

BEIJING ENTERPRISES HOLDINGS LIMITED

INTERIM REPORT 2011
STOCK CODE : 392



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CORPORATE INFORMATION

GENERAL INFORMATION:

Registered Office

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

Website

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

Stock Code

392

Company Secretary

Mr. Tam Chun Fai CPA CFA

Share Registrars

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

BOARD OF DIRECTORS:

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE:

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

REMUNERATION COMMITTEE:

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

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

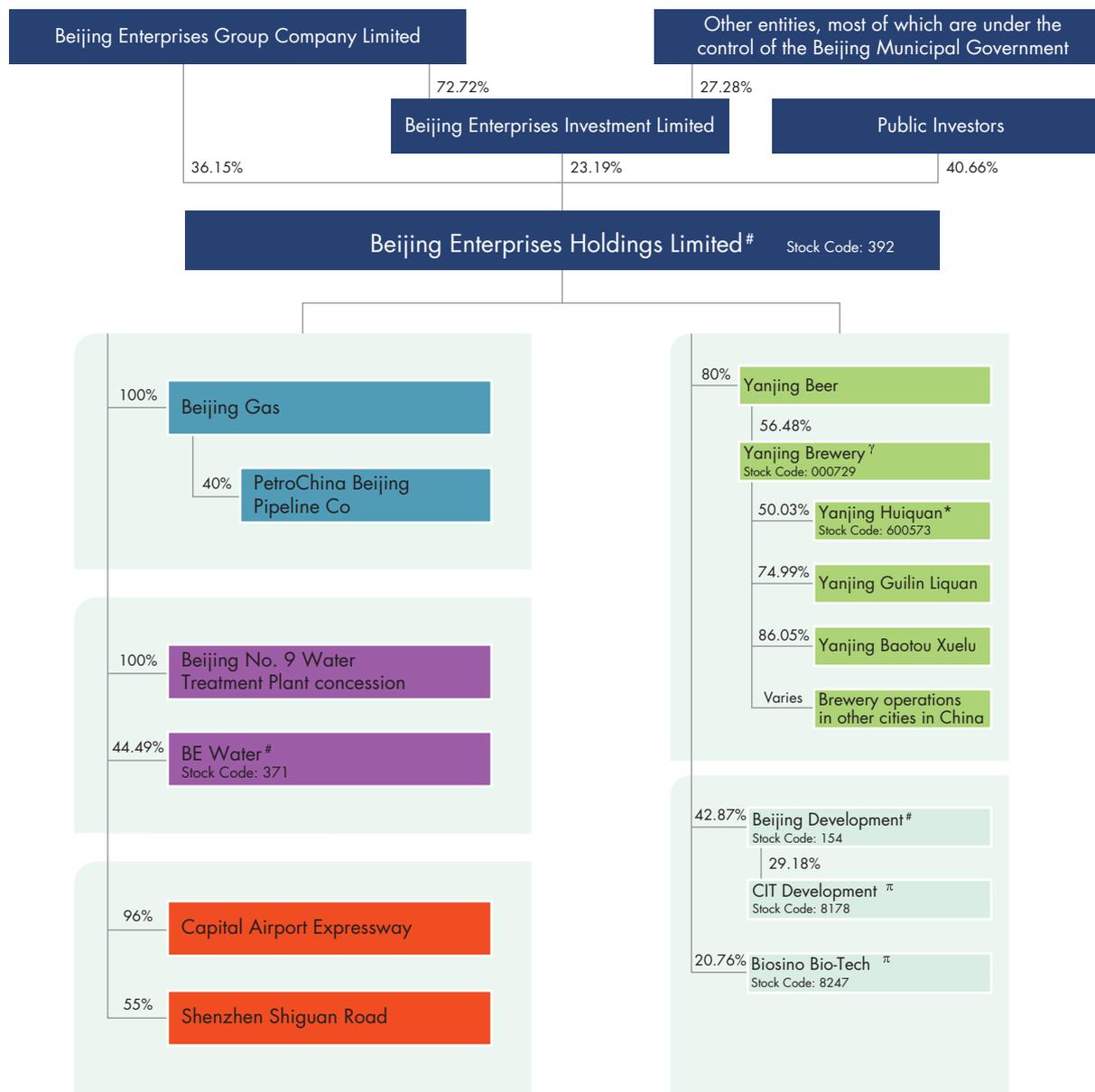
The Industrial and Commercial Bank of China

ADR Depository Bank

The Bank of New York

CORPORATE STRUCTURE

AS AT 31 AUGUST 2011



* Listed on The Shanghai Stock Exchange

Y Listed on The Shenzhen Stock Exchange

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

π Listed on The Growth Enterprise Market of the Stock Exchange

SUMMARY

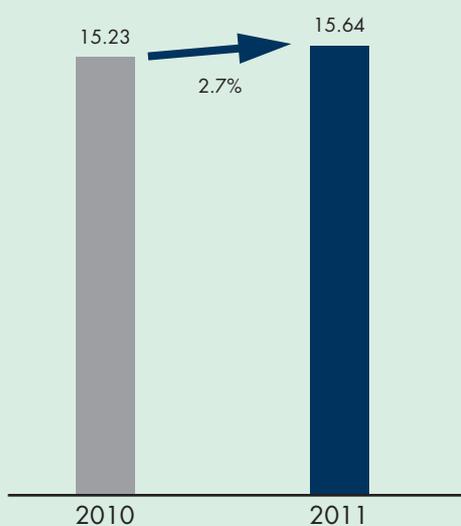
FINANCIAL HIGHLIGHTS (UNAUDITED)

	Six months ended 30 June		Change
	2011 (HK\$'000)	2010 (HK\$'000)	
Revenue	15,640,688	15,229,015	+2.7%
Gross Profit	3,683,021	3,544,939	+3.9%
Profit Attributable to Shareholders of the Company	1,650,883	1,562,883	+5.6%
Basic Earnings Per Share (HK dollar)	1.45	1.37	+5.8%
Interim Dividend (HK cent)	25	25	–

Revenue

For the six months ended 30 June

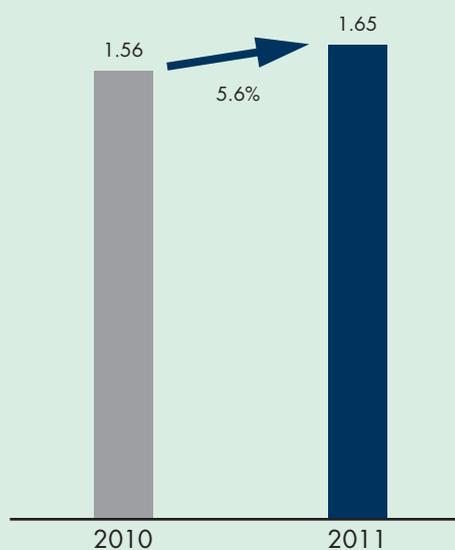
HK\$billion



Profit attributable to shareholders of the Company

For the six months ended 30 June

HK\$billion



SUMMARY

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Beijing Enterprises Holdings Limited (the "Company") is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 and the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2011 with the comparative figures in 2010. The consolidated revenue of the Group was HK\$15.64 billion for the first half of 2011, increased by 2.7% comparing to the corresponding period in last year. Profit attributable to shareholders of the Company was HK\$1.65 billion, increased by 5.6% compared to the corresponding period in 2010.

