BEIJING ENTERPRISES HOLDINGS LIMITED

ANNUAL REPORT 2011

STOCK CODE : 392

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

CONTENTS

CORPORATE INFORMATION

GENERAL INFORMATION:

Registered Office
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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. Lin Fusheng *(Vice Chairman)*
Mr. Li Fucheng *(Vice Chairman)*
Mr. Zhou Si *(Vice Chairman)*
Mr. Hou Zibo
Mr. Guo Pujin
Mr. Liu Kai
Mr. Lei Zhengang
Mr. E Meng *(Executive Vice President)*
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

NOMINATION COMMITTEE:
Mr. Wang Dong *(Committee Chairman)*
Mr. Lam Hoi Ham
Mr. Fu Tingmei

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

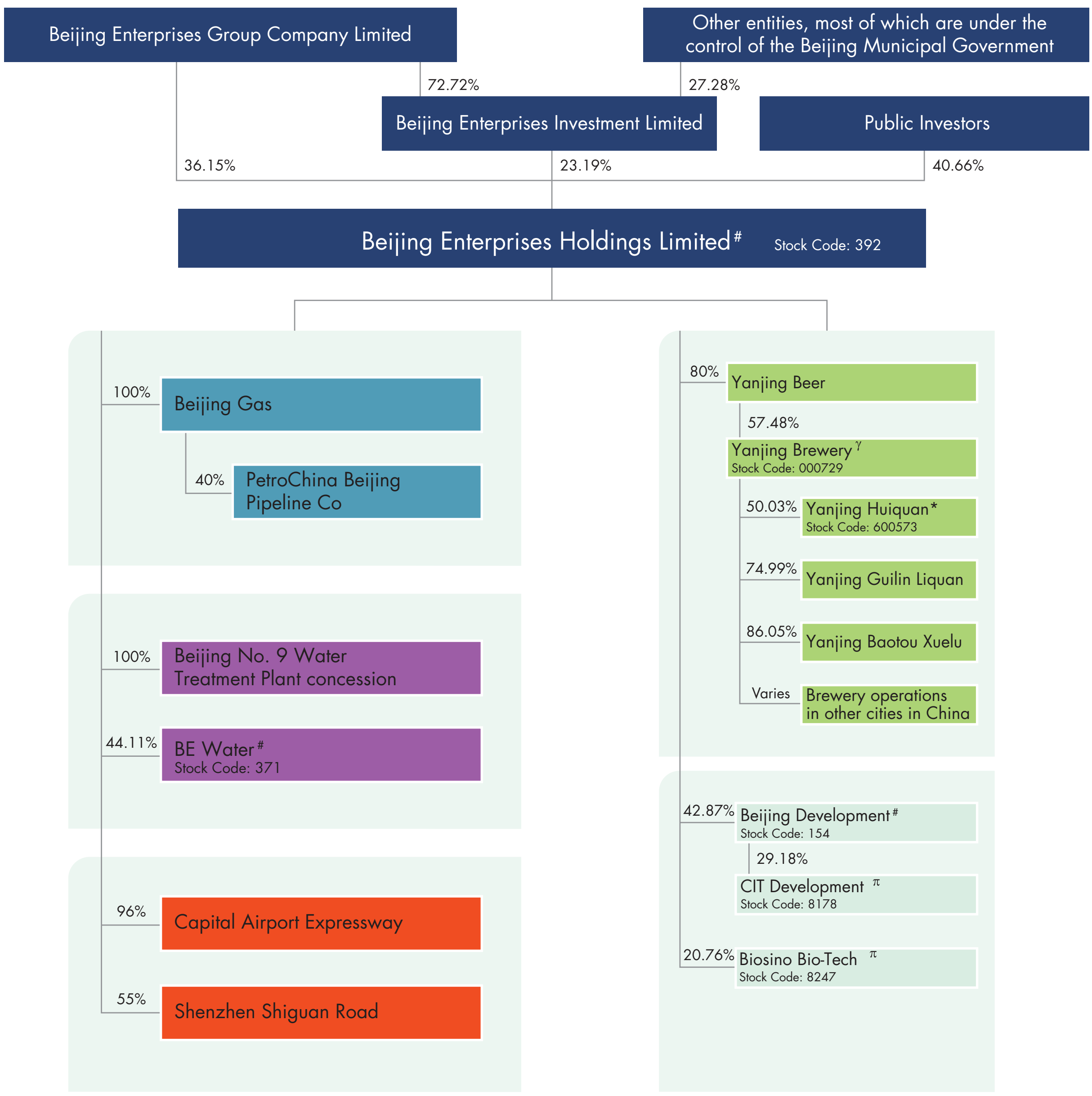
Agricultural Bank of China
Bank of China
China Construction Bank
Guangdong Development Bank
The Industrial and Commercial Bank of China

ADR Depository Bank

The Bank of New York

CORPORATE STRUCTURE

AS AT 30 MARCH 2012



* *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")*

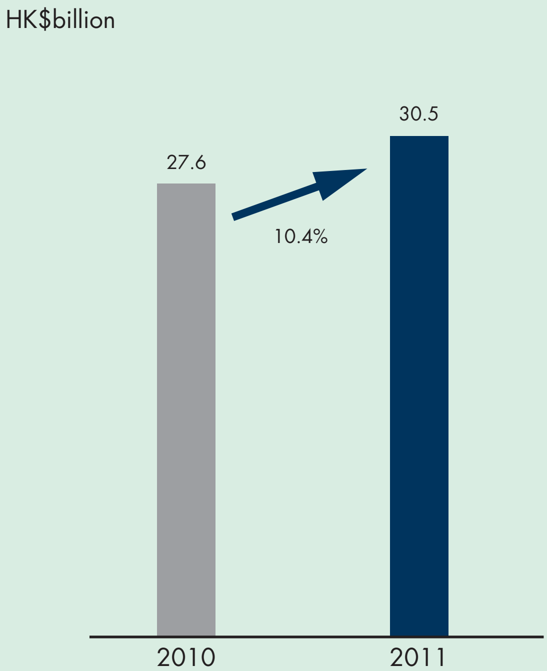
π *Listed on The Growth Enterprise Market of the Stock Exchange*

HIGHLIGHTS

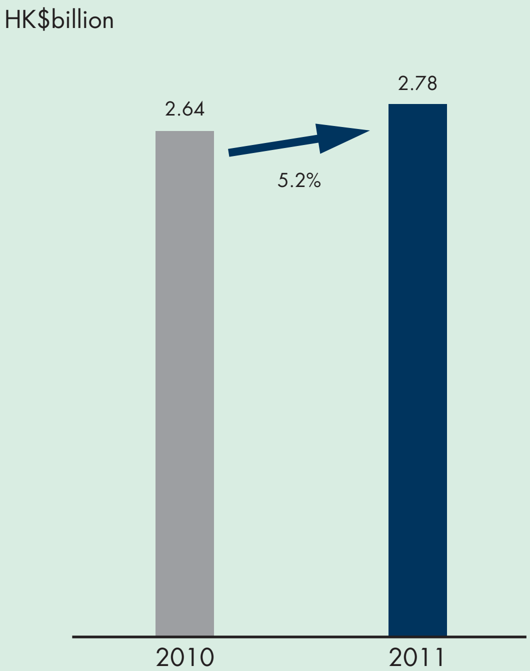
FINANCIAL HIGHLIGHTS (AUDITED)

	2011 *(HK$'000)*	2010 *(HK$'000)*	**Change**
Revenue	**30,471,759**	27,612,778	+10.4%
Gross Profit	**6,734,075**	6,399,225	+5.2%
Profit Attributable to Shareholders of the Company	**2,775,880**	2,639,278	+5.2%
Basic Earnings Per Share *(HK dollar)*	**2.44**	2.32	+5.2%
Annual Dividend *(HK cent)*	**70**	70	–

Revenue



Profit attributable to shareholders of the Company



CHAIRMAN'S STATEMENT

In 2011, Beijing Enterprises Holdings Limited (the "**Company**" or "**Group**") and its affiliates embraced new challenges brought by the volatile economy, macroeconomic adjustment and austerity policy, adopted effective measures to aggressively prevent risks and eliminated negative factors, thereby able to maintain a stable growth.

According to the financial statements prepared under the Hong Kong Financial Reporting Standards, revenue in 2011 amounted to HK$30.47 billion, representing a year-on-year increase of 10.4%. Profit attributable to shareholders of the Company amounted to HK$2.78 billion, representing a year-on-year increase of 5.2%. The Board of Directors proposed a final dividend of HK$45 cents per share.

As the European debt crisis and the U.S. debt crisis have still not eased out, the international capital markets still lied at its trough and China's economic growth is slowing down with high inflation, the overall economic situation is still facing uncertainties. The Company will continue to enhance the opportunity awareness and sense of urgency, catering for the changing market environment. The Group will strive to mitigate the impact of the negative factors while capturing the business opportunities to deepen the market development, integrate internal and external resources, enlarge business scale, and consolidate earnings base. According to current business progress, the overall operating trend of the Group is steady and going well.

Looking forward into 2012, the Group will focus on the following to facilitate its overall business development:

Firstly is to further strengthen the competitiveness of the Group's core business of gas operation. Beijing Gas will accelerate the promotion of the "Greater Beijing" regional market layout, improve the strategic planning in suburban counties, leverage on the industry competitive edge to build up the "Co-development of Two Gas", and achieve the full coverage of suburban markets. It will further optimize the gas usage structure, extend the industrial chain, sub-divide energy usage market, and enhance the development efficiency and quality. As Beijing has started to monitor PM2.5 and speeded up the construction of "Four Major Heat Electric Centers", Huaneng Thermal Power Plant is now in operation. We anticipate that gas consumption will increase. The introduction of auto gas will be intensified as Beijing municipal government is more concerned with environmental protection. Beijing Gas will increase the promotion momentum of upstream resources projects and in addition to expanding the strategic cooperation with PetroChina, it will increase the investment in the No. 4 Shaanxi-Beijing long-distance pipelines and inter-provincial trunk pipeline network, appropriately follow up overseas resources projects, and further strengthen the resources protection. At the same time, it will continue to accelerate the development of the gas market outside Beijing and optimize the market layout.

Secondly is to assimilate the adverse impact of the operating environment, and fortify the leading position of beer business in the industry. Yanjing Beer will continue to leverage on its strengths in market, brand name and products to effectively stabilize the impact of various negative factors such as high market concentration, intensifying industry competition, escalating raw material costs, rising energy prices and increasing labor costs, further enhance the core competitiveness of the Group, seize the prominent position in high-end industry development, upkeep the leading position of Yanjing Beer in the industry. Yanjing Beer will continue to increase the development and cultivation of new profit growth points, ensure the rapid growing momentum in emerging markets, and effectively enhance their profitability. It will further optimize its resources allocation, perfect market layout, and achieve both volume and income increase.

Thirdly is to seize the opportunity of structure transformation; achieve breakthrough and enhance upgrading in water business. In 2012, Beijing Enterprises Water Group Limited (Stock Code: 371) will further focus on its principal businesses with its major direction towards the overall acquisition of large-scale water treatment projects and small and medium-sized water investment companies. It will continue to expand its traditional water businesses, propel the profit restructuring and enhance its profitability. It will prudently move forward the progress of regional water environment integrated treatment and further diversify business models and optimize operational structures. We will energetically carry forward the development of new businesses and continue to make breakthrough and development in seawater desalination and international businesses. With the government support of the sea water desalination in Beijing, the preparation work for completion of business and technical work has been effectively developed, and certain seawater desalination projects under close attention are expected to achieve breakthroughs in the year.

