)*) under operating lease arrangements, with the leases negotiated for original terms ranging from 2 to 5 years. The terms of the leases generally require the tenants to pay security deposits.

At 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Within one year	**3,888**	2,534
In the second to fifth years, inclusive	**584**	1,564
After five years	**–**	600
	4,472	4,698

At 31 December 2010, the Company did not have any non-cancellable operating lease arrangements as lessor (2009: 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 31 December 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	**140,179**	57,390	**12,955**	6,164
In the second to fifth years, inclusive	**172,413**	140,158	**10,834**	2,056
After five years	**714,122**	690,799	**–**	–
	1,026,714	888,347	**23,789**	8,220

48. COMMITMENTS

(a) Capital commitments

At 31 December 2010, the Group had the following capital commitments as at the end of the reporting period:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Buildings	**321,425**	285,854
Plant and machinery	**1,181,550**	1,037,758
Purchase of the operating concession of a sewage treatment plant	**–**	405,026
Capital contribution to a jointly-controlled entity	**141,153**	–
Capital contributions to an associate	**3,044,000**	3,085,416
	4,688,128	4,814,054
Authorised, but not contracted for:		
Buildings	**–**	–
Plant and machinery	**61,800**	52,013
Acquisition of a subsidiary	**440,706**	–
Capital contribution to a jointly-controlled entity	**14,118**	648,342
	516,624	700,355
Total capital commitments	**5,204,752**	5,514,409

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	
	2010	2009
	HK$'000	*HK$'000*
Contracted, but not provided for	**752,806**	2,643,526

At 31 December 2010, the Company did not have any significant capital commitments (2009: Nil).

48. COMMITMENTS (continued)

(b) Other commitments

In addition to the operating lease commitments as disclosed in note 47(b) and the capital commitments as disclosed above, the Group had the following commitments as at the end of the reporting period:

	Group 2010	2009
	HK$'000	*HK$'000*
Purchase of plant and equipment, and land use rights for construction services under service concession arrangements:		
Authorised, but not contracted for	–	11,884
Contracted, but not provided for	–	363,359
	–	375,243

49. 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*	2010 *HK$'000*	2009 *HK$'000*
Joint venture partners of subsidiaries and their associates				
Yanjing Beer Group and its associates	Purchase of bottle labels	(i)	**133,207**	119,619
	Purchase of bottle caps	(i)	**85,191**	83,696
	Import of raw materials	(ii)	**–**	378,285
	Sale of beer	(iii)	**–**	11,250
	Canning service fees paid	(iv)	**34,208**	30,257
	Comprehensive support service fees paid	(v)	**17,847**	17,657
	Land rent expenses	(vi)	**2,123**	2,100
	Trademark licensing fees paid	(vii)	**72,386**	42,779
	Less: Refund for advertising subsidies	(vii)	**(6,670)**	(6,172)

49. RELATED PARTY DISCLOSURES (continued)

(a) (continued)

Name of related party	Nature of transaction	Notes	2010 HK$'000	2009 HK$'000
Fellow subsidiaries				
北京北燃實業有限公司	Sale of piped natural gas	(viii)	**191,064**	211,631
(Beijing Beiran Enterprise	Service contract income	(ix)	**13,081**	29,989
Company Limited)				
and its subsidiaries	Purchase of raw materials	(xi)	**55,997**	138,103
	Building rental expenses	(xi)	**71,059**	65,940
	Construction contract fee expenses	(x)	**35,847**	43,191
	Sale of raw materials	(xii)	**67,202**	23,339
	Repair and maintenance expenses	(xii)	**12,011**	2,598
北京京泰國際貿易有限公司	Purchase of construction materials	(xi)	**551**	17,807
Jointly-controlled entity				
PetroChina Beijing Gas	Natural gas transmission fee expenses	(viii)	**3,273,032**	3,194,742

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, which 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 (2009: RMB1,744,000) per annum.

49. RELATED PARTY DISCLOSURES (continued)

(a) (continued)

Notes: (continued)

(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 licensing 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.

(b) Outstanding balances with related parties

(i) Details of the Group's balances with related parties included in trade and bills receivables, deposits and other debtors, and trade and bills payables and other payables and accruals are disclosed in notes 27(a), 28(a), 41 and 42 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 22, 23 and 29 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 35 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 46 to the financial statements.

49. RELATED PARTY DISCLOSURES (continued)

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

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

(d) Compensation of key management personnel of the Group

	2010	2009
	HK$'000	*HK$'000*
Short term employee benefits	**24,585**	23,692
Pension scheme contributions	**19**	19
Total compensation paid to key management personnel	**24,604**	23,711

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

50. 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.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and fair value risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations.