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

	Profit After Taxation <i>HK\$'000</i>	Proportion %
Natural Gas Business	1,155,536	70.0
Beer Business	260,780	15.8
Sewage and Water Treatment Operations	258,748	15.7
Toll Roads	45,320	2.7
Headquarters' expenses and others	(69,501)	(4.2)

INTERIM DIVIDEND

The Board has resolved to declare an interim cash dividend for the six months ended 30 June 2011 of HK25 cents (2010: HK25 cents) per share, which will be payable on about 28 October 2011 to shareholders whose names appear on the register of members of the Company on 5 October 2011.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from 1 October 2011 to 5 October 2011, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Center, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 30 September 2011.

BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS

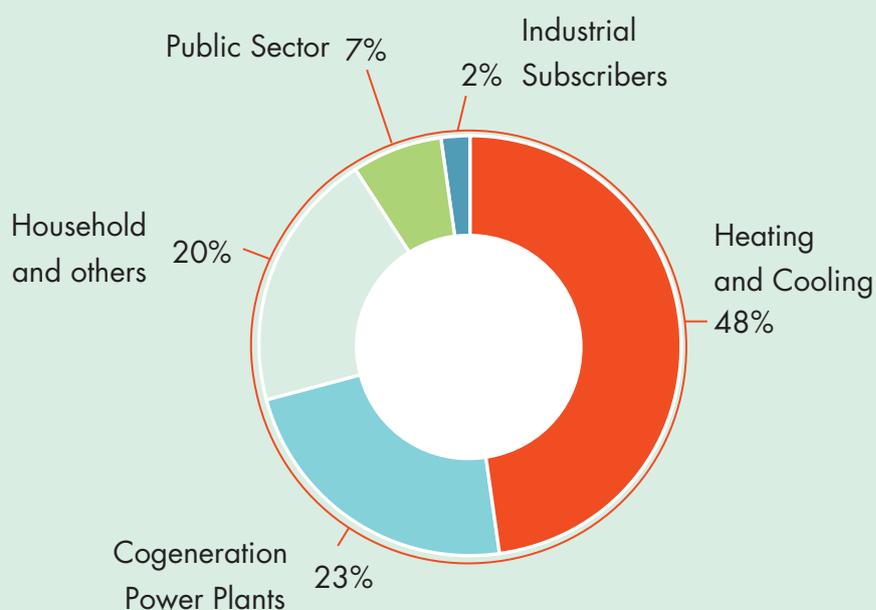
1. BUSINESS REVIEW

Natural Gas Distribution Business

The natural gas distribution business in Beijing City recorded revenue of HK\$8.478 billion in the first half of 2011, increased by 13.6% as compared with the same period of last year. Gas sales volume was 3.45 billion cubic meters, representing a year-on-year decrease of 4.17%, mainly due to the fact that the heating supply duration was one week shorter than that of last year as the average temperature was significantly higher in the first quarter in Beijing as compared to the same period of last year, thus resulted in a reduction in gas consumption for heating which exceeded the increase in gas consumption by new subscribers. At the same time, early outage maintenance of cogeneration plants since the second quarter has led to a reduction in gas consumption for power generation, which further intensified the decrease in natural gas sales.

Net profit from gas distribution business in the first half of the year was HK\$528 million, slightly increased by 2% as compared with the same period of last year. The growth rate was less than that of revenue, which was mainly due to the fact that there was a reduction in gas sales volume. During the period under review, total length of the gas pipeline system in Beijing City further increased to 13,878 kilometres. The capital expenditures incurred were HK\$690 million. There were 122,263 new residential subscribers, 1,224 new public sector subscribers, and fuel gas equipment capacity of 656 t/h steam. All types of subscribers increased steadily.

The gas sales volume of Beijing Gas in 2011 was approximately 3.45 billion cubic meters. An analysis by user sector is shown as follows:



BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

1. BUSINESS REVIEW (Continued)

Natural Gas Distribution Business (Continued)

For business expansion, Beijing Gas Group Company Limited (“Beijing Gas”) achieved new development progress in the first half of the year. It had entered into Hetian Strategic Framework Agreement for Investment Proposal with National Development Bank and Hetian Municipal Government, and entered into Strategic Co-operation Framework Agreement with Shenzhen Gas. At the same time, Beijing Gas is making efforts to implement the innovation management mechanism, aiming to fully cover and expand progressively in Beijing suburbs market by utilizing the synergy with different gas sources. In the first half of the year, Beijing Gas completed the acquisition of Beijing Fuhuadadi Gas Co. Ltd. (北京富華大地燃氣有限公司). Beijing Gas also achieved effective development in pipeline construction during the first half of the year, which played a positive supporting role in market development.

Gas Upstream Business

The transmission volume of PetroChina Beijing Natural Gas Pipeline Company Limited (中石油北京天然氣管道有限公司) (“PetroChina Beijing Pipeline Company”) during the first half of 2011 was 9.76 billion cubic meters, representing a year-on-year increase of 9.05%. The slowdown in the growth of transmission volume was mainly attributable to the warm winter of Beijing that affected the gas demand for heating and the presence of idle gas transmission capacity of No. 3 Shaanxi-Beijing Pipeline (陝京三線). Beijing Gas shared a net profit after taxation of HK\$627 million through its 40% equity interests in PetroChina Beijing Pipeline Company in the first half of 2011, representing a decrease of 8.5% when compared with the same period of last year. The decrease was mainly due to significant increase in amortization and depreciation expenses and the increase of finance costs resulting from the commencement of operation of No. 3 Shaanxi-to-Beijing Line since the end of 2010. The capital expenditures of PetroChina Beijing Pipeline Company in the first half of 2011 was HK\$1.09 billion.

Beer Business

Driven by China’s constantly high consumer price index, accelerating pace of consumer structure upgrade, benefit of increase in beer sales volume, products mix adjustment and effective control on raw and auxiliary materials costs, the operating results of Yanjing Brewery has been improved steadily. During the first half year, beer sales volume was 2.72 million thousand-litres, representing a year-on-year increase of 14.8%, much higher than the growth rate of 11.4% of the industry; of which, beer sales volume reached 0.62 million thousand-litres in Beijing region, representing a year-on-year increase of 5.4%; the sales volume of beer in markets outside Beijing achieved a rapid growth, recorded a sales volume of 2.10 million thousand-litres, representing an increase of 17.3% as compared with the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

1. BUSINESS REVIEW (Continued)

Beer Business (Continued)

Yanjing Brewery recorded a revenue of HK\$6.746 billion for the first half of the year, representing a year-on-year increase of 28.8%, which was mainly due to the increase in sales volume and product prices. Operating profit for the first half of the year was HK\$875 million, representing a year-on-year increase of 14.8%. Profit growth rate is lower than that of revenue, which is mainly attributable to a higher initial marketing expenses for certain beer factories outside Beijing as a result of their commencement of production during the period. Profit attributable to the Company for the first half of the year was HK\$261 million, representing a year-on-year increase of 9.6%. The capital expenditures of Yanjing Brewery in the first half of 2011 was HK\$870 million.