Fourthly is to explore and be innovative in the business cooperation models in the solid waste treatment projects and form a profitability model for this solid waste treatment business as soon as possible. Also, we will continue to promote the key garbage treatment projects as well as acquiring similar enterprises when opportunities arise and conduct mergers and acquisitions on key projects in order to effectively establish the business foundation to expand the businesses.

Fifthly is to monitor capital market trend and to seek opportunity to launch financing activities and strengthen the allocation of funds and distribution of resources. The Group will maintain sufficient cash resources to finance its capital expenditure in the foreseeable future.

In 2012, the Group will closely follow the reorganization of state-owned assets and the reform of state-owned enterprises, grasp the opportunity to actively study, promote and participate in the new round of assets integration to further reduce the policy risks in business. At the same time, it will take full advantage of the market opportunities, continue to push forward the rectification, integration and further optimization of resources rationalization, enhance the synergistic and overall mentality of business and foster the ability of sustainable development in different business segments.

2012 marks the 15th anniversary of the incorporation and listing of the Company. The Group will be more proactive and effective in strengthening its communication with investors and capital market, boosting market confidence as well as solidifying and safeguarding its position and influence on Hong Kong capital market. The businesses under the Group will continue to follow closely the changes in international and domestic macro-economic environment and calmly tackle various risks and challenges. We will accelerate profit structure adjustment and upgrade the methods of achieving growth, intensify the efforts to improve its core corporate competitiveness and share the promising prospects of the enterprise development with the investors

Chairman

Hong Kong
30 March 2012

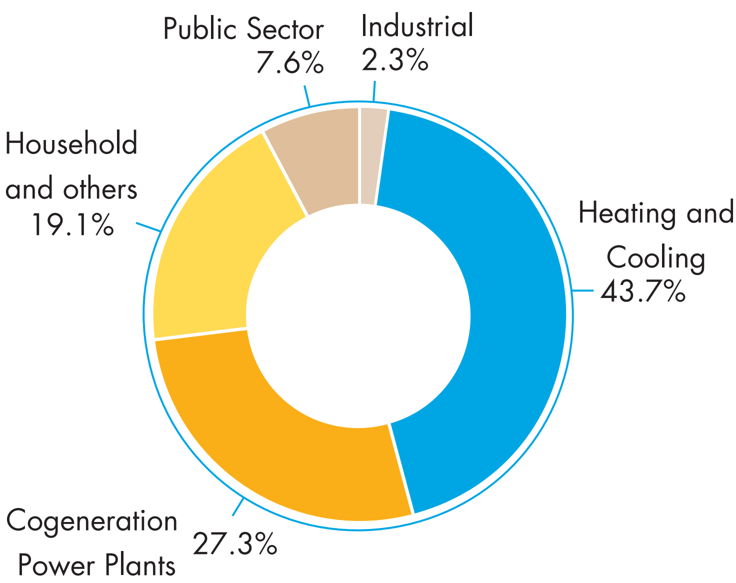
I. BUSINESS REVIEW

Natural Gas Distribution Business

Beijing Gas Group Company Limited ("Beijing Gas") recorded a gas sales volume of 6.47 billion cubic meters in 2011, on par with last year. The revenue amounted to HK$16.46 billion, representing a year-on-year growth of 16.6%. Net profit amounted to HK$965 million, representing a year-on-year growth of 23.8%.

In 2011, there were about 210,495 new subscribers, of which 207,000 were household subscribers and 3,495 were public sector subscribers. At the end of 2011, total number of natural gas subscribers had reached 4,320,000 and operation pipelines increased to over 14,000 kilometres. During the year, the heating boilers capacity developed was 3,300 t/h steam with the loading of 220 t/h steam in summer. Capital expenditure for basic pipeline infrastructure amounted to RMB1.6 billion.

The sales volume of Beijing Gas in 2011 was approximately 6.47 billion cubic meters, the analysis by user sector is as follows:



The reason that led to a lower sales volume of Beijing Gas than the target growth was due to the aggregate impact of various factors. Firstly, the relatively higher temperature in the beginning of the year resulted a significant decrease in heating gas consumption. Secondly, gas consumption for power generation did not attain the expected target. At the same time, the difficulties in reducing costs and increasing sales were also fuelled by the macroeconomic control measures promulgated by the State and Beijing City, the continuous increase in overall commodity prices, and the improvement in social awareness of energy conservation. The Company played an active role and took various measures of "increasing revenue while cutting down costs, tapping potential and improving efficiency" rapidly to speed up the development of subscribers and optimize the gas consumption structure. Whilst strengthening the management on sales measurement and reducing the wastage rate, the Company increased its efforts in accounts receivables collection and tightened the control on expenditures, and at the same time, the Company reinforced its coordination and communication with the upstream businesses. These measures had significantly offset the impact of adverse factors.

I. BUSINESS REVIEW (Continued)

Natural Gas Distribution Business (Continued)

In respect of market development, the construction of Huairou-Miyun pipeline has been completed for gas supply, which completed the entire suburban market coverage. By focusing on the suburban areas and new cities and integrated the construction of major towns and industrial parks, we expanded the depth and width of gas consumption in the sub-urban districts and counties. The newly developed resident subscribers in the rural districts accounted for over 45.5% of new subscribers in the city. We achieved the connection of Mentougou with the major pipeline network of urban area. Further, we completed the acquisition of Huairou Fuhuadadi Gas Co. Ltd.（懷柔富華大地燃氣公司）and signed an agreement with ENN Energy to acquire the companies like Xinao Changping（新奧昌平）and Minyun（密雲）and realized the wholesale gas supply in Pinggu District, whereby the whole city excluding Yanqing County are operated under the same tariff system in the same pipeline network.

With our persistence in "Co-development of Two Gas", the Company strengthened the coordination and continued to explore the natural gas market in sub-urban districts and counties. A cooperation model of multi-layer and diversified format between the subsidiaries in each region and Luyuanda（綠源達）was formed.

We tackled difficulties during the course of project construction during the year and made progressive contribution in market development to secure the progress of pipeline network. Through our unweaving efforts, Huairou-Minyun pipeline had commenced gas supply and realized our commitment towards the government and people in the sub-urban districts. The construction of the external network of Huaneng Thermal Power Plant（華能熱電廠）Phase II had been completed and gas supply had commenced, with the power plant starting its trial operation. The gas supply project of Caoqiao Thermal Power Plant（草橋熱電廠）had completed its planning scheme, and preliminary work was progressing as planned. The preliminary works of urban ancillary pipelines for Gaojing Thermal Power Plant（高井熱電廠）, Gaoantun Thermal Power Plant（高安屯熱電廠）, Xiji Gateway Station（西集門站）and No. 4 Shaanxi-Beijing Pipeline（陝京四線）were also progressed as scheduled.

We took an active attitude in developing quality load in summer. The trial operation of natural gas conversion project for restaurants in the key regions of Beijing was developed aggressively. By signing a cooperation agreement with Beijing Municipal Road & Bridge Building Material Group Co. Ltd., we initiated the gas conversion of asphalt plant and it was expected to increase the gas consumption of 37 million cubic meters per year upon completion. We established regular communication mechanism with Municipal Environmental Protection Bureau and created favourable conditions for the implementation of coal-to-gas conversion projects. We continued to cooperate with each district government to carry out the connection of gas pipes to old buildings for a total 176,000 subscribers and had commenced gas supply for 160,000 subscribers.

I. BUSINESS REVIEW (Continued)

Natural Gas Distribution Business (Continued)

The implementation conditions for a number of cooling-heating-power supply projects are becoming matured, among which some projects had achieved substantial progress. The cooling-heating-power supply project in Zhongguancun Software Park had commenced the construction. The parties which include Qinghe Hospital（清河醫院）had reached a memorandum of understanding with the Group companies in respect of the cooling-heating-power supply project. By integrating the original businesses like LNG and CNG and the development of the research work with automobile research institutions of colleges and universities, we commenced the planning and deployment of the gas stations and the construction of Ciqu LNG Demonstration Station.

Various external investment projects were progressing in a stable manner. Datang Coal-to-gas Conversion Project progressed smoothly, and the Company had already made a capital contribution of RMB1.33 billion. The Inner Mongolia Niaoshenqi（烏審旗）LNG Project, a cooperation project with Shenzhen Gas Corporation, had commenced its construction, and it is the first LNG project invested by the Group. Beijing Gas Hetian Gas Company Limited（北京燃氣和田燃氣有限公司）was officially established, and the construction of Phase I natural gas pipe in Beijing Industry Park had been completed smoothly. We completed the acquisition of the equity interests in Beiran Shandong Company（北燃山東公司）, thus creating favourable conditions for our development in Shandong Province. Currently, we have successfully carried out over 10 investment projects in regions outside Beijing including Liaoning, Hebei, Shandong, Inner Mongolia and Xinjiang, thereby basically establishing the regional investment layout.

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% equity interests, achieved a gas transmission volume of 20.3 billion cubic meters in 2011, a year-on-year increase of 17.7%. Profit after taxation attributable to the Company amounted to HK$1.3 billion, a year-on-year increase of 11.1%. The slowdown in profit growth was mainly attributable to the impact of additional amortization of the compression system pertaining to No. 3 Shaanxi-Beijing Pipeline.

I. BUSINESS REVIEW (Continued)

Beer Business

Beijing Yanjing Brewery Co., Ltd.（北京燕京啤酒有限公司）("Yanjing Beer") achieved a stable growth for its principal economic indicators in 2011, with sales volume of beer reaching 5.51 million thousand-litres, representing a year-on-year increase of approximately 10%. Revenue amounted to HK$13.37 billion, marking an increase of 26.9% over last year. Profit attributable to shareholders of the Company amounted to approximately HK$442 million, marking an increase of 8.8% over last year. Yanjing Beer maintained a faster revenue increase over its growth in sales volume. Revenue from the principal business recorded a higher growth, demonstrating that the product mix adjustment had achieved an positive impact and thereby per ton revenue was greatly enhanced. The net profit growth was slowing down, mainly due to the substantial increase of the prices of raw and auxiliary materials and energy and had directly affected the production costs. The prices of certain raw materials like malt, hops, rice and starch had increased substantially during the year. Labor costs also had continued to rise. In addition, certain new bottling lines outside Beijing had incurred higher start-up costs, and currently has not yet reached economies of scale, which in turn had dragged down the profit growth.

In 2011, the total value of the four brands under Yanjing Beer umbrella amounted to RMB28.818 billion, of which, "Yanjing" brand value amounted to RMB19.3 billion, the total value of the remaining three brands, namely, "Liquan（漓泉）", "Huiquan（惠泉）" and "Xuelu（雪鹿）", amounted to RMB9.518 billion. The Company continued to optimize the product mix, brand and market structure to ensure the growth in market development and economic benefits.

For the expansion of production capacity, the completed projects in 2011 had generated additional production capacity of 400 thousand tons. Firstly, Gangzhou Company was relocated from the city to industrial park and the operation commenced in June 2011. Its investment amount was RMB250 million and achieved a production capacity of 100 thousand tons. Secondly, the factory of Hohhot City Company had relocated from the urban area to suburban area and the operation commenced in June 2011. It has an investment amount of RMB250 million and achieved a production capacity of 100 thousand tons. Thirdly, the construction of Yanjing Jinzhong Company's Phase I project of 100 thousand tons had been completed in March 2011, with a total investment of RMB280 million. Fourthly, an expansion project of the 100 thousand tons capacity under Sichuan Yanjing had been fully completed in May 2011 with an investment amounted to RMB180 million, brought along new production capacity of 200 thousand tons.

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 rapid development in 2011. During the year, the Group secured multi-module development strategy, with a new growth of water processing capacity of 2.9 million tons/day.