Banks loans, 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 end of the reporting period that are exposed to interest rate risk:

At 31 December 2010

	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total	Effective interest rate
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*%*
Floating rate:								
Restricted cash and pledged deposits	**125,932**	**–**	**–**	**–**	**–**	**–**	**125,932**	**0.36**
Cash and cash equivalents	**12,034,575**	**–**	**–**	**–**	**–**	**–**	**12,034,575**	**0.36**
Bank and other borrowings	**(1,226,884)**	**(2,300,686)**	**(19,523)**	**(14,817)**	**(2,974,187)**	**(549,417)**	**(7,085,514)**	**2.03**
Fixed rate:								
Cash and cash equivalents	**2,412,225**	**–**	**–**	**–**	**–**	**–**	**2,412,225**	**2.48**
Bank and other borrowings	**(1,076,673)**	**(28,437)**	**(24,246)**	**(1,123,051)**	**(24,246)**	**(28,257)**	**(2,304,910)**	**4.59**

At 31 December 2009

	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total	Effective interest rate
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*%*
Floating rate:								
Restricted cash and pledged deposits	118,245	–	–	–	–	–	118,245	0.36
Cash and cash equivalents	5,675,154	–	–	–	–	–	5,675,154	0.36
Bank and other borrowings	(2,159,169)	(240,307)	(2,300,692)	(170,669)	(171,573)	(909,840)	(5,952,250)	3.29
Fixed rate:								
Cash and cash equivalents	3,810,872	–	–	–	–	–	3,810,872	1.95
Bank and other borrowings	(859,772)	(28,153)	(27,725)	(27,725)	(1,123,378)	(119,926)	(2,186,679)	4.59

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

At 31 December 2010, 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$30,008,000 (2009: HK$3,063,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for 2009.

Foreign currency risk

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in 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*
2010		
If Hong Kong dollar weakens against RMB by 5%	**194,861**	**1,695,781**
If Hong Kong dollar strengthens against RMB by 5%	**(194,861)**	**(1,695,781)**
2009		
If Hong Kong dollar weakens against RMB by 5%	183,976	1,582,871
If Hong Kong dollar strengthens against RMB by 5%	(183,976)	(1,582,871)

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.

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

Despite the above, the Group is still exposed 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 individual customer's past history of making payments when they fall due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Various companies have different credit policies, depending on markets and businesses in which they operate. Aged 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 for contract work 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.

At the end of the reporting period, concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables under service concession arrangements and trade and bills receivables are set out in notes 19 and 27 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 a financial guarantee, further details of which are disclosed in note 46 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 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.

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities (other than defined benefit plans) as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

At 31 December 2010

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	–	2,342,890	2,342,808	62,307	57,567	3,043,518	287,583	8,136,673
Other loans	–	142,631	142,819	143,095	1,116,725	97,331	341,393	1,983,994
Convertible bonds	–	51,995	53,125	54,254	2,206,032	570,868	–	2,936,274
Trade and bills payables	–	4,553,753	–	–	–	–	–	4,553,753
Accruals and other liabilities	–	6,455,597	27,333	–	–	–	–	6,482,930
Due to the immediate holding company	–	36,345	–	–	–	–	–	36,345
Due to related parties	367,321	–	–	–	–	–	–	367,321
	367,321	13,583,211	2,566,085	259,656	3,380,324	3,711,717	628,976	24,497,290

At 31 December 2009

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	–	3,016,566	258,773	2,340,866	197,357	189,671	644,851	6,648,084
Other loans	22,694	242,126	147,198	143,297	138,931	1,195,312	556,527	2,446,085
Convertible bonds	–	48,937	48,937	48,937	797,283	2,199,469	–	3,143,563
Trade and bills payables	–	1,408,103	–	–	–	–	–	1,408,103
Accruals and other liabilities	–	5,041,359	29,089	19,155	–	–	–	5,089,603
Due to the immediate holding company	–	26,273	–	–	–	–	–	26,273
Due to related parties	341,446	26,742	–	–	–	–	–	368,188
	364,140	9,810,106	483,997	2,552,255	1,133,571	3,584,452	1,201,378	19,129,899

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets:				
Non-current receivables under service concession arrangements	**1,699,231**	3,414,841	**1,699,231**	3,414,841
Non-current prepayments, deposits and other receivables	**301,228**	270,829	**301,228**	270,829
Financial liabilities:				
Non-current bank and other borrowings:				
Floating rate borrowings	**5,858,630**	3,793,081	**5,858,630**	3,793,081
Fixed rate borrowings	**1,228,237**	1,326,907	**1,015,090**	1,065,755
Interest-free borrowings *(note (ii))*	**140,386**	144,249	**135,140**	138,556
Convertible bonds	**2,942,873**	2,721,488	**2,960,555**	2,785,184

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 24(a) to the financial statements, certain 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$145,446,000 (2009: HK$144,893,000) obtained by the Group from a joint venture partner of a subsidiary and is repayable within 15 years (2009: 16 years) and an interest-free loan of HK$11,692,000 (2009: HK$11,548,000) obtained from an overseas government as further detailed in notes 35(b)(i) and (ii) to the financial statements, respectively.