The market expansion of Yanjing Brewery has achieved an effective development in 2011. Its dominant position in Beijing market has been further consolidated, and maintained a sound development trend in the markets outside Beijing. Yanjing Brewery will continue to fully optimize the product mix through in-depth implementation of development strategy of "1+3" brands. Up to now, Yanjing Brewery has successfully completed various projects, including the technological upgrade of "Chunsheng Beer" (純生啤酒) by Hebei Yanjing Brewery Co., Ltd. (河北燕京啤酒有限公司), Phase I of 0.10 million thousand-litres project of Yanjing Brewery (Jinzhong) Co., Ltd. (燕京啤酒(晉中)有限公司), Phase III of 0.10 million thousand-litres expansion project of Sichuan Yanjing Brewery Co., Ltd. (四川燕京啤酒有限公司) and the technological upgrade of "Chunsheng Beer" (純生啤酒) by Fujian Yanjing Brewery Co., Ltd. (福建燕京啤酒有限公司), which laid a foundation in terms of production capacity for the implementation of the "12th Five-Year Plan".

Sewage Treatment and Water Operations

The net operating profit (excluding profit from reversal of provision of receivables under service concession arrangements) of water concession of Beijing No. 9 Water Treatment Plant attributable to the Group in the first half of 2011 was HK\$75.25 million, representing an increase of 3.8% as compared with the same period last year.

During the first half of 2011, Beijing Enterprises Water Group Limited ("BE Water") (stock code: 371), a 44.49% held associate company of the Group, recorded a strong profit growth with profit attributable to the shareholders of the Company amounted to HK\$134 million, representing a year-on-year increase of 66.2%. BE Water has continued to expand new investment projects during the period, and its business scope involves municipal sewage, water, industrial water and solid waste treatments. BE Water actually operates a total of 57 plants, which includes 50 sewage treatment plants, 5 water supply plants and 2 reclaimed water plants. The actual operation capacity is 3.51 million ton/day, and total actual water treatment capacity is 448,800,000 ton.

BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. BUSINESS REVIEW (Continued)

Toll Roads Business

The throughput of the Capital Airport Expressway recorded a slight natural growth in the first half of 2011, and its net profit attributable to the shareholders of the Company increased to HK\$47.15 million, representing a year-on-year increase of 8.2%. To comply with the new toll policy of Beijing City, toll rate of the Capital Airport Expressway has been reduced to RMB5 since 1 July.

Environmental Protection Business

Beijing Beikong Environmental Engineering and Technology Co. Ltd. ("Beikong Environmental") stayed in line with the development trend of the expanding domestic solid waste market. As government policy favorable for waste-to-energy incineration is becoming more clear, Beikong Environmental accelerated its development pace. In the first half of 2011, Beikong Environmental achieved a solid growth in engineering construction and sewage treatment revenue. Up to June, domestic garbage treatment capacity nearly reached approximately 2,000 tons/day, hazardous waste treatment capacity amounted to 71,000 tons/year and sewage treatment capacity amounted to 250,000 tons/day. Although the business scale is not large, the development prospect is promising.

II. PROSPECTS

Natural Gas Distribution Business

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

II. PROSPECTS (Continued)

Gas Upstream Business

The Phase II and Phase III construction work of No. 3 Shaanxi-Beijing Pipeline is still progressing. Upon fully completion of the construction of No. 3 Shaanxi-Beijing Pipeline, integrated gas transmission capacity of the three pipelines will reach 35 billion cubic metres per annum.

Beer Business

“Yanjing” will remain one of the leading local beer brand name in the mainland China. The nationwide bottling facilities together with the established distribution network will further boost the market share in the future. Yanjing Brewery’s growth in profit margin will maintain stable as premium beer with higher profit margin is getting higher market share and contributing more profit to Yanjing Brewery. Currently, Yanjing Brewery continues to expand its production capacity and will maintain the target of improving its production capacity and sales volume to 8 million thousand-litres within 5 years.

III. FINANCIAL REVIEW

Revenue

The revenue of the Group’s operations in the first half of 2011 was approximately HK\$15.64 billion, increased by 2.7% when compared to the corresponding period in last year. Gas sales revenue was HK\$8.48 billion, representing a year-on-year increase of 13.6% higher. Beer sales revenue was HK\$6.75 billion, 28.8% higher than that of the corresponding period. The much lower net increase was due to deconsolidation of BE Water’s results since the second half of last year. Other business contributed to an aggregate of not more than 3% of the total revenue.

Cost of Sales

Cost of sales increased by 2.3% to HK\$11.96 billion. The cost of sales for gas distribution business included mainly purchase cost of natural gas as well as depreciation of gas pipeline network. Cost of sales for beer business included materials cost, direct labor, consumables and depreciation.

Gross Profit Margin

Overall gross profit margin was 23.6% compared to 23.3% in corresponding period of last year. The slight improvement was attributable to deconsolidation of BE Water’s result including its construction business which has lower profit margin.

BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

III. FINANCIAL REVIEW (Continued)

Selling and Distribution Costs

Selling and distribution costs of the Group in the first half of 2011 increased by 34.4% to HK\$1.054 billion, higher than the extent of increase in revenue. This was mainly attributable to the much higher initial selling and distribution expenses incurred by several new beer bottling plants of Yanjing Brewery in the first half year.

Administration Expenses

Administration expenses of the Group in the first half of 2011 was HK\$1.068 billion, increased by 8.3% when compared to the corresponding period in last year. The increase was also attributable to the start up costs of the several new beer bottling plants of Yanjing Brewery.

Finance Costs

Finance costs of the Group in the first half of 2011 was HK\$210 million, decreased by 6.6% when compared to corresponding period in last year, mainly due to lower HIBOR interest rates which determined the ultimate interest rates of the syndicated loans.

Share of Profits and Losses of Jointly-controlled Entities

This substantially represented the 40% share of the net profits of PetroChina Beijing Pipeline Co. for the first half of 2011. The primary business of PetroChina Beijing Pipeline Co. is transmission of natural gas through No. 1, 2 and 3 Shaanxi-Beijing pipelines with an approximate total length of 3,000 kilometers.

Share of Profits and Losses of Associates

This mainly represented the 44.49% share of the net profits of BE Water for the first half of 2011 net of 42.9% share of net losses of Beijing Development (Hong Kong) Limited for the same period.