As of 31 December, in the 18 provinces across the country, BE Water owned a total of 126 water plants of different categories, of which, 101 were sewage treatment plants, 20 were water treatment plants, 4 were reclaimed water plants and 1 was desalination plant. Total completed operating treatment capacity was 5.08 million tons/day, of which, sewage processing capacity was 3.77 million tons/day, water supply capacity was 1.13 million tons/day, reclaimed water capacity was 0.18 million tons/day. The capacity of water plants not yet commenced operation was 3.65 million tons/day, of which sewage processing capacity was 2 million tons/day, water supply capacity was 1.39 million tons/day and reclaimed water capacity was 0.21 million tons/day and desalination capacity was 0.05 million tons/day. The actual treatment volume was 1,128 million tons in 2011, representing a growth of 84% over last year. Revenue from the operation of BE water was HK$2.65 billion, and profit attributable to its shareholders was HK$601 million, representing a growth of 17.2% over last year. Net profit for the year attributable to the Company was HK$265 million, representing a growth of 6.5% over last year. The relative faster profit growth in 2011 was primarily due to the 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$146 million (2010: HK$138 million) with its concession term still has 7 years to go.

Toll Roads Business

The toll charging traffic volume of the Airport Expressway in 2011 further came down to 26.34 million (2010: 28.03 million) vehicles. The toll revenue amounted to HK$234 million, representing a year-on-year decrease of 25%. Profit attributable to shareholders of the Company was HK$6.27 million, posting a year-on-year decline of 92.6%. In 2011, Shenzhen Shiguan Road's revenue dropped significantly and attributable loss to the Company was HK$22.3 million.

II. PROSPECTS

Natural Gas Distribution Business

As the capital and financial centre of China, Beijing will contribute intensive resources to control the environment and improve air quality. Recently, Beijing had introduced the PM2.5 indicator monitoring system. For fulfilling such indicators, Beijing will gradually set up new gas power generation plants. According to the plan of Beijing Municipal Development and Reform Commission, 70%-80% of the power demand in Beijing will be supplied by gas power plant by 2015, in which it will significantly reduce the emission levels of suspended particulate matters and sulphur dioxide. Starting from this year, several mega-size gas thermal power plants, including Caoqiao, Gaoantun and Gaojing Thermal Power Pants, will be constructed and put into operation one after another to meet the planned indicators. Phase II of Huaneng Thermal Power Plant, which is fully operational this year, will make a significant contribution to the gas consumption in 2012.

Beijing Gas is further increasing its development momentum in suburban areas. It will accelerate the optimization of its strategic layout for the Group in suburban areas and counties by integrating various resources and by leveraging on the comprehensive advantages of the Group under the "Co-development of Two Gas", i.e. pipeline gas and compressed gas, it will thereby form a new growth point for the Group. In the Tongzhou, Fangshan, Daxing and Changping regions, it will increase pipe network density to expand and deepen gas consumption, and further expand the gas supply. The companies in Pinggu, Huairou and Miyun will fully leverage on the advantage of gas sources to speed up the construction of pipeline branch networks and facilities in the regions, so as to further expand the market coverage to attain a gas supply economy of scale. The Group will adopt more flexible market strategies in Shunyi, Mentougou and Yanqing regions, and continue to facilitate the cooperation with local governments and dominant gas enterprises, striving to achieve a breakthrough to develop and achieve a full coverage in suburban markets.

Natural Gas Transmission Business

PetroChina Beijing Pipeline Company (中石油北京管道公司) had completed the Liangxiangmen gateway construction for the No. 3 Shaanxi-Beijing Pipeline project at the end of February 2012 with the gas supply for the whole network commenced. Currently, the integrated gas transmission capacity of No. 3 Pipeline is more than 10.0 billion cubic meters per annum, and upon the testing and commencement of operation of the compression facility, it will further increase to 15 billion cubic meters per annum. Annual gas transmission capacity of the entire Shaanxi-Beijing Pipeline system will reach 35 billion per annum by the end of 2012, which will be sufficient to meet the demand growth in next few years. The No. 4 Shaanxi-Beijing Pipeline with a designed gas transmission capacity of more than 10 billion has been actively planned. It is expected that such pipeline will commence its construction at the beginning of next year, and put into use by the end of 2014.

II. PROSPECTS (Continued)

Beer Business

Yanjing Brewery is proactively expanding its production capacity through acquisition as well as capacity expansion for existing projects. It plans to reach a production capacity of more than 10 million thousand-litres and sales volume of more than 8 million thousand-litres in five years. The prices of various raw materials has softened in the second half of last year, hence, the cost pressure in this year will be mitigated. In addition, the output of new beer plants outside Beijing will maintain a steady growth, with operation efficiency gradually improving, thereby making contributions to the overall profit.

III. FINANCIAL REVIEW

Revenue

The revenue of the Group in 2011 was approximately HK$30.47 billion, increased by 10.4% compared with the revenue of HK$27.61 billion in 2010. 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 3% of the total revenue.

Cost of Sales

Cost of sales increased by 11.9% to HK$23.74 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 22.1% as compared to 23.2% in 2010. The decrease in gross profit margin was mainly attributable to the increase in cost of sales of Beijing Gas and the resident gas tariff was unable to increase proportionately. Owing to the significant increase in raw materials costs and energy charges, the significantly higher cost of sales of Yanjing Beer had lowered its gross profit margin. Natural gas distribution business had an average gross profit margin of approximately 12.5% which is lower than the higher margin of 33% for brewery business and water business due to different direct cost structure.

Other Income

Other income was mainly comprised of the income on disposal of property and fixed assets amounted to HK$127 million, government grants amounted to HK$197 million, transfer of piped line network amounted to HK$157 million and bank interest income amounted to HK$151 million and so on.

III. FINANCIAL REVIEW (Continued)

Selling and Distribution Costs

Selling and distribution costs of the Group in 2011 increased by 33.1% to HK$2.2 billion and was mainly due to many new breweries outside Beijing had commenced operation and the launching of more new products of Yanjing Beer during the year, recruitment of a large number of new sales staff and higher increase in marketing expenses.

Administration Expenses

Administration expenses of the Group in 2011 were HK$2.44 billion, increased by 15.3% 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 2011 was HK$647 million, increased significantly by 72.7% comparing to HK$374 million in 2010, which was mainly due to the issuance of corporate bonds of US$1 billion in May 2011.

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 additional increase in amortization and depreciation charge of approximately RMB600 million per year after the No. 3 Shaanxi-Beijing Pipeline had commenced operation in the beginning of the year.

Share of Results of Associate Companies

The Group's share of net profits of BE Water amounted to HK$265 million and share of net profit of Beijing Development (Hong Kong) Limited, amounted to HK$22.15 million in 2011, both companies were major associates.

Tax

After deducting the non-taxable other income of more than HK$683 million, the effective income tax rate is approximately 16.4%. The decrease in effective income tax rate in 2011 was mainly due to the tax benefits of a corporate tax rate of 15% granted to the distribution business of Beijing Gas for the year.

Profit Attributable to Shareholders

The profit attributable to the shareholders of the Company for the year ended 31 December 2011 was HK$2.776 billion (2010: HK$2.639 billion).

IV. FINANCIAL POSITION OF THE GROUP

Capital expenditure and fixed assets

The net book value of property, plant and equipment increased by HK$3.8 billion. Beijing Gas contributed a capital expenditure of approximately HK$2.5 billion in gas distribution business. The capital expenditure of Yanjing Beer was approximately HK$2.0 billion.

Interest in associates

During 2011, Beijing Gas contributed capital of HK$1.57 billion to Datang's coal to gas project in Keqi, Inner Mongolia, and the Company contributed a capital of HK$1.5 billion to Beijing Enterprises Water Group Limited, resulting in a significant increase in equity interest in both companies.

Cash and Bank Borrowings

As at 31 December 2011, cash and bank deposits held by the Group amounted to HK$12.62 billion. At the end of the reporting period, the Group had a strong net working capital of HK$7.21 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$20.19 billion as at 31 December 2011, which mainly comprised of two corporate bonds totalling of US$1 billion, five year syndicated loans amounting to HK$5.1 billion and convertible bonds amounting to HK$2.71 billion with the rest working capital loans of HK$4.68 billion denominated in Renminbi and Hong Kong dollars. Around 52.2% of the bank loans were denominated in Hong Kong dollars with the rest mainly in Renminbi. The Group was in a net debt position of HK$7.57 billion as at 31 December 2011.

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 2011, the issued capital of the Company amounted to 1,137,571,000 shares and the shareholders' equity grew to HK$37.61 billion. Total equity was HK$45.2 billion comparing to HK$40.94 billion as at the end of 2010.

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.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

WANG Dong, aged 46, 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 59, 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 had 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.

LIN Fusheng, aged 48, is the Vice Chairman of the Company. Mr. Lin also serves as Vice Chairman and General Manager of Beijing Enterprises Group Company Limited. Mr. Lin graduated from Harbin Institute of Technology in 1987 and was awarded a post-graduate master degree from the Faculty of Power Engineering with the specialty in Thermal Energy Engineering. He then obtained an MBA degree from the School of Economics and Management of Tsinghua University in 2001. Presently he possesses the title of Professor-grade Senior Engineer. Before joining the Group, he was Chairman of Babcock & Wilcox Beijing Company Ltd., Deputy Director of Mechanical Industry Administration Bureau of Beijing Municipality, Director and General Manager of Beijing Machinery Electric Industrial Holding (Group) Co., Ltd., and Chairman and General Manager of Beijing Jingcheng Machinery Electric Holding Co., Ltd. In 2007, Mr. Lin was appointed as Chief Executive of Haidian District of Beijing Municipality. Mr. Lin has a strong professional background with considerable experience through his previous jobs in the government. He also has extensive experience in corporate management, assets management and capital operations. Mr. Lin joined the Group in June 2011.

DIRECTORS AND SENIOR MANAGEMENT

LI Fucheng, aged 57, is the Vice Chairman of the Company. Mr. Li also serves as the Director and Vice General Manager of Beijing Enterprises Group Company Limited. During his tenure with Yanjing Beer Factory since 1983, he had held various positions including Deputy Secretary, Deputy Director and Director, etc and is currently the Chairman and General Manager of the Yanjing Group. Mr. Li has extensive experience in the brewery industry. Mr. Li joined the Group in April 1997.

ZHOU Si, aged 55, is the Vice Chairman of the Company. Mr. Zhou also serves as the Vice Chairman 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.

HOU Zibo, aged 46, is the Executive Director of the Company. Mr. Hou also serves as Vice Chairman of Beijing Enterprises Group Company Limited and Chairman of Beijing Instrument Industry Group Co., Ltd. Mr. Hou graduated from the School One of Ministry of Aerospace Industry with the specialty in Structural Mechanics and China Europe International Business School with the specialty in Business Administration; possesses a master degree in engineering, an MBA degree and the title of Professor-grade Senior Engineer. He was Deputy Director of Institute 702 of Ministry of Aerospace Industry and participated in many science and research projects of the state. Subsequently, Mr. Hou acted as Director and Deputy General Manager of Beijing Jingcheng Machinery Electric Holding Co., Ltd. From 2005 to 2010, he was Deputy Director of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Hou has extensive experience in state-owned assets management, corporate assets management and capital operations. Mr. Hou joined the Group in March 2012.

GUO Pujin, aged 58, 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 extensive experience in government affairs and corporate management in China. Mr. Guo joined the Group in April 2004.

LIU Kai, aged 58, is the Executive Director of the Company. Mr. Liu also serves as Director of Beijing Enterprises Group Company Limited 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 extensive experience in economics and management. Mr. Liu joined the Group in January 2001.