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 2009.

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 ratio as at the end of the reporting period was as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Interest-bearing bank borrowings	**9,390,424**	6,275,891
Total equity	**40,936,261**	39,017,001
Total equity and interest-bearing bank borrowings	**50,326,685**	45,292,892
Gearing ratio	**19%**	14%

51. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain equity investments and the conversion option of the Yanjing Brewery Convertible Bonds being classified as available-for-sale investments and a financial liability at fair value through profit or loss, respectively, as disclosed in notes 24 and 36 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2010 and 2009 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

52. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the following significant events occurred:

(a) On 15 March 2011, BE Water, an associate of the Company, completed an open offer (the "Open Offer") of new ordinary shares of BE Water by issuing 2,283,378,231 shares at a price of HK$1.485 per share on the basis of one offer share for every two existing shares held by the shareholders of BE Water. The total gross proceeds of the Open Offer is HK$3,390,817,000. Following the completion of the Open Offer, the Group's equity interest in BE Water increased from 43.72% to 44.49%. As the Open Offer 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 the Open Offer on the Group.

(b) On 28 March 2011, BE Water entered into a term loan facility agreement (the "Facility Agreement") with a syndicate of banks for a term loan facility (the "Syndicated Loan Facility") in the amount of HK$1,300,000,000. The Syndicated Loan Facility has a term of five years commencing from 28 March 2011. Pursuant to the Facility Agreement, it shall be an event of default (unless remedied by BE Water or waived by the syndicate of banks) if the Company does not or ceases to own, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of the voting rights in BE Water.

53. COMPARATIVE AMOUNTS

During the year, the directors of the Company have reconsidered the classification of amounts due to subsidiaries in the Company's statement of financial position and hence, certain comparative amounts of the Company's separate financial statements have been reclassified and restated to conform to the current year's presentation, and a third statement of financial position of the Company as at 1 January 2009 has been presented. The effects of the reclassification of comparative amounts of the Company are summarised as follows:

	Company	
	31 December 2009	**1 January 2009**
	HK$'000	*HK$'000*
Increase in investments in subsidiaries	4,059,812	2,512,458
Increase in due to subsidiaries, included in non-current liabilities	4,059,812	2,512,458

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2011.

FIVE YEAR FINANCIAL SUMMARY

31 December 2010

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 2009, is set out below:

RESULTS

	Year ended 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
CONTINUING OPERATIONS					
Revenue	6,730,443	10,975,515	19,704,247	24,208,430	**27,612,778**
Operating profit	419,560	1,587,555	2,289,768	2,521,232	**2,429,459**
Share of profits and losses of:					
Jointly-controlled entities	688	178,243	912,628	1,092,074	**1,168,658**
Associates	64,644	261,009	(146,811)	(7,920)	**196,449**
Profit before tax	484,892	2,026,807	3,055,585	3,605,386	**3,794,566**
Income tax	(183,510)	(263,872)	(359,297)	(558,997)	**(684,850)**
Profit for the year from continuing operations	301,382	1,762,935	2,696,288	3,046,389	**3,109,716**
DISCONTINUED OPERATIONS					
Profit for the year from discontinued operations	353,875	80,827	–	–	**–**
Profit for the year	655,257	1,843,762	2,696,288	3,046,389	**3,109,716**
ATTRIBUTABLE TO:					
Shareholders of the Company	385,247	1,478,212	2,281,828	2,398,883	**2,639,278**
Non-controlling interests	270,010	365,550	414,460	647,506	**470,438**
	655,257	1,843,762	2,696,288	3,046,389	**3,109,716**

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	17,627,972	45,022,029	51,696,742	59,105,310	**67,028,794**
Total liabilities	(4,487,284)	(13,457,639)	(15,386,272)	(20,088,309)	**(26,092,533)**
NET ASSETS	13,140,688	31,564,390	36,310,470	39,017,001	**40,936,261**
Equity attributable to shareholders of the Company	8,965,211	26,889,314	29,631,948	31,305,082	**34,267,909**
Non-controlling interests	4,175,477	4,675,076	6,678,522	7,711,919	**6,668,352**
TOTAL EQUITY	13,140,688	31,564,390	36,310,470	39,017,001	**40,936,261**

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

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