Tax

Effective income tax rate was 21.6%, lower than 22.7% in the corresponding period of last year mainly due to more tax concession enjoyed by Yanjing Brewery's national operations.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

IV. FINANCIAL POSITION OF THE GROUP

Cash and Bank Borrowings

As at 30 June 2011, cash and bank deposits held by the Group amounted to HK\$17.2 billion. The increase was mainly attributable to the proceeds received from the issue of one billion US dollar guaranteed senior notes in May this year net of the repayment of HK\$3.5 billion of gas purchase fees in first quarter this year.

The Group's bank and other borrowings and convertible bonds amounted to HK\$20.29 billion as at 30 June 2011, which mainly comprised 10 year and 30 year US dollar guaranteed senior notes to HK\$7.8 billion, syndicated loans amounting to HK\$5.1 billion and convertible bonds of HK\$2.9 billion.

Liquidity and Capital Resources

As at the period end date, the Group had a strong net working capital of HK\$10.15 billion. The Group maintains sufficient banking facilities in both Hong Kong and mainland for its working capital requirement and has abundant cash resources to finance its capital expenditures in the foreseeable future.

During the period under review, 300,000 new shares were issued as a result of exercise of share option by one executive director, while 100,000 shares were cancelled upon repurchase by the Company. As at 30 June 2011, the issued capital of the Company was 1,137,571,000 shares and equity attributable to shareholders of the Company was HK\$36.24 billion. Total equity was HK\$43.22 billion when compared to HK\$40.94 billion as at the end of 2010.

EMPLOYEE

At 30 June 2011, the Group had approximately 41,000 employees. The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Group's employee remuneration policy and package are periodically reviewed by the management. Apart from pension funds, discretionary bonuses are awarded to certain employees according to the assessment of individual performance.

By order of the Board
Wang Dong
Chairman

Hong Kong, 31 August 2011

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	<i>Notes</i>	Unaudited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>
REVENUE	3	15,640,688	15,229,015
Cost of sales		<u>(11,957,667)</u>	<u>(11,684,076)</u>
Gross profit		3,683,021	3,544,939
Other income and gains, net	4	291,813	196,179
Fair value gain on the derivative component of convertible bonds		80,450	–
Selling and distribution expenses		(1,053,668)	(784,045)
Administrative expenses		(1,067,932)	(985,858)
Other operating expenses, net		<u>25,378</u>	<u>(32,540)</u>
PROFIT FROM OPERATING ACTIVITIES	5	1,959,062	1,938,675
Finance costs	6	(210,010)	(224,897)
Share of profits and losses of:			
Jointly-controlled entities		626,569	684,882
Associates		<u>117,706</u>	<u>(1,075)</u>
PROFIT BEFORE TAX		2,493,327	2,397,585
Income tax	7	(378,059)	(389,583)
PROFIT FOR THE PERIOD		<u>2,115,268</u>	<u>2,008,002</u>
ATTRIBUTABLE TO:			
Shareholders of the Company		1,650,883	1,562,883
Non-controlling interests		<u>464,385</u>	<u>445,119</u>
		<u>2,115,268</u>	<u>2,008,002</u>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	9		
Basic		<u>HK\$1.45</u>	<u>HK\$1.37</u>
Diluted		<u>HK\$1.41</u>	<u>HK\$1.34</u>

Details of the interim dividend declared are disclosed in note 8.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2011

	Six months ended 30 June	
	2011 Unaudited HK\$'000	2010 Unaudited HK\$'000
PROFIT FOR THE PERIOD	2,115,268	2,008,002
OTHER COMPREHENSIVE INCOME/(LOSS)		
Change in fair value of an available-for-sale-investment	(32,467)	–
Exchange differences on translation of foreign operations	1,038,755	340,460
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX OF NIL	1,006,288	340,460
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	3,121,556	2,348,462
ATTRIBUTABLE TO:		
Shareholders of the Company	2,493,991	1,787,162
Non-controlling interests	627,565	561,300
	3,121,556	2,348,462

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

		30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
	<i>Notes</i>		
ASSETS			
Non-current assets:			
Property, plant and equipment		24,005,806	22,244,006
Investment properties		219,588	215,637
Prepaid land premiums		1,298,585	1,233,403
Goodwill		7,415,485	7,245,773
Operating concessions		1,240,708	1,255,902
Other intangible assets		21,316	14,208
Investments in jointly-controlled entities		6,387,038	6,102,491
Investments in associates		4,930,669	3,109,858
Amounts due from contract customers		386,640	223,672
Receivables under service concession arrangements	10	1,627,157	1,699,231
Prepayments, deposits and other receivables		413,803	301,228
Available-for-sale investments		980,318	1,005,154
Deferred tax assets		555,017	598,157
		<hr/>	<hr/>
Total non-current assets		49,482,130	45,248,720
Current assets:			
Prepaid land premiums		29,615	27,643
Inventories		4,244,423	3,726,623
Amounts due from contract customers		48,575	2,105
Receivables under service concession arrangements	10	1,139,457	900,524
Trade and bills receivables	11	1,981,919	1,347,008
Prepayments, deposits and other receivables		1,534,487	899,533
Other taxes recoverable		673,122	303,906
Restricted cash and pledged deposits		362,312	125,932
Cash and cash equivalents		16,834,139	14,446,800
		<hr/>	<hr/>
Total current assets		26,848,049	21,780,074
		<hr/>	<hr/>
TOTAL ASSETS		76,330,179	67,028,794

	<i>Notes</i>	30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	12	113,757	113,737
Reserves		35,842,275	33,642,355
Dividends declared/proposed		284,393	511,817
		<u>36,240,425</u>	<u>34,267,909</u>
Non-controlling interests		6,974,599	6,668,352
TOTAL EQUITY		<u>43,215,024</u>	<u>40,936,261</u>
Non-current liabilities:			
Bank and other borrowings		4,627,492	7,227,253
Guaranteed senior notes	13	7,709,599	–
Liability component of convertible bonds	14	2,683,926	2,650,489
Derivative component of convertible bonds	14	218,010	292,384
Defined benefit plans		500,720	470,515
Provision for major overhauls		167,500	140,192
Other non-current liabilities		143,757	157,081
Deferred tax liabilities		363,776	364,053
Total non-current liabilities		<u>16,414,780</u>	<u>11,301,967</u>
Current liabilities:			
Trade and bills payables	15	2,632,327	4,553,753
Amounts due to contract customers		141,188	59,409
Other payables and accruals		7,938,339	6,862,394
Income tax payables		441,818	626,774
Other taxes payable		491,812	367,927
Bank and other borrowings		5,054,891	2,320,309
Total current liabilities		<u>16,700,375</u>	<u>14,790,566</u>
TOTAL LIABILITIES		<u>33,115,155</u>	<u>26,092,533</u>
TOTAL EQUITY AND LIABILITIES		<u>76,330,179</u>	<u>67,028,794</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2011