LEI Zhengang, aged 58, is the Executive Director of the Company. Mr. Lei also serves as the Director and Vice General Manager of Beijing Enterprises Group Company Limited, as well as the Vice Chairman and General Manager of Beijing Holdings Limited. Mr. Lei obtained a postgraduate qualification from the Capital University of Economics and Business. He is a PRC senior accountant and has extensive experience of corporate finance and management. Mr. Lei joined the Group in June 2006.

E Meng, aged 53, is the Executive Director and Executive Vice President of the Company. Mr. E also serves as the Vice General Manager and CFO 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); as well as 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.

JIANG Xinhao, aged 47, is the Executive Director and Vice President of the Company. Mr. Jiang also serves as Vice General Manager of Beijing Enterprises Group Company Limited; 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 extensive experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

TAM Chun Fai, Jimmy, aged 49, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WU Jiesi, aged 60, 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 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. From September 2005 to July 2011, he was Independent Non-executive Director of China Merchants Bank Co., Ltd. (stock code: 3968). He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

Robert A. THELEEN, aged 66, 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 the Vice Chairman of the American Chamber of Commerce in Shanghai for 2012. Mr. Theleen joined the Group in July 2004.

LAM Hoi Ham *JP*, aged 73, 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 45, 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.

SENIOR MANAGEMENT

XIAO Xifa, aged 48, 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 master 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 extensive 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.

LI Yalan, aged 49, is Vice President of the Company. Ms. Li also serves as Vice Chairman and General Manager of Beijing Gas Group Company Limited, Deputy Director of China Gas Association and member of the first urban gas expert team under Ministry of Construction of the PRC Government. Ms. Li graduated from Beijing University of Civil Engineering and Architecture with a bachelor degree in urban thermal engineering, studied at People's University of China for postgraduate master degree in business administration, possesses the title of professor-grade senior engineer, and had worked at Gaz de France for one year as trainee. Ms. Li was appointed as Vice President of the Company in April 2011.

KE Jian, aged 43, is the Vice President of the Company. Mr. Ke also serves as an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. Ke is a PRC Senior Accountant, Certified Tax Agent and Senior International Finance Manager. Mr. Ke received a bachelor's degree in economics from Beijing College of Finance and Commerce and an MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration. He joined the Company in 1997 and was appointed as Vice President of the Company in April 2011.

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 2011.

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 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 40 to 175.

An interim dividend of HK25 cents per ordinary share was paid on 28 October 2011. 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 21 June 2012. 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 18 July 2012.

ANNUAL GENERAL MEETING

The 2012 annual general meeting will be held on Monday, 11 June 2012. The notice of the 2012 annual general meeting, which constitutes part of the circular to shareholders, will be sent to all shareholders separately and will be published on the Company's website (www.behl.com.hk) and The Stock Exchange of Hong Kong Limited ("Stock Exchange") website (www.hkexnews.hk).

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the 2012 annual general meeting, and entitlement to the final dividend, the register of members will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the 2012 annual general meeting:

Latest time to lodge transfer documents for registration	4:30 pm on Tuesday, 5 June 2012
Closure of register of members	Wednesday, 6 June 2012 to Monday, 11 June 2012 (both dates inclusive)

CLOSURE OF REGISTER OF MEMBERS (Continued)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 pm on Monday, 18 June 2012
Closure of register of members	Tuesday, 19 June 2012 to Thursday, 21 June 2012 (both dates inclusive)
Record date	Thursday, 21 June 2012

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2012 annual general meeting, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's registrar, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong no later than the aforementioned latest time.

EMPLOYEES

At 31 December 2011, the Group had approximately 45,000 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 and share options are awarded to certain employees according to the assessment of individual performance.

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 2010 is set out on page 176. 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

Details of movements in the share capital and share options of the Company and the Group's convertible bonds during the year, together with the reasons therefor, are set out in notes 33, 34 and 38 to the financial statements, respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 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. 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 year 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 year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2011, 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$883,428,000, of which HK$511,907,000 has been proposed as final dividend for the year. In addition, the Company's share premium account, in the amount of HK$20,738,291,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Wang Dong *(Chairman)*
Mr. Zhang Honghai *(Vice Chairman and Chief Executive Officer)*
Mr. Lin Fusheng *(Vice Chairman) (appointed on 1 June 2011)*
Mr. Li Fucheng *(Vice Chairman)*
Mr. Bai Jinrong *(Vice Chairman) (ceased to act on 1 June 2011)*
Mr. Zhou Si *(Vice Chairman)*
Mr. Hou Zibo *(appointed on 30 March 2012)*
Mr. Guo Pujin
Mr. Liu Kai
Mr. Lei Zhengang
Mr. E Meng *(Executive Vice President)*
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

In accordance with articles 96 and 105(A) of the Company's articles of association and the recommendation of the board of directors, Messrs. Zhang Honghai, Li Fucheng, Hou Zibo, Guo Pujin, Tam Chun Fai and Fu Tingmei will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from each of the independent non-executive directors of the Company, and as at the date of this report still considers them to be independent.

BOARD CHANGES

After the date of the 2011 Interim Report, Mr. Hou Zibo was appointed as Executive Director of the Company with effect from 30 March 2012.

CHANGES IN DIRECTORS' INFORMATION

Changes in directors' information since the date of the 2011 Interim Report are set out below:

	Appointment (effective)	**Cessation of Office** (effective)
Mr. Wu Jiesi – China Merchants Bank Co., Ltd. (Stock code: 3968) Independent non-executive director	–	19 July 2011

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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.

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, Liu Kai and E Meng has a service contract with the Company for a term of three years commencing on 3 December 2009, 16 January 2010 and 17 June 2011, respectively, with respective unexpired periods of approximately 11 months, 12 months and 30 months as at 31 December 2011.

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 33 to 37 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

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

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

At 31 December 2011, 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. 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 director.

(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.

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

(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@	6,770,000(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 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.

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

Save as disclosed above, as at 31 December 2011, 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 34 to the financial statements.

The following set out the movements in the share options granted under the Scheme during the year ended 31 December 2011:

	Number of share options			
Participant	**At 1 January 2011**	**Granted during the year**	**Exercised during the year**	**At 31 December 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 were exercised before their expiry date 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.

(b) At 31 December 2011, the Company had no share options outstanding under the Scheme.

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

At 31 December 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 ("Beijing Enterprises Group")	–	675,030,288[c]	675,030,288	59.34%
JPMorgan Chase & Co.	32,683,054	58,267,027[d]	90,950,081	7.99%

Short position:

Name	Number of shares directly beneficially owned	Percentage of the Company's issued share capital
JPMorgan Chase & Co.	1,853,494	0.16%

Lending position:

Name	Number of ordinary shares	Percentage of the Company's issued share capital
JPMorgan Chase & Co.	52,839,514	4.64%

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 5,427,513 shares held as an investment manager and 52,839,514 shares held as a custodian corporation/approved lending agent.

Save as disclosed above, as at 31 December 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 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 51 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions undertaken by the Group were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; 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 55 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
30 March 2012

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 2011.

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 2011.

BOARD OF DIRECTORS

Composition and role

The Board comprises twelve 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	2/2
Mr. Zhang Honghai	2/2
Mr. Lin Fusheng *(appointed in June 2011)*	1/1
Mr. Li Fucheng	2/2
Mr. Bai Jinrong *(ceased to act in June 2011)*	1/1
Mr. Zhou Si	2/2
Mr. Hou Zibo *(appointed in March 2012)*	0/0
Mr. Guo Pujin	2/2
Mr. Liu Kai	2/2
Mr. Lei Zhengang	2/2
Mr. E Meng	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 2011, 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$4.5 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 2011, 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.

NOMINATION COMMITTEE

To comply with the new code provisions governing nomination committee of a listed issuer which will come into effect on 1 April 2012, the Company established its Nomination Committee with written terms of reference on 30 March 2012. The current members of the Nomination Committee are:

Mr. Wang Dong – Committee Chairman
Mr. Lam Hoi Ham
Mr. Fu Tingmei

As at the date of this report, no Nomination Committee meeting was held.

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 2011 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 40 to 175, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

AUDITORS' RESPONSIBILITY (Continued)

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.

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 2011, 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.

Certified Public Accountants
Hong Kong
30 March 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	5	**30,471,759**	27,612,778
Cost of sales		**(23,737,684)**	(21,213,553)
Gross profit		**6,734,075**	6,399,225
Gain on deemed disposal of interest in a subsidiary	6	**–**	170,911
Other income and gains, net	5	**872,925**	421,951
Selling and distribution costs		**(2,200,075)**	(1,653,117)
Administrative expenses		**(2,442,252)**	(2,117,412)
Fair value gain/(loss) on the derivative component of convertible bonds	38	**239,130**	(214,184)
Other operating expenses, net		**17,962**	(203,457)
PROFIT FROM OPERATING ACTIVITIES	7	**3,221,765**	2,803,917
Finance costs	8	**(646,643)**	(374,458)
Share of profits and losses of:			
Jointly-controlled entities	22(a)	**1,300,189**	1,168,658
Associates	23(a)	**373,392**	196,449
PROFIT BEFORE TAX		**4,248,703**	3,794,566
Income tax	11	**(583,456)**	(684,850)
PROFIT FOR THE YEAR		**3,665,247**	3,109,716
ATTRIBUTABLE TO:			
Shareholders of the Company	12	**2,775,880**	2,639,278
Non-controlling interests		**889,367**	470,438
		3,665,247	3,109,716
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	14		
Basic		**HK$2.44**	HK$2.32
Diluted		**HK$2.38**	HK$2.27

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 2011

	Note	2011 HK$'000	2010 HK$'000
PROFIT FOR THE YEAR		**3,665,247**	3,109,716
OTHER COMPREHENSIVE INCOME/(LOSS)			
Changes in fair value of available-for-sale investments		**(111,615)**	6,372
Fair value gain on revaluation of a building upon transfer to investment properties	15	**4,087**	–
Exchange differences on translation of foreign operations		**1,918,783**	1,318,909
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX OF NIL		**1,811,255**	1,325,281
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,476,502**	4,434,997
ATTRIBUTABLE TO:			
Shareholders of the Company		**4,234,047**	3,730,335
Non-controlling interests		**1,242,455**	704,662
		5,476,502	4,434,997

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	15	**26,317,184**	22,244,006
Investment properties	16	**681,096**	215,637
Prepaid land premiums	17	**1,275,264**	1,233,403
Goodwill	18	**7,453,561**	7,245,773
Operating concessions	19	**1,225,011**	1,255,902
Other intangible assets	20	**23,681**	14,208
Investments in jointly-controlled entities	22	**210,878**	6,102,491
Investments in associates	23	**12,573,986**	3,109,858
Available-for-sale investments	24	**917,412**	1,005,154
Amounts due from contract customers	27	**566,032**	223,672
Receivables under service concession arrangements	19	**1,588,046**	1,699,231
Prepayments, deposits and other receivables	29	**430,583**	301,228
Deferred tax assets	42	**594,721**	598,157
Total non-current assets		**53,857,455**	45,248,720
Current assets:			
Prepaid land premiums	17	**30,165**	27,643
Property held for sale	25	**27,611**	–
Inventories	26	**5,285,611**	3,726,623
Amounts due from contract customers	27	**46,631**	2,105
Receivables under service concession arrangements	19	**1,003,260**	900,524
Trade and bills receivables	28	**1,586,438**	1,347,008
Prepayments, deposits and other receivables	29	**2,313,196**	899,533
Other taxes recoverable		**588,996**	303,906
Restricted cash and pledged deposits	31	**36,631**	125,932
Cash and cash equivalents	32	**12,579,439**	14,446,800
Total current assets		**23,497,978**	21,780,074
TOTAL ASSETS		**77,355,433**	67,028,794

	Notes	2011 HK$'000	2010 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	*33*	**113,757**	113,737
Reserves	*35(a)(i)*	**36,984,003**	33,642,355
Proposed final dividend	*13*	**511,907**	511,817
		37,609,667	34,267,909
Non-controlling interests		**7,587,062**	6,668,352
TOTAL EQUITY		**45,196,729**	40,936,261
Non-current liabilities:			
Bank and other borrowings	*36*	**4,070,115**	7,227,253
Guaranteed Senior Notes	*37*	**7,699,084**	–
Liability component of convertible bonds	*38*	**2,711,835**	2,650,489
Derivative component of convertible bonds	*38*	**61,783**	292,384
Defined benefit plans	*39(b)*	**522,390**	470,515
Provision for major overhauls	*40*	**196,157**	140,192
Other non-current liabilities	*41*	**239,320**	157,081
Deferred tax liabilities	*42*	**371,353**	364,053
Total non-current liabilities		**15,872,037**	11,301,967
Current liabilities:			
Trade and bills payables	*43*	**1,904,594**	4,553,753
Amounts due to contract customers	*27*	**123,822**	59,409
Receipts in advance		**3,446,916**	3,093,232
Other payables and accruals	*44*	**4,430,794**	3,769,162
Income tax payables		**342,313**	626,774
Other taxes payables		**333,277**	367,927
Bank and other borrowings	*36*	**5,704,951**	2,320,309
Total current liabilities		**16,286,667**	14,790,566
TOTAL LIABILITIES		**32,158,704**	26,092,533
TOTAL EQUITY AND LIABILITIES		**77,355,433**	67,028,794

E Meng
Director

Tam Chun Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

		Attributable to shareholders of the Company													
	Notes	Issued capital *HK$'000*	Share premium account *HK$'000*	Capital redemption reserve *HK$'000* *(note 35(a)(ii))*	Share option reserve *HK$'000* *(note 35(a)(iii))*	Capital reserve *HK$'000*	Available-for-sale investment revaluation reserve *HK$'000*	Property revaluation reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	PRC reserve funds *HK$'000* *(note 35(a)(iv))*	Retained profits *HK$'000*	Proposed final dividend *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'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 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	*35(b)*	–	–	–	–	13,220	–	–	–	–	–	–	13,220	–	13,220
Capital contribution by non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	582,797	582,797
Acquisition of subsidiaries	*45*	–	–	–	–	–	–	–	–	–	–	–	–	159,572	159,572
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(23,006)	(23,006)
Deconsolidation of subsidiaries	*46(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 dividends		–	–	–	–	–	–	–	–	–	–	(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 and 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 year		-	-	-	-	-	-	-	-	-	**2,775,880**	-	**2,775,880**	**889,367**	**3,665,247**
Other comprehensive income for the year:															
Changes in fair value of available-for-sale investments		-	-	-	-	-	**(120,175)**	-	-	-	-	-	**(120,175)**	**8,560**	**(111,615)**
Fair value gain on revaluation of a building upon transfer to investment properties		-	-	-	-	-	-	**4,087**	-	-	-	-	**4,087**	-	**4,087**
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	**1,574,255**	-	-	-	**1,574,255**	**344,528**	**1,918,783**
Total comprehensive income for the year		-	-	-	-	-	**(120,175)**	**4,087**	**1,574,255**	-	**2,775,880**	-	**4,234,047**	**1,242,455**	**5,476,502**
Exercise of share options	*33(a)*	**30**	**4,896**	-	**(1,162)**	-	-	-	-	-	-	-	**3,764**	-	**3,764**
Repurchase and cancellation of shares	*33(b)*	**(10)**	-	**10**	-	-	-	-	-	-	**(4,560)**	-	**(4,560)**	-	**(4,560)**
Capital contribution by non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	**114,350**	**114,350**
Acquisition of subsidiaries	*45*	-	-	-	-	-	-	-	-	-	-	-	-	**4,027**	**4,027**
Acquisition of non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	**(59,779)**	**(59,779)**
Share of reserves of associates		-	-	-	-	**(119,430)**	-	-	-	**(3,282)**	**27,429**	-	**(95,283)**	-	**(95,283)**
Final 2010 dividend		-	-	-	-	-	-	-	-	-	-	**(511,817)**	**(511,817)**	-	**(511,817)**
Interim 2011 dividend	*13*	-	-	-	-	-	-	-	-	-	**(284,393)**	-	**(284,393)**	-	**(284,393)**
Proposed final 2011 dividend	*13*	-	-	-	-	-	-	-	-	-	**(511,907)**	**511,907**	-	-	-
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	**(382,343)**	**(382,343)**
Transfer to reserves		-	-	-	-	-	-	-	-	**816,747**	**(816,747)**	-	-	-	-
At 31 December 2011		**113,757**	**20,738,291***	**238***	-	**877,842***	**(113,803)***	**33,980***	**5,124,354***	**3,623,668***	**6,699,433***	**511,907**	**37,609,667**	**7,587,062**	**45,196,729**

* These reserve accounts comprise the consolidated reserves of HK$36,984,003,000 (2010: HK$33,642,355,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,248,703**	3,794,566
Adjustments for:			
Interest income	5	**(151,231)**	(92,368)
Transfer of assets from customers	5	**(156,607)**	(62,599)
Gain on deemed disposal of interest in a subsidiary		**–**	(170,911)
Fair value gain on investment properties	5	**(21,496)**	(5,616)
Gain on deemed disposal of partial interest in an associate	5	**(26,347)**	(36,928)
Gain on disposal of available-for-sale investments carried at cost, net	5	**–**	(244)
Depreciation	7	**1,669,217**	1,383,427
Amortisation of operating concessions	7	**90,672**	100,570
Amortisation of patents	7	**–**	15
Amortisation of computer software	7	**13,968**	4,659
Impairment of items of property, plant and equipment	7	**11,000**	40,980
Impairment of other intangible assets	7	**–**	75,637
Loss on remeasurement of pre-existing interest in a subsidiary	7	**17,107**	–
Loss/(gain) on disposal of items of property, plant and equipment, net	7	**(127,317)**	14,433
Fair value loss/(gain) on derivative component of convertible bonds		**(239,130)**	214,184
Reversal of impairment of receivables under service concession arrangements	7	**(49,874)**	–
Provision against inventories, net	7	**10,861**	30,560
Impairment/(reversal of impairment) of trade and bills receivables, net	7	**(112,926)**	90,651
Reversal of impairment of other receivables	7	**(3,191)**	(75,874)
Finance costs	8	**646,643**	374,458
Share of profits and losses of jointly-controlled entities and associates		**(1,673,581)**	(1,365,107)
Operating profit before working capital changes		**4,146,471**	4,314,493

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES (Continued)			
Operating profit before working capital changes		**4,146,471**	4,314,493
Increase in prepaid land premiums		**(3,789)**	(49,735)
Increase in inventories		**(1,321,014)**	(606,330)
Increase in amounts due from contract customers		**(313,760)**	(1,514,838)
Decrease/(increase) in receivables under service concession arrangements		**182,207**	(645,658)
Decrease/(increase) in trade and bills receivables		**17,950**	(326,909)
Decrease/(increase) in prepayments, deposits and other receivables		**(414,250)**	317,933
Increase in other taxes recoverable		**(285,090)**	(218,765)
Increase/(decrease) in trade and bills payables		**(2,878,160)**	3,574,088
Increase in amounts due to contract customers		**59,998**	11,067
Increase in receipts in advance		**196,090**	1,199,138
Increase/(decrease) in other payables and accruals		**343,655**	(318,082)
Decrease in other taxes payable		**(51,546)**	(67,463)
Increase in defined benefit plans		**27,950**	45,776
Increase in provision for major overhauls		**43,554**	58,050
Decrease in other non-current liabilities		**(115,160)**	(29,269)
Cash generated from/(used in) operations		**(364,894)**	5,743,496
Dividends received from jointly-controlled entities and associates		**306,591**	1,779,830
Mainland China income tax paid		**(867,965)**	(581,218)
Net cash flows from/(used in) operating activities		**(926,268)**	6,942,108
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(4,305,607)**	(3,797,469)
Proceeds from disposal of items of property, plant and equipment		**320,845**	22,279
Purchases of other intangible assets		**(18,534)**	(1,548)
Acquisition of subsidiaries	45	**(266,447)**	(247,100)
Deconsolidation of subsidiaries	46	**–**	(2,063,579)
Acquisition of an increase in investments in jointly-controlled entities and associates		**(3,316,520)**	(1,339,500)
Decrease in amounts due from/to and loans to jointly-controlled entities and associates		**(543)**	605
Purchases of available-for-sale investments		**(7,694)**	(611,427)
Proceeds from disposal of an available-for-sale investment		**–**	1,731
Decrease/(increase) in time deposits with maturity of more than three months when acquired		**521,293**	(218,593)
Decrease/(increase) in pledged deposits		**89,301**	(649,906)
Interest received		**151,231**	92,336
Net cash flows used in investing activities		**(6,832,675)**	(8,812,171)

	Notes	**2011** **HK$'000**	2010 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options	*33(a)*	**3,764**	–
Share repurchase	*33(b)*	**(4,560)**	–
Deemed contribution from the ultimate holding company	*35(b)*	**–**	13,220
Capital contributions by non-controlling equity holders		**114,350**	513,953
Issue of Guaranteed Senior Notes		**7,705,992**	–
Issue of convertible bonds		**–**	558,127
New loans		**3,779,143**	11,510,266
Repayment of loans		**(3,889,885)**	(4,783,408)
Acquisition of non-controlling interests		**(59,779)**	(23,006)
Interest paid		**(620,170)**	(332,286)
Dividends paid		**(796,210)**	(796,160)
Dividends paid to non-controlling equity holders		**(382,343)**	(466,525)
Net cash flows from financing activities		**5,850,302**	6,194,181
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(1,908,641)**	4,324,118
Cash and cash equivalents at beginning of year		**12,506,461**	7,827,362
Effect of foreign exchange rate changes, net		**479,625**	354,981
CASH AND CASH EQUIVALENTS AT END OF YEAR		**11,077,445**	12,506,461
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*32*	**6,332,529**	12,158,352
Time deposits	*32*	**6,283,541**	2,412,225
Cash equivalents	*32*	**–**	2,155
Less: Restricted cash and pledged deposits	*32*	**(36,631)**	(125,932)
Cash and cash equivalents as stated in the consolidated statement of financial position		**12,579,439**	14,446,800
Less: Time deposits with maturity of more than three months when acquired		**(1,501,994)**	(1,940,339)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**11,077,445**	12,506,461

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	15	**12,372**	2,637
Investment properties	16	**49,136**	41,765
Investments in subsidiaries	21	**35,176,875**	29,053,029
Investments in jointly-controlled entities	22	**2,586**	2,588
Investments in associates	23	**110,969**	92,439
Available-for-sale investments	24	**175,637**	229,617
Total non-current assets		**35,527,575**	29,422,075
Current assets:			
Trade and bills receivables	28	**1,086**	1,035
Prepayments, deposits and other receivables	29	**127,881**	137,267
Cash and cash equivalents	32	**2,334,626**	1,344,840
Total current assets		**2,463,593**	1,483,142
TOTAL ASSETS		**37,991,168**	30,905,217

	Notes	2011 HK$'000	2010 HK$'000
EQUITY AND LIABILITIES			
Equity:			
Issued capital	33	**113,757**	113,737
Reserves	35(b)	**21,118,058**	20,830,139
Proposed final dividend	13	**511,907**	511,817
TOTAL EQUITY		**21,743,722**	21,455,693
Non-current liabilities:			
Bank and other borrowings	36	**2,967,750**	5,567,937
Due to subsidiaries	21	**11,005,121**	3,642,488
Total non-current liabilities		**13,972,871**	9,210,425
Current liabilities:			
Other payables and accruals	44	**97,070**	152,063
Other taxes payable		**1,143**	10,036
Bank and other borrowings	36	**2,176,362**	77,000
Total current liabilities		**2,274,575**	239,099
TOTAL LIABILITIES		**16,247,446**	9,449,524
TOTAL EQUITY AND LIABILITIES		**37,991,168**	30,905,217

E Meng
Director

Tam Chun Fai
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"). The registered office and the principal place of business of the Company is located at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. 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.