Attributable to shareholders of the Company

	Issued capital Unaudited HK\$'000	Share premium account Unaudited HK\$'000	Capital redemption reserve Unaudited HK\$'000	Share option reserve Unaudited HK\$'000	Capital reserve Unaudited HK\$'000	Available-for-sale investment revaluation reserve Unaudited HK\$'000	Property revaluation reserve Unaudited HK\$'000	Exchange fluctuation reserve Unaudited HK\$'000	PRC reserve funds Unaudited HK\$'000	Retained profits Unaudited HK\$'000	Dividends declared/proposed Unaudited HK\$'000	Total Unaudited HK\$'000	Non-controlling interests Unaudited HK\$'000	Total equity Unaudited HK\$'000
At 1 January 2011	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
Profit for the period	-	-	-	-	-	-	-	-	-	1,650,883	-	1,650,883	464,385	2,115,268
Other comprehensive income for the period:														
Change in fair value of an available-for-sale investment	-	-	-	-	-	(32,467)	-	-	-	-	-	(32,467)	-	(32,467)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	875,575	-	-	-	875,575	163,180	1,038,755
Total comprehensive income for the period	-	-	-	-	-	(32,467)	-	875,575	-	1,650,883	-	2,493,991	627,565	3,121,556
Exercise of share options	30	4,896	-	(1,162)	-	-	-	-	-	-	-	3,764	-	3,764
Repurchase and cancellation of shares	(10)	-	10	-	-	-	-	-	-	(4,560)	-	(4,560)	-	(4,560)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	3,977	3,977
Acquisition of non-controlling interests	-	-	-	-	(20,182)	-	-	-	-	-	-	(20,182)	(39,460)	(59,642)
Deconsolidation of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(12,811)	(12,811)
Share of reserve of a jointly-controlled entity	-	-	-	-	14,201	-	-	-	-	-	-	14,201	-	14,201
Share of reserves of associates	-	-	-	-	(29,106)	-	-	-	(31)	26,256	-	(2,881)	-	(2,881)
Final 2010 dividends	-	-	-	-	-	-	-	-	-	(511,817)	(511,817)	-	-	(511,817)
Interim 2011 dividend declared	-	-	-	-	-	-	-	-	-	(284,393)	284,393	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(273,024)	(273,024)
Transfer to reserves	-	-	-	-	-	-	-	-	104,546	(104,546)	-	-	-	-
At 30 June 2011	113,757	20,738,291*	238*	-*	962,185*	(26,095)*	29,893*	4,425,674*	2,914,718*	6,797,371*	284,393	36,240,425	6,974,599	43,215,024

Attributable to shareholders of the Company

	Issued capital Unaudited HK\$'000	Share premium account Unaudited HK\$'000	Capital redemption reserve Unaudited HK\$'000	Share option reserve Unaudited HK\$'000	Capital reserve Unaudited HK\$'000	Available-for-sale investment revaluation reserve Unaudited HK\$'000	Property revaluation reserve Unaudited HK\$'000	Exchange fluctuation reserve Unaudited HK\$'000	PRC reserve funds Unaudited HK\$'000	Retained profits Unaudited HK\$'000	Dividends declared/proposed Unaudited HK\$'000	Total Unaudited HK\$'000	Non-controlling interests Unaudited HK\$'000	Total equity Unaudited HK\$'000
At 1 January 2010	113,737	20,733,395	228	1,162	968,422	-	29,893	2,465,414	2,202,834	4,278,180	511,817	31,305,082	7,711,919	39,017,001
Profit for the period	-	-	-	-	-	-	-	-	-	1,562,883	-	1,562,883	445,119	2,008,002
Other comprehensive income for the period:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	224,279	-	-	-	224,279	116,181	340,460
Total comprehensive income for the period	-	-	-	-	-	-	-	224,279	-	1,562,883	-	1,787,162	561,300	2,348,462
Capital contribution by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	355,032	355,032
Acquisition of a subsidiary	-	-	-	-	(68,666)	-	-	-	-	-	-	(68,666)	126,690	58,024
Acquisition of non-controlling interests	-	-	-	-	(5,905)	-	-	-	-	-	-	(5,905)	56,614	50,709
Deemed disposal of interest in a subsidiary	-	-	-	-	(12,220)	-	-	-	-	-	-	(12,220)	64,617	52,397
Share of reserves of associates	-	-	-	-	5,088	-	-	3,389	(158)	(4,336)	-	3,983	-	3,983
Final 2009 dividends	-	-	-	-	-	-	-	-	-	(511,817)	(511,817)	-	-	(511,817)
Interim 2010 dividend declared	-	-	-	-	-	-	-	-	-	(284,343)	284,343	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(152,225)	(152,225)
Transfer to reserves	-	-	-	-	-	-	-	-	70,242	(70,242)	-	-	-	-
At 30 June 2010	113,737	20,733,395	228	1,162	886,719	-	29,893	2,693,082	2,272,918	5,482,142	284,343	32,497,619	8,723,947	41,221,566

* These reserve accounts comprise the consolidated reserves of HK\$35,842,275,000 (31 December 2010: HK\$33,642,355,000) in the consolidated statement of financial position as at 30 June 2011.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash flows from/(used in) operating activities	(808,573)	991,827
Net cash flows used in investing activities	(8,143,443)	(1,314,843)
Net cash flows from financing activities	6,861,342	3,655,539
	<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents	(2,090,674)	3,332,523
Cash and cash equivalents at beginning of period	12,506,461	7,827,362
Effect of foreign exchange rate changes, net	238,745	89,358
	<hr/>	<hr/>
Cash and cash equivalents at end of period	10,654,532	11,249,243
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	11,004,643	7,524,894
Time deposits	6,191,808	4,837,959
Less: Restricted cash and pledged deposits	(362,312)	(693,259)
	<hr/>	<hr/>
	16,834,139	11,669,594
Less: Time deposits with maturity of more than three months when acquired	(6,179,607)	(420,351)
	<hr/>	<hr/>
	10,654,532	11,249,243
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2011

1. BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. EFFECT OF CHANGES IN ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of these condensed interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2010, except for the adoption of the following new, revised or amendments to the Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the HKICPA, which are generally effective for the first time for the current period's financial statements:

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

The adoption of the above new and revised HKFRSs has had no significant financial impact on these condensed interim financial statements and there have been no significant changes to the accounting policies applied in these condensed interim financial statements.

3. OPERATING SEGMENT INFORMATION

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

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

3. OPERATING SEGMENT INFORMATION (Continued)

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2011 and 2010, respectively.