Total comprehensive income within a subsidiary is 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.

2.2 CHANGES IN ACCOUNTING POLICY 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 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*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment 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 amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment 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*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the consolidated statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment 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.

2.3 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 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*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes: Deferred Tax – Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 *Effective for annual periods beginning on or after 1 July 2011*
2 *Effective for annual periods beginning on or after 1 January 2012*
3 *Effective for annual periods beginning on or after 1 July 2012*
4 *Effective for annual periods beginning on or after 1 January 2013*
5 *Effective for annual periods beginning on or after 1 January 2014*
6 *Effective for annual periods beginning on or after 1 January 2015*

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

Further information about those changes that are relevant to 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 profit or loss, 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 profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

(b) 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 2015.

(c) HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities.* HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

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

(c) (Continued)

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and HKAS 27 (2011) and HKAS 28 (2011) from 1 January 2013.

(d) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

(e) HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to the income statement at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

(f) HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

(g) HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

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. Adjustments are made to bring into line any dissimilar accounting policies that may exist. 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.

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. Adjustments are made to bring into line any dissimilar accounting policies that may exist. 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.

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 is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a holding company of the Group; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity).

Business combinations and goodwill

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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.

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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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 identifiable net 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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.

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 depreciates them accordingly.

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:

Leasehold land	Over the lease terms
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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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.

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.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Service concession arrangements (Continued)

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below. Costs relating to operating services are expensed in the period in which they are incurred.

Contractual obligations to restore the infrastructures 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Patents

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

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.

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. Development expenditure which does not meet these criteria is expensed when incurred.

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 transaction cost.

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 net changes in fair value recognised in "Other income and gains, net" or "Other operating expenses, net" in the income statement. These net fair value changes 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, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in "Other operating expenses, net" . Dividends earned whilst holding the available-for-sale financial investments 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 investments 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Impairment of financial assets (Continued)

(a) 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.

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 expenses, net" in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Impairment of financial assets (Continued)

(b) 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.

(c) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised 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, it evaluates if and to what extend it has retained the risk and rewards of ownership of the asset. When it 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.

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 plus, in the case of loans and borrowings, directly attributable transaction costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

The subsequent 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 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.

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)

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.

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.

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 a 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis or the 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

- when 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, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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:

- when 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; and

(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.

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.

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.

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

The defined benefit asset or liability comprises the present value of the defined benefit obligation less unrecognised 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 dollars, 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 arising on settlement or translation of monetary items 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. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or the income statement are also recognised in other comprehensive income or the income statement, respectively).

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 consumption

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

In addition, 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 2011 were HK$1,225,011,000 (2010: HK$1,255,902,000), and HK$2,591,306,000 (2010: HK$2,599,755,000), 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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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 2011 was HK$196,157,000 (2010: HK$140,192,000), further details of which are set out in note 40 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.

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 2011 was HK$7,820,621,000 (2010: HK$7,588,439,000) in aggregate, details of which are set out in notes 18 and 23 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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

The carrying amounts of items of property, plant and equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows or compensation 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 2011 were HK$26,317,184,000 (2010: HK$22,244,006,000), and HK$1,248,692,000 (2010: HK$1,270,110,000), 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 2011 was HK$917,412,000 (2010: HK$1,005,154,000), details of which are set out in note 24 to the financial statements.

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 2011 were HK$2,591,306,000 (2010: HK$2,599,755,000), HK$1,586,438,000 (2010: HK$1,347,008,000) and HK$2,626,125,000 (2010: HK$1,147,756,000), respectively, details of which are set out in notes 19, 28 and 29 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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 2011 was HK$5,285,611,000 (2010: HK$3,726,623,000), details of which are set out in note 26 to the financial statements.

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 2011 was HK$525,552,000 (2010: HK$473,646,000), details of which are disclosed in note 39 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 2011 was HK$342,313,000 (2010: HK$626,774,000).

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 2011 were HK$594,721,000 (2010: HK$598,157,000) and HK$371,353,000 (2010: HK$364,053,000), respectively, details of which are set out in note 42 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, 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 liabilities 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 2011

	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	16,460,277	13,373,398	195,693	288,401	153,990	–	30,471,759
Cost of sales	(14,398,880)	(8,966,202)	(4,370)	(269,047)	(99,185)	–	(23,737,684)
Gross profit	2,061,397	4,407,196	191,323	19,354	54,805	–	6,734,075
Profit/(loss) from operating activities	1,169,923	1,842,623*	188,235	(21,559)	42,543	–	3,221,765
Finance costs	(44,652)	(184,275)	(210)	(12,905)	(404,601)	–	(646,643)
Share of profits and losses of:							
Jointly-controlled entities	1,300,189	–	–	–	–	–	1,300,189
Associates	66,872	(2,946)	265,020	–	44,446	–	373,392
Profit/(loss) before tax	2,492,332	1,655,402	453,045	(34,464)	(317,612)	–	4,248,703
Income tax	(204,952)	(293,547)	(42,002)	(1,832)	(41,123)	–	(583,456)
Profit/(loss) for the year	2,287,380	1,361,855	411,043	(36,296)	(358,735)	–	3,665,247
Segment profit/(loss) attributable to shareholders of the Company	2,265,506	441,889	411,043	(16,038)	(326,520)	–	2,775,880
Segment assets	37,513,058	21,565,474	7,230,730	2,016,084	13,178,337	(4,148,250)	77,355,433
Segment liabilities	9,285,421	9,500,248	1,509,017	460,848	15,551,420	(4,148,250)	32,158,704
Other segment information:							
Depreciation	698,147	953,738	1,523	10,074	5,735	–	1,669,217
Amortisation of operating concessions	–	–	–	90,672	–	–	90,672
Amortisation of other intangible assets	12,817	–	–	–	1,151	–	13,968
Impairment/provision/(reversal of impairment/provision) against segment assets, net**	(117,728)	6,775	(49,874)	–	16,697	–	(144,130)
Fair value gain on investment properties	–	–	–	–	21,496	–	21,496
Provision for major overhauls	–	–	–	43,554	–	–	43,554
Investments in jointly-controlled entities	59,889	–	–	–	150,989	–	210,878
Investments in associates	7,944,268	4,705	–	–	4,625,013	–	12,573,986
Capital expenditure***	1,927,988	2,024,721	871	25,935	366,580	–	4,346,095

4. OPERATING SEGMENT INFORMATION (Continued)

Group (Continued)

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 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 liabilities	12,229,810	7,271,978	1,271,639	410,233	9,401,433	(4,492,560)	26,092,533
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
Investments in jointly-controlled entities	6,006,384	–	–	–	96,107	–	6,102,491
Investments in associates	457,960	1,948	–	–	2,649,950	–	3,109,858
Capital expenditure***	1,482,009	1,991,145	15,419	24,878	353,412	–	3,866,863

4. OPERATING SEGMENT INFORMATION (Continued)

Group (Continued)

* The amount included a fair value gain on the derivative component of convertible bonds of HK$239,130,000 (2010: loss 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.

** These amounts are recognised in the consolidated income statement and 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.

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 geographical 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 2011 and 2010, none of the Group's individual customers contributed 10% or more of the Group's revenue.

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:

	2011 ***HK$'000***	2010 *HK$'000*
Revenue		
Piped gas operation	**16,460,277**	14,119,396
Brewery operation	**13,373,398**	10,544,813
Sewage and water treatment operations$^{\delta}$	**195,693**	2,405,268
Expressway and toll road operations	**288,401**	391,833
Corporate and others	**153,990**	151,468
	30,471,759	27,612,778

5. REVENUE, OTHER INCOME AND GAINS, NET *(Continued)*

	2011 *HK$'000*	2010 *HK$'000*
Other income		
Bank interest income	**151,231**	92,336
Rental income	**18,764**	18,503
Service income	**16,160**	23,198
Government grants*	**197,057**	141,585
Transfer of assets from customers *(note 15)*	**156,607**	62,599
Sludge treatment income	**–**	2,854
Others	**102,267**	38,088
	642,086	379,163
Gains, net		
Fair value gain on investment properties *(note 16)*	**21,496**	5,616
Gain on disposal of items of property, plant and equipment, net	**127,317**	–
Gain on deemed disposal of partial interest in an associate@	**26,347**	36,928
Gain on disposal of available-for-sale investments carried at cost, net	**–**	244
Foreign exchange differences, net	**55,679**	–
	230,839	42,788
Other income and gains, net	**872,925**	421,951

δ Imputed interest income of HK$192,786,000 (2010: HK$284,144,000) on receivables under service concession arrangements during the year ended 31 December 2011 is included in the revenue derived from "Sewage and water treatment operations" disclosed above.

* 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 deemed disposal of partial interest in an associate recognised during the year ended 31 December 2011 arose from the dilution of the Group's equity interest in Beijing Enterprises Water Group Limited ("BE Water", an associate of the Group) from 44.49% to 44.11% as a result of issue of new shares by BE Water during the year.

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 that 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 an investment in an associate to an available-for-sale investment 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 year ended 31 December 2010 arose from the dilution of the Group's equity interest in BE Water, a former indirectly-held subsidiary of the Company, from 57.35% to 43.72% upon the conversion of BE Water's convertible bonds into new ordinary shares of BE Water by bondholders during the year ended 31 December 2010 and the amount included a gain of HK$285,103,000 attributable to recognising the investment retained in BE Water at its fair value at the date when control was lost. The Group lost its control over BE Water as a result of the dilution of interest during the prior year and BE Water became an associate of the Group accordingly. Further details of the conversion of the convertible bonds of BE Water and deconsolidation of BE Water and its subsidiaries are disclosed in notes 38(a) and 46 to the financial statements, respectively.

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	**2011** **HK$'000**	2010 HK$'000
Cost of inventories sold		**23,167,686**	18,909,095
Cost of services provided		**479,326**	2,203,873
Depreciation	*15*	**1,669,217**	1,383,427
Amortisation of prepaid land premiums	*17*	**32,050**	27,517
Amortisation of operating concessions*	*19*	**90,672**	100,570
Amortisation of patents*	*20*	**–**	15
Amortisation of computer software**	*20*	**13,968**	4,659
Research and development expenditure		**19,729**	21,481
Loss on remeasurement of pre-existing interest in a subsidiary		**17,107**	–
Loss/(gain) on disposal of items of property, plant and equipment, net		**(127,317)**	14,433
Minimum lease payments under operating leases:			
Land and buildings		**192,153**	158,831
Plant and machinery		**5,712**	4,086
		197,865	162,917
Auditors' remuneration		**8,000**	8,000
Employee benefit expense (including directors' remuneration *(note 9)*):			
Salaries, allowances and benefits in kind		**2,999,580**	2,493,854
Net pension scheme contributions		**333,033**	280,195
Cost of defined benefit plans**	*39(a)*	**30,914**	35,957
		3,363,527	2,810,006

7. PROFIT FROM OPERATING ACTIVITIES (Continued)

	Notes	2011 HK$'000	2010 HK$'000
Provision for major overhauls	*40*	**43,554**	52,393
Impairment of items of property, plant and equipment, net***	*15*	**11,000**	40,980
Impairment of other intangible assets***	*20*	**–**	75,637
Reversal of impairment of receivables under service concession arrangements	*19(d)*	**(49,874)**	–
Provision against inventories, net		**10,861**	30,560
Impairment/(reversal of impairment) of trade and bills receivables, net	*28(c)*	**(112,926)**	90,651
Net impairment/(reversal of impairment) of other receivables due from:	*29(c)*		
A related company		**40,901**	–
Others		**(44,092)**	(75,874)
		(3,191)	(75,874)
Write-off of an other receivable		**–**	8,614
Net rental income on investment properties less direct operating expenses of HK$1,370,000 (2010: HK$1,305,000)		**(12,449)**	(15,327)
Foreign exchange differences, net		**(55,679)**	16,460

* 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 net 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

	Notes	Group 2011 HK$'000	2010 HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years		**292,869**	282,139
Interest on Guaranteed Senior Notes		**273,767**	–
Interest on other loans		**1,633**	1,210
Interest on convertible bonds	*38*	**59,832**	58,328
Imputed interest on convertible bonds	*38*	**27,799**	27,031
Imputed interest on an interest-free other loan from a non-controlling equity holder		**8,390**	8,237
Total interest expense		**664,290**	376,945
Increase in discounted amounts of provision for major overhauls arising from the passage of time	*40*	**4,307**	4,168
Total finance costs		**668,597**	381,113
Less: Interest included in cost of construction contracts		**(21,954)**	(6,655)
		646,643	374,458

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 2011 HK$'000	2010 HK$'000
Fees	**2,471**	2,570
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**20,928**	20,669
Pension scheme contributions	**19**	19
	20,947	20,688
	23,418	23,258

9. DIRECTORS' REMUNERATION (Continued)

An analysis of the directors' remuneration, on a named basis, is as follows:

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2011				
Executive directors:				
Mr. Wang Dong	150	3,724	–	3,874
Mr. Zhang Honghai	150	3,134	–	3,284
Mr. Li Fucheng	400	–	–	400
Mr. Bai Jinrong	63	1,969	–	2,032
Mr. Zhou Si	150	3,158	–	3,308
Mr. Liu Kai	120	1,431	–	1,551
Mr. Guo Pujin	150	–	–	150
Mr. E Meng	120	2,205	–	2,325
Mr. Lei Zhengang	120	–	–	120
Mr. Jiang Xinhao	120	2,205	–	2,325
Mr. Tam Chun Fai	120	1,690	19	1,829
Mr. Lin Fusheng	88	1,412	–	1,500
	1,751	20,928	19	22,698
Independent non-executive directors:				
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
Total directors' remuneration	2,471	20,928	19	23,418

9. DIRECTORS' REMUNERATION (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2010				
Executive directors:				
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
Independent non-executive directors:				
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
Total directors' remuneration	2,570	20,669	19	23,258

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during each of the years ended 31 December 2011 and 2010 are directors of the Company, details of whose 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 for the year ended 31 December 2011 as the Group did not generate any assessable profits in Hong Kong during the year (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 of the PRC, certain of the Company's subsidiaries enjoy PRC corporate income tax exemptions and reductions.

	Group	
	2011	2010
	HK$'000	*HK$'000*
Current – PRC:		
Mainland China	**569,919**	696,050
Underprovision/(overprovision) in prior years	**1,929**	(21,175)
Deferred *(note 42)*	**11,608**	9,975
Total tax expense for the year	**583,456**	684,850

11. INCOME TAX (Continued)

A reconciliation of the tax expense/(credit) 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 – 2011

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(67,386)		4,316,089		4,248,703	
Tax expense/(credit) at the statutory tax rate	(11,120)	16.5	1,079,023	25.0	1,067,903	25.1
Lower tax rate for specific provinces or enacted by local authority	–	–	(426,528)	(9.9)	(426,528)	(10.0)
Adjustments in respect of current tax of previous periods	–	–	1,929	–	1,929	–
Profits and losses attributable to jointly-controlled entities and associates	(51,730)	76.8	(204,835)	(4.7)	(256,565)	(6.0)
Income not subject to tax	(18,427)	27.3	(139,777)	(3.2)	(158,204)	(3.7)
Expenses not deductible for tax	54,960	(81.6)	85,113	2.0	140,073	3.3
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	–	–	20,330	0.5	20,330	0.5
Tax losses not recognised as deferred tax assets	26,317	(39.0)	175,600	4.0	201,917	4.7
Tax losses utilised from previous periods	–	–	(7,399)	(0.2)	(7,399)	(0.2)
Tax expense at the Group's effective rate	–	–	583,456	13.5	583,456	13.7

Group – 2010

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	142,534		3,652,032		3,794,566	
Tax expense 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 expense at the Group's effective rate	–	–	684,850	18.8	684,850	18.0

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 2011 includes a profit of HK$104,673,000 (2010: a loss of HK$53,277,000) 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:

	2011	2010
	HK$'000	*HK$'000*
Amount of consolidated profit/(loss) for the year attributable to shareholders of the Company dealt with in the financial statements of the Company	**104,673**	(53,277)
Final dividends from subsidiaries attributable to the profits of the previous financial year approved and payable during the year	**1,042,344**	866,860
Company's profit for the year *(note 35(b))*	**1,147,017**	813,583

13. DIVIDENDS

	2011	2010
	HK$'000	*HK$'000*
Interim – HK$0.25 (2010: HK$0.25) per ordinary share	**284,393**	284,343
Proposed final – HK$0.45 (2010: HK$0.45) per ordinary share	**511,907**	511,817
	796,300	796,160

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.

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

	2011	2010
	HK$'000	*HK$'000*
Earnings:		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	**2,775,880**	2,639,278
Interest expense for the year relating to the liability component of the dilutive convertible bonds of the Group	**52,683**	57,740
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	**2,828,563**	2,697,018

	2011	2010
Number of ordinary shares:		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**1,137,500,120**	1,137,371,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**55,342**	226,990
Convertible bonds	**50,000,000**	50,000,000
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**1,187,555,462**	1,187,597,990

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Land and buildings HK$'000 (note)	Leasehold improvements HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2011									
At 1 January 2011:									
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
Net carrying amount:									
At 1 January 2011		5,686,234	8,796	7,871,282	5,205,652	223,262	285,002	2,963,778	22,244,006
Acquisition of subsidiaries	45	127,133	–	379,276	108,634	4,237	13,171	109,731	742,182
Additions		200,594	10,001	10,465	262,683	80,427	86,901	3,676,490	4,327,561
Transfer of assets from customers	5	–	–	55,236	101,371	–	–	–	156,607
Transfer from construction in progress		992,394	5,777	1,022,302	1,158,909	18,340	7,448	(3,205,170)	–
Transfer to investment properties	16	(8,008)	–	–	–	–	–	(417,225)	(425,233)
Transfer to property held for sale		–	–	–	–	–	–	(26,946)	(26,946)
Depreciation provided during the year		(247,279)	(1,371)	(432,344)	(873,810)	(63,619)	(50,794)	–	(1,669,217)
Impairment during the year recognised in the income statement		–	–	–	–	–	–	(11,000)	(11,000)
Fair value gain on revaluation upon transfer to investment properties		4,087	–	–	–	–	–	–	4,087
Disposals		(64,245)	(8,294)	–	(104,076)	(10,780)	(6,133)	–	(193,528)
Reclassification		(5,381)	–	–	5,497	(116)	–	–	–
Exchange realignment		304,828	133	414,261	272,940	11,531	15,235	149,737	1,168,665
At 31 December 2011		6,990,357	15,042	9,320,478	6,137,800	263,282	350,830	3,239,395	26,317,184
At 31 December 2011:									
Cost		8,663,490	23,017	11,225,971	12,654,051	692,846	636,472	3,385,429	37,281,276
Accumulated depreciation and impairment		(1,673,133)	(7,975)	(1,905,493)	(6,516,251)	(429,564)	(285,642)	(146,034)	(10,964,092)
Net carrying amount		6,990,357	15,042	9,320,478	6,137,800	263,282	350,830	3,239,395	26,317,184

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Notes	Land and buildings HK$'000 (note)	Leasehold improvements HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000	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 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	45	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	46	(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)

Company

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2011				
At 1 January 2011:				
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**
Net carrying amount:				
At 1 January 2011	**1,962**	**–**	**675**	**2,637**
Additions	**9,989**	**–**	**2,660**	**12,649**
Depreciation provided during the year	**(779)**	**–**	**(286)**	**(1,065)**
Disposals	**(1,849)**	**–**	**–**	**(1,849)**
At 31 December 2011	**9,323**	**–**	**3,049**	**12,372**
At 31 December 2011:				
Cost	**9,989**	**–**	**4,192**	**14,181**
Accumulated depreciation	**(666)**	**–**	**(1,143)**	**(1,809)**
Net carrying amount	**9,323**	**–**	**3,049**	**12,372**
Year ended 31 December 2010				
At 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

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

(a) Land and buildings of the Group included above as at 31 December 2011 are held under the following lease terms:

Group

	Hong Kong *HK$'000*	Elsewhere *HK$'000*	Total *HK$'000*
Cost:			
Long term leases	23,313	–	23,313
Medium term leases	–	8,640,177	8,640,177
	23,313	8,640,177	8,663,490

(b) At 31 December 2011, a building of the Group situated in Mainland China with a net carrying amount of HK$27,805,000 (2010: Nil) was pledged to secure a bank loan granted to the Group *(note 36(d)(i))*.

16. INVESTMENT PROPERTIES

		Group		Company	
	Notes	**2011** ***HK$'000***	2010 *HK$'000*	**2011** ***HK$'000***	2010 *HK$'000*
Carrying amount at 1 January		**215,637**	204,371	**41,765**	38,617
Transfer from property, plant and equipment	*15*	**425,233**	–	**–**	–
Fair value gain on revaluation	*5*	**21,496**	5,616	**7,371**	3,148
Exchange realignment		**18,730**	5,650	**–**	–
Carrying amount at 31 December		**681,096**	215,637	**49,136**	41,765

16. INVESTMENT PROPERTIES (Continued)

Notes:

(a) The investment properties of the Group as at 31 December 2011 are held under the following lease terms:

Group

	Hong Kong *HK$'000*	**Elsewhere** *HK$'000*	**Total** *HK$'000*
Long term leases	18,750	–	18,750
Medium term leases	–	662,346	662,346
	18,750	662,346	681,096

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

(b) At 31 December 2011, 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 income approach.

17. PREPAID LAND PREMIUMS

Group

	Notes	**2011** ***HK$'000***	2010 *HK$'000*
Carrying amount at 1 January		**1,261,046**	1,156,317
Acquisition of subsidiaries	*45*	**40,594**	40,382
Additions		**42,157**	77,252
Transfer to operating concessions	*19*	**–**	(27,704)
Amortisation provided during the year		**(32,050)**	(27,517)
Disposals		**(68,162)**	–
Deconsolidation of subsidiaries	*46*	**–**	(267)
Exchange realignment		**61,844**	42,583
Carrying amount at 31 December		**1,305,429**	1,261,046
Portion classified as current assets		**(30,165)**	(27,643)
Non-current portion		**1,275,264**	1,233,403

All leasehold lands of the Group as at 31 December 2011 are situated in Mainland China and held under medium term leases.