Six months ended 30 June 2011

	Piped gas operation Unaudited HK\$'000	Brewery operation Unaudited HK\$'000	Sewage and water treatment operations Unaudited HK\$'000	Expressway and toll road operations Unaudited HK\$'000	Corporate and others Unaudited HK\$'000	Eliminations Unaudited HK\$'000	Consolidated Unaudited HK\$'000
Revenue	8,477,678	6,745,542	97,574	192,670	127,224	-	15,640,688
Cost of sales	(7,338,229)	(4,401,471)	(1,979)	(114,768)	(101,220)	-	(11,957,667)
Gross profit	<u>1,139,449</u>	<u>2,344,071</u>	<u>95,595</u>	<u>77,902</u>	<u>26,004</u>	<u>-</u>	<u>3,683,021</u>
Profit from operating activities	777,592	955,548*	144,182	61,801	65,053	(45,114)	1,959,062
Finance costs	(69,151)	(74,515)	(173)	(3,938)	(107,347)	45,114	(210,010)
Share of profits and losses of:							
Jointly-controlled entities	626,569	-	-	-	-	-	626,569
Associates	575	(336)	134,258	-	(16,791)	-	117,706
Profit/(loss) before tax	<u>1,335,585</u>	<u>880,697</u>	<u>278,267</u>	<u>57,863</u>	<u>(59,085)</u>	<u>-</u>	<u>2,493,327</u>
Income tax	(181,294)	(150,517)	(19,519)	(14,657)	(12,072)	-	(378,059)
Profit/(loss) for the period	<u><u>1,154,291</u></u>	<u><u>730,180</u></u>	<u><u>258,748</u></u>	<u><u>43,206</u></u>	<u><u>(71,157)</u></u>	<u><u>-</u></u>	<u><u>2,115,268</u></u>
Profit/(loss) attributable to shareholders of the Company	<u><u>1,155,536</u></u>	<u><u>260,780</u></u>	<u><u>258,748</u></u>	<u><u>45,320</u></u>	<u><u>(69,501)</u></u>	<u><u>-</u></u>	<u><u>1,650,883</u></u>

* The amount included a fair value gain on the derivative component of convertible bonds of HK\$80,450,000, which was wholly attributable to non-controlling shareholders of the relevant subsidiary and therefore did not affect the profit for the period attributable to shareholders of the Company.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2011

3. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2010

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

3. OPERATING SEGMENT INFORMATION (Continued)

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

	30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
Total assets:		
Piped gas operations	34,700,347	35,433,124
Brewery operation	20,618,011	18,054,446
Sewage and water treatment operations	6,770,508	4,540,104
Expressway and toll road operations	2,117,534	2,019,887
Corporate and others	16,932,666	11,473,793
Eliminations	(4,808,887)	(4,492,560)
	76,330,179	67,028,794
Total equity:		
Piped gas operations	24,780,349	23,203,314
Brewery operation	11,442,915	10,782,468
Sewage and water treatment operations	5,177,872	3,268,465
Expressway and toll road operations	1,591,518	1,609,654
Corporate and others	246,402	2,096,392
Eliminations	(24,032)	(24,032)
	43,215,024	40,936,261

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 geographical information would provide no additional useful information to the users of financial statements.

During each of the six months ended 30 June 2011 and 2010, there was no single customer that contributed 10% or more of the Group's revenue from external customers for these periods.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2011

4. OTHER INCOME AND GAINS, NET

	Six months ended 30 June	
	2011 Unaudited HK\$'000	2010 Unaudited HK\$'000
Other income		
Bank interest income	75,189	49,256
Others	203,763	137,879
	<u>278,952</u>	<u>187,135</u>
Gains, net		
Others	12,861	9,044
	<u>291,813</u>	<u>196,179</u>

5. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2011 Unaudited HK\$'000	2010 Unaudited HK\$'000
Depreciation	771,011	675,811
Amortisation of operating concessions*	44,918	54,112
Amortisation of computer software**	2,437	2,428
	<u>818,366</u>	<u>732,351</u>

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

** The amortisation of computer software for the period is included in "Administrative expenses" on the face of the condensed consolidated income statement.

6. FINANCE COSTS

	Six months ended 30 June	
	2011 Unaudited <i>HK\$'000</i>	2010 Unaudited <i>HK\$'000</i>
Interest on bank loans and other loans wholly repayable within five years	120,398	160,318
Interest on guaranteed senior notes	35,915	–
Interest on other loans	9,027	16,761
Interest on convertible bonds	42,602	51,710
	<hr/>	<hr/>
Total interest expense	207,942	228,789
Increase in discounted amount of provision for major overhauls arising from the passage of time	2,068	2,763
	<hr/>	<hr/>
Total finance costs	210,010	231,552
Less: Interest included in cost of construction contracts	–	(6,655)
	<hr/>	<hr/>
	210,010	224,897
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2011

7. INCOME TAX

	Six months ended 30 June	
	2011 Unaudited HK\$'000	2010 Unaudited HK\$'000
Current – the People's Republic of China		
Hong Kong	–	–
Mainland China	338,117	372,656
Deferred	39,942	16,927
	<hr/>	<hr/>
Total tax charge for the period	378,059	389,583
	<hr/> <hr/>	<hr/> <hr/>

No provision for Hong Kong profits tax has been made during the period ended 30 June 2011 as the Group did not generate any assessable profits in Hong Kong during the period (Six months ended 30 June 2010: 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 in Mainland China, certain of the Company's subsidiaries enjoy income tax exemptions and reductions.

8. INTERIM DIVIDEND

On 31 August 2011, the Board declared an interim cash dividend of HK25 cents per share (Six months ended 30 June 2010: HK25 cents per share), totalling approximately HK\$284,393,000 (Six months ended 30 June 2010: HK\$284,343,000).

9. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

The calculation of diluted earnings per share amounts for the period is based on the profit for the period attributable to shareholders of the Company, adjusted to reflect the effect of the deemed conversion of all dilutive convertible bonds of the Group at the beginning of the period, 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 period.

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

	Six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Earnings:		
Profit for the period attributable to shareholders of the Company, used in the basic earnings per share calculation	1,650,883	1,562,883
Imputed interest expense for the period relating to the liability component of the dilutive convertible bonds of the Group	28,736	36,946
Decrease in profit for the period as a result of the dilution of interest in Beijing Enterprises Water Group Limited ("BE Water") assuming the exercise of all dilutive convertible bonds issued by BE Water	—	(6,445)
Profit for the period attributable to shareholders of the Company, used in the diluted earnings per share calculation	<u>1,679,619</u>	<u>1,593,384</u>

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2011

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

	Six months ended 30 June	
	2011 Unaudited	2010 Unaudited
Number of ordinary shares:		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	1,137,427,667	1,137,371,000
Effect of dilution – weighted average number of ordinary shares		
Share options	113,135	225,950
Convertible bonds	50,000,000	50,000,000
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	<u>1,187,540,802</u>	<u>1,187,596,950</u>

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

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

	30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
Billed:		
Within one year	399,549	357,509
One to two years	330,932	288,782
Two to three years	278,796	254,233
Over three years	130,180	–
	1,139,457	900,524
Unbilled	1,627,157	1,699,231
	2,766,614	2,599,755
Portion classified as current assets	(1,139,457)	(900,524)
Non-current portion	1,627,157	1,699,231

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2011

11. TRADE AND BILLS RECEIVABLES

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

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

	30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
Billed:		
Within one year	1,258,417	586,580
One to two years	33,155	25,166
Two to three years	30,975	33,216
Over three years	69,789	70,237
	<hr/>	<hr/>
	1,392,336	715,199
Unbilled	589,583	631,809
	<hr/>	<hr/>
	1,981,919	1,347,008
	<hr/> <hr/>	<hr/> <hr/>

12. SHARE CAPITAL

	30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.1 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
1,137,571,000 (31 December 2010: 1,137,371,000) ordinary shares of HK\$0.1 each	<u>113,757</u>	<u>113,737</u>

During the period ended 30 June 2011, subscription rights attaching to 300,000 share options were exercised at a subscription price of HK\$12.55 per ordinary share, resulting in the issue of 300,000 ordinary shares of the Company for a total cash consideration of HK\$3,764,000. At the time when the share options were exercised, the fair values of these share options in an aggregate amount of HK\$1,162,000 previously recognised in the share option reserve were transferred to the share premium account.

During the period ended 30 June 2011, the Company repurchased a total of 100,000 ordinary shares of the Company on the Stock Exchange and these shares were subsequently cancelled by the Company. Please refer to page 45 of this report for further details.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2011

13. GUARANTEED SENIOR NOTES

On 12 May 2011, Mega Advance Investments Limited ("Mega Advance", a wholly-owned subsidiary of the Company) issued senior notes with an aggregate principal amount of US\$1 billion (the "Guaranteed Senior Notes") to certain institutional investors, pursuant to a purchase agreement dated 5 May 2011. The senior notes are guaranteed by the Company, of which (1) US\$600,000,000, bearing interest at a rate of 5% per annum, will mature on 12 May 2021 unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture; (2) US\$400,000,000, bearing interest at a rate of 6.375% per annum, will mature on 12 May 2041 unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture. Further details of the Guaranteed Senior Notes are set out in the Company's announcement dated 6 May 2011.

14. CONVERTIBLE BONDS

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

Group

	Guaranteed Convertible Bonds <i>(note (a))</i>	Yanjing Brewery Convertible Bonds <i>(note (b))</i>
Issuance date	2/6/2009	15/10/2010
Maturity date	1/6/2014	14/10/2015
Original principal amount: <i>(HK\$'000)</i>	2,175,000	N/A
<i>(RMB'000)</i>	N/A	429,804
Coupon rate	2.25%	0.5% – 1.4%
Conversion price per ordinary share of <i>(HK\$)</i> :		
– The Company <i>(HK\$)</i>	43.5	N/A
– Yanjing Brewery <i>(RMB)</i>	N/A	21.86

Each batch of these convertible bonds is bifurcated into a liability component and an equity component or a derivative component, as appropriate, for accounting purpose.

14. CONVERTIBLE BONDS (Continued)

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

	Guaranteed Convertible Bonds Unaudited HK\$'000 (note (a))	Yanjing Brewery Convertible Bonds Unaudited HK\$'000 (note (b))	Total Unaudited HK\$'000
Principal amount outstanding			
At 1 January 2011	2,175,000	564,611	2,739,611
Exchange realignment	–	27,890	27,890
	<hr/>	<hr/>	<hr/>
At 30 June 2011	<u>2,175,000</u>	<u>592,501</u>	<u>2,767,501</u>
Liability component			
At 1 January 2011	2,147,554	502,935	2,650,489
Interest expense	28,737	–	28,737
Imputed interest expense	–	13,865	13,865
Interest paid	(24,469)	–	(24,469)
Exchange realignment	–	15,304	15,304
	<hr/>	<hr/>	<hr/>
At 30 June 2011	<u>2,151,822</u>	<u>532,104</u>	<u>2,683,926</u>
Derivative component			
At 1 January 2011	–	292,384	292,384
Fair value loss on revaluation	–	(80,450)	(80,450)
Exchange realignment	–	6,076	6,076
	<hr/>	<hr/>	<hr/>
At 30 June 2011	<u>–</u>	<u>218,010</u>	<u>218,010</u>

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2011

14. CONVERTIBLE BONDS (Continued)

Notes:

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

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

- (b) 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 condensed consolidated statement of financial position at fair value with any changes in fair value recognised in the condensed consolidated income statement.

The fair value of the derivative component of the Yanjing Brewery Convertible Bonds as at 30 June 2011 was determined by reference to valuations performed by CB Richard Ellis Limited, independent professionally qualified valuers, using the Binomial Option Pricing Model. Details of the variables and assumptions used in the model are as follows:

	30 June 2011
Share price of Yanjing Brewery	RMB16.97
Exercise price	RMB21.86
Remaining life of the derivative	4.29 years
Risk-free rate	3.51%
Expected volatility	44.83%
Expected dividend yield	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.

15. TRADE AND BILLS PAYABLES

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

	30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
Within one year	2,572,055	4,521,600
One to two years	32,189	17,024
Two to three years	3,942	4,293
Over three years	24,141	10,836
	<u>2,632,327</u>	<u>4,553,753</u>

16. CONTINGENT LIABILITY

	30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
Guarantee given in respect of a specific performance of an infrastructure project to be undertaken by a jointly-controlled entity	<u>93,384</u>	<u>93,277</u>

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2011

17. CAPITAL COMMITMENTS

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

	30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
Contracted, but not provided for:		
Buildings	282,414	321,425
Plant and machinery	1,355,309	1,181,550
Capital contribution to a jointly-controlled entity	–	141,153
Capital contribution to an associate	3,117,350	3,044,000
	4,755,073	4,688,128
Authorised, but not contracted for:		
Plant and machinery	–	61,800
Acquisition of a subsidiary	–	440,706
Capital contribution to a jointly-controlled entity	–	14,118
	–	516,624
Total capital commitments	4,755,073	5,204,752

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

	30 June 2011 Unaudited HK\$'000	31 December 2010 Audited HK\$'000
Contracted, but not provided for	606,737	752,806

18. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transaction	Notes	Six months ended 30 June	
			2011 Unaudited HK\$'000	2010 Unaudited HK\$'000
<i>Fellow subsidiaries:</i>				
北京北燃實業有限公司 and its subsidiaries	Sale of piped natural gas	(a)	93,414	90,747
	Service contract income	(b)	8,158	1,801
	Sale of raw materials	(c)	37,330	–
	Purchase of raw materials	(d)	18,633	7,775
	Repair and maintenance expenses	(c)	2,956	2,376
<i>Jointly-controlled entity:</i>				
中石油北京天然氣管道有限公司	Natural gas transmission fee expenses	(a)	1,827,160	1,841,902
<i>Joint venture partners of subsidiaries and their associates:</i>				
Beijing Yanjing Beer Group Company ("Yanjing Beer Group") and its associates	Purchase of bottle labels	(e)	72,187	63,200
	Purchase of bottle caps	(e)	41,098	39,330
	Canning service fees paid	(f)	16,948	16,411
	Comprehensive support service fees paid	(g)	9,254	8,927
	Land rent expenses	(h)	1,101	1,062
	Trademark licensing fees paid	(i)	29,421	26,119
	Less: Refund for advertising subsidies	(i)	(3,908)	(3,280)

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 June 2011

18. RELATED PARTY DISCLOSURES (Continued)

Notes:

- (a) The selling price of piped natural gas and the natural gas transmission fee were prescribed by the PRC government.
- (b) The service fee was determined by reference to the then prevailing market rates and set at prices not higher than the guidance prices set by the PRC government.
- (c) The selling prices of raw materials and the repair and maintenance expenses paid were determined on a cost-plus basis.
- (d) The purchase prices of raw materials were determined by reference to the then prevailing market rates.
- (e) The purchase prices for bottle labels and bottle caps were determined by reference to the agreed prices for the preceding year and an annual adjustment determined by reference to the price index in Beijing for the preceding year.
- (f) The 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.
- (g) The comprehensive support service fees paid included the following:
 - fees for security and canteen services which were determined based on the annual cost of labour, depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and
 - rental expenses, related to the premises occupied and used by Yanjing Brewery as its office, canteen and staff dormitories, were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.
- (h) The land rent expenses were charged at a mutually agreed amount of RMB1,849,000 per annum.
- (i) The trademark licensing fees paid were for the use of “Yanjing” trademark and were determined based on 1% of the annual sales of beer and mineral water products made by Yanjing Brewery and RMB0.008 per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Beer Group would refund 20% of the trademark licensing fees received.

18. RELATED PARTY DISCLOSURES (Continued)

Compensation of key management personnel of the Group

	Six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Short term employee benefits	9,984	9,072
Pension scheme contributions	10	10
Total compensation paid to key management personnel	<u>9,994</u>	<u>9,082</u>

19. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2011 amounted to HK\$10,147,674,000 (31 December 2010: HK\$6,989,508,000) and HK\$59,629,804,000 (31 December 2010: HK\$52,238,228,000), respectively.

DISCLOSEABLE INFORMATION

BOARD CHANGES

During the period under review, Mr. Lin Fusheng was appointed as the successor for retiring executive director and vice chairman of the Board Mr. Bai Jinrong with effect from 1 June 2011.

CHANGES IN DIRECTORS' INFORMATION

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

	Cessation of Office (effective)
Mr. Liu Kai	
• Beijing Enterprises Water Group Limited (stock code: 371) – executive director	2 June 2011

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

Save for the information disclosed in these sections "Board Changes" and "Changes in Directors' Information", there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Main Board Listing Rules.

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

At 30 June 2011, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

(a) Long positions in shares of the Company

Director	Number of shares	Percentage of the Company's issued share capital
Mr. Li Fucheng	12,000 [#]	0.0011%
Mr. Zhou Si	210,500 [#]	0.0185%
Mr. E Meng	30,000 [#]	0.0026%
Mr. Jiang Xinhao	20,000 [#]	0.0018%
Mr. Tam Chun Fai	2,000 [#]	0.0002%

[#] All interests are directly beneficially owned by the directors.

(b) Long positions in underlying shares of the Company

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

(c) Long positions in shares of associated corporations

Director	Associated corporation	Number of shares	Percentage of the associated corporations' issued share capital
Mr. Zhang Honghai	Beijing Development (Hong Kong) Limited [®] ("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

Director	Associated corporation	Number of share options
Mr. Zhang Honghai	Beijing Development [®]	6,770,000 ⁽ⁱ⁾
Mr. E Meng	Beijing Development [®]	6,770,000 ⁽ⁱ⁾

Notes:

(i) These share options were granted on 21 June 2011 at an exercise price of HK\$1.25* 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\$1.19. The share options may be exercised at any time commencing on 21 June 2011, and if not otherwise exercised, will lapse on 20 June 2021.

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

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

DISCLOSEABLE INFORMATION

Save as disclosed above, as at 30 June 2011, none of the directors or chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES

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

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

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

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

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

The following set out the movements in the share options granted under the Scheme during the period ended 30 June 2011:

Participant	Number of share options			
	At 1 January 2011	Granted during the period	Exercised during the period	At 30 June 2011
Director: Mr. Zhou Si	300,000	–	(300,000)	–

Notes:

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

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

- (b) At 30 June 2011, the Company had no share options outstanding under the Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR CONVERTIBLE BONDS

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

DISCLOSEABLE INFORMATION

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

At 30 June 2011, 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	59.34%
Beijing Enterprises Group Company Limited ("BE Group")	–	675,030,288 ^(c)	675,030,288	59.34%

Notes:

- (a) The interest disclosed includes the shares owned by Modern Orient Limited. Modern Orient Limited is a wholly-owned subsidiary of BEIL. Accordingly, BEIL is deemed to be interested in the shares owned by Modern Orient Limited.
- (b) The interest disclosed includes the shares owned by BEIL and Modern Orient Limited. BEIL, the holding company of Modern Orient Limited, is held directly as to 72.72% by BE Group BVI. Accordingly, BE Group BVI is deemed to be interested in the shares owned by BEIL and Modern Orient Limited.
- (c) The interest disclosed includes the interest in shares held by BE Group BVI as detailed in note (b). BE Group BVI is a wholly-owned subsidiary of BE Group. Accordingly, BE Group is deemed to be interested in the shares held by BE Group BVI, BEIL and Modern Orient Limited.

Save as disclosed above, as at 30 June 2011, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2011, the Company repurchased a total of 100,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company. Details of the repurchases of such ordinary shares are as follows:

Month	Number of shares repurchased	Price per share HK\$	Total price paid HK\$'000
January 2011	100,000	45.5368	4,560

The purchased shares were cancelled upon repurchase and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the purchase of the shares of approximately HK\$4,550,000 has been charged to the retained profits of the Company. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

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

Except as disclosed above, neither the Company, nor any of its subsidiaries, has made any purchase, sale or redemption of any of the Company's listed securities during the period.

CORPORATE GOVERNANCE

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the directors believe that the Company has complied with the code provisions (the "Code Provisions") contained in Appendix 14 "Code on Corporate Governance Practices" to the Listing Rules throughout the six months ended 30 June 2011.

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

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SHARE DEALING

The Company has adopted Appendix 10 "Model Code" to the Listing Rules to govern securities transactions by the directors. After having made specific enquiry to all directors, all directors confirm that they complied with the "Model Code" during the half year ended 30 June 2011.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors of the Company, namely, Mr. Wu Jiesi, Mr. Lam Hoi Ham (Chairman of Audit Committee) and Mr. Fu Tingmei. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting process and internal controls of the Company. The Audit Committee of the Company has already reviewed the unaudited interim results for the six months ended 30 June 2011 and considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.