18. GOODWILL

	Notes	Group 2011 HK$'000	Group 2010 HK$'000
Cost and net carrying amount:			
At 1 January		**7,245,773**	8,649,068
Acquisition of subsidiaries	*45*	**187,394**	159,089
Deconsolidation of subsidiaries	*46*	**–**	(1,576,674)
Exchange realignment		**20,394**	14,290
At 31 December		**7,453,561**	7,245,773

Impairment testing of goodwill

The carrying amount of the goodwill 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 2011 HK$'000	Group 2010 HK$'000
Piped gas operation	*(i)*	**6,926,572**	6,836,993
Brewery operation	*(ii)*	**498,948**	374,214
Others		**28,041**	34,566
		7,453,561	7,245,773

(i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by CB Richard Ellis Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections for the first five-year period is 11% (2010: 11%), 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% (2010: 3%) is used for the perpetual period.

(ii) Goodwill attributable to brewery operation mainly arose from the Group's investments in Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), the recoverable amount of which was determined on the fair value less costs to sell basis by reference to the market value of the shares of Yanjing Brewery held by the Group as at 31 December 2011.

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 2011 (2010: Nil).

18. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Key assumptions used in value in use calculations

The following describes each key assumption adopted by management in the preparation of the cash flow projections for the purpose of impairment testing of goodwill attributable to piped gas operation:

- Budgeted turnover

  The budgeted turnover is based on projected piped gas sales volume.

- Budgeted gross margins

  In respect of the relevant business units in the piped gas operation segment, the latest gas selling price up to the date of the valuation report.

- Discount rate

  The discount rate used is before tax and reflect specific risks relating to the piped gas operation.

- 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.

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; and (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

	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 2011			
At 1 January 2011:			
Cost	2,410,766	–	2,410,766
Accumulated amortisation	(1,154,864)	–	(1,154,864)
Net carrying amount	1,255,902	–	1,255,902
Net carrying amount:			
At 1 January 2011	1,255,902	–	1,255,902
Amortisation provided during the year	(90,672)	–	(90,672)
Exchange realignment	59,781	–	59,781
At 31 December 2011	1,225,011	–	1,225,011
At 31 December 2011:			
Cost	2,529,816	–	2,529,816
Accumulated amortisation	(1,304,805)	–	(1,304,805)
Net carrying amount	1,225,011	–	1,225,011

19. SERVICE CONCESSION ARRANGEMENTS (Continued)

Operating concessions (Continued)

Group (Continued)

	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 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	46	–	(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)*

Receivables under service concession arrangements

	Group 2011 HK$'000	2010 HK$'000
Receivables under service concession arrangements wholly attributable to sewage and water treatment operations	**2,591,306**	2,648,420
Impairment *(note (d))*	**–**	(48,665)
Receivables under service concession arrangements, net of impairment *(note (c))*	**2,591,306**	2,599,755
Portion classified as current assets	**(1,003,260)**	(900,524)
Non-current portion	**1,588,046**	1,699,231

Notes:

(a) Details of the Group's expressway and toll road operations under service concession arrangements are 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 the PRC 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 2011, the remaining term of this service concession arrangement was approximately 15 years.

According to a notice received from 北京市交通委員會 (the Beijing Municipal Committee of Transport) and 北京市發展和改革委員會 (the Beijing Municipal Commission of Development and Reform) (the "BMCDR") on 24 June 2011, in order to further reduce transportation cost and strive to maintain normal operation of the Capital Airport Expressway, with the consent of the Beijing Municipal Government, Capital Expressway Company was requested to adjust its toll policy with effect from 1 July 2011. Details of the changes in the toll policy are set out in the Company's announcement dated 28 June 2011.

Owing to the above-mentioned changes in the toll policy, the Group is considering to withdraw from the operation of the Capital Airport Expressway. The Group is currently negotiating and carrying out studies with Beijing Enterprises Group, and both parties are in principle planning to mitigate the negative impact on Capital Airport Expressway as a result of the changes in the toll policy through asset disposal or asset swap. In the opinion of the directors, since the negotiation is still in progress as at the date of approval of these financial statements, no impairment provision against the operating concession in respect of the Capital Airport Expressway is considered necessary as at 31 December 2011.

19. SERVICE CONCESSION ARRANGEMENTS (Continued)

Receivables under service concession arrangements (Continued)

Notes: (Continued)

(a) (Continued)

(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 2011, the remaining term of this service concession arrangement was approximately 10 years and 4 months.

In February 2012, the Group was ordered by the Shenzhen Municipal Government to stop charging the public for the use of the Shenzhen Shiguan Road and Bridge operated by Shenzhen Guanshun by 31 December 2011. The Shenzhen Municipal Government had in principle approved to pay a compensation of RMB240 million to Shenzhen Guanshun.

The Group is currently negotiating with relevant authorities in Baoan District of Shenzhen to work out a scheme relating to severance, compensation and all other matters to prepare for the cessation of the toll road operation of Shenzhen Guanshun, however, no concrete detail of the scheme has been reached as at the date of approval of these financial statements. In the opinion of the directors, no impairment provision against the operating concession in respect of the Shenzhen Shiguan Road and Bridge is considered necessary as at 31 December 2011.

(b) Details of the Group's sewage and water treatment operations under service concession arrangements are 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 a BOT or TOT basis 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 issuance of new ordinary shares by BE Water during that 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 ended 31 December 2010, further details of which are set out in notes 6 and 46 to the financial statements.

19. SERVICE CONCESSION ARRANGEMENTS (Continued)

Receivables under service concession arrangements (Continued)

Notes: (Continued)

(b) (Continued)

(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.

Pursuant to a supplemental agreement entered into between Beijing Water and the Company in April 2011, commencing on 1 January 2011, the water purification and treatment income receivable by the Group will be determined based on the actual water purification and treatment volume, subject to a minimum volume guaranteed by Beijing Water. In the opinion of the directors, as a result of the revised arrangement, the estimated net cash inflow receivable by the Group under this service concession arrangement would be decreased to RMB190 million for each of the remaining years in the concession period.

At 31 December 2011, the remaining term of this service concession arrangement was approximately 7 years.

(c) In respect of the Group's receivables under service concession arrangements, the 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	
	2011	2010
	HK$'000	*HK$'000*
Billed:		
Within one year	**323,369**	357,509
One to two years	**372,102**	288,782
Two to three years	**307,789**	254,233
	1,003,260	900,524
Unbilled	**1,588,046**	1,699,231
	2,591,306	2,599,755

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	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**48,665**	114,418
Reversal of impairment during the year recognised in the income statement, net *(note 7)*	**(49,874)**	–
Amount written off as uncollectible	**–**	(61,102)
Deconsolidation of subsidiaries	**–**	(7,062)
Exchange realignment	**1,209**	2,411
At 31 December	**–**	48,665

The provision for impairment of receivables as at 31 December 2010 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. The Group did 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	
	2011	2010
	HK$'000	*HK$'000*
Less than one year past due	**323,369**	357,509
Over one year past due	**679,891**	543,015
	1,003,260	900,524

The above receivables were due from a government authority in Mainland China as grantor in respect of a water purification and treatment plant under a service concession arrangement. 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 2011			
At 1 January 2011:			
Cost	75,637	51,225	126,862
Accumulated amortisation and impairment	(75,637)	(37,017)	(112,654)
Net carrying amount	–	14,208	14,208
Net carrying amount:			
At 1 January 2011	–	14,208	14,208
Acquisition of a subsidiary *(note 45)*	–	3,835	3,835
Additions	–	18,534	18,534
Amortisation provided during the year	–	(13,968)	(13,968)
Exchange realignment	–	1,072	1,072
At 31 December 2011	–	23,681	23,681
At 31 December 2011:			
Cost	6,793	76,607	83,400
Accumulated amortisation and impairment	(6,793)	(52,926)	(59,719)
Net carrying amount	–	23,681	23,681

20. OTHER INTANGIBLE ASSETS (Continued)

Group (Continued)

	Patents *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
Year ended 31 December 2010			
At 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 46)*	(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

21. INTERESTS IN SUBSIDIARIES

	Notes	Company 2011 HK$'000	2010 HK$'000
Investments in subsidiaries, included in non-current assets:			
Unlisted shares or investments, at cost		**19,939,346**	19,767,252
Due from subsidiaries	*(a)*	**15,541,865**	9,590,113
Impairment of unlisted shares or investments	*(b)*	**(89,789)**	(89,789)
Impairment of amounts due from subsidiaries	*(c)*	**(214,547)**	(214,547)
		35,176,875	29,053,029
Due to subsidiaries included in non-current liabilities	*(a)*	**(11,005,121)**	(3,642,488)
Total interests in subsidiaries		**24,171,754**	25,410,541

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) (2010: HK$197,000,000) 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 2011 HK$'000	2010 HK$'000
At 1 January	**214,547**	220,863
Deregistration of subsidiaries	**–**	(6,316)
At 31 December	**214,547**	214,547

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	Group	Principal activities
北京市燃氣集團有限責任公司 ("Beijing Gas")^Ω	PRC/Mainland China	RMB3,983,630,000	–	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	–	34.23†	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	–	34.67†	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	–	43.36†	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
內蒙古燕京金川保健酒有限公司	PRC/Mainland China	RMB41,500,000	–	43.33†	Production and sale of beer
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	Operation of an expressway
Shenzhen Guanshun Road & Bridge Co., Ltd.	PRC/Mainland China	RMB217,500,000	–	53.08	Operation of a toll road
Beijing Enterprises Holdings High-Tech Development Co., Ltd.	PRC/Mainland China	US$30,000,000	97.99	97.99	Investment holding

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

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

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

Ω These entities are registered as wholly-foreign-owned enterprises 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 45(a) to the financial statements.

22. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Notes	Group 2011 HK$'000	Group 2010 HK$'000	Company 2011 HK$'000	Company 2010 HK$'000
Share of net assets	*(a)*	**208,292**	5,944,489	**–**	–
Due from jointly-controlled entities	*(b)*	**2,586**	158,002	**2,586**	2,588
		210,878	6,102,491	**2,586**	2,588

Notes:

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

	2011 HK$'000	2010 HK$'000
Share of the jointly-controlled entities' assets and liabilities		
Non-current assets	**88,088**	10,753,507
Current assets	**124,416**	454,347
Non-current liabilities	**–**	(4,005,366)
Current liabilities	**(4,212)**	(1,254,940)
Non-controlling interests	**–**	(3,059)
Net assets	**208,292**	5,944,489
Share of the jointly-controlled entities' results		
Revenue	**3,856,589**	3,227,528
Other income	**11,736**	5,910
Total revenue	**3,868,325**	3,233,438
Total expenses	**(2,127,837)**	(1,667,871)
Profit before tax	**1,740,488**	1,565,567
Income tax	**(440,299)**	(396,909)
Profit for the year	**1,300,189**	1,168,658

22. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Notes: (Continued)

(a) (Continued)

As a result of certain amendments made to the constitutional documents of 中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas", a former jointly-controlled entity of the Group) in December 2011 in connection with a change in its major equity holder, the Group no longer has joint control but significance influence over PetroChina Beijing Gas and PetroChina Beijing Gas becomes an associate of the Group since then. Accordingly, the Group's investment in PetroChina Beijing Gas has been reclassified from an investment in a jointly-controlled entity to an investment in an associate as at 31 December 2011.

(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) due from a jointly-controlled entity as at 31 December 2010, which bore interest at the rate of 5.76% per annum and was repayable in 2014. During the year ended 31 December 2011, the jointly-controlled entity became a subsidiary of the Company after the Group acquired its remaining equity interest, and the amount due was eliminated on consolidation in full as at 31 December 2011.

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

			Percentage of			
Company name	**Place of registration and operations**	**Nominal value of registered capital**	**Ownership interest attributable to the Group**	**Voting power**	**Profit sharing**	**Principal activities**
烏審旗京鵬天然氣有限公司	PRC/Mainland China	RMB99,000,000	49	49	49	Sale of natural gas

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. INTERESTS IN ASSOCIATES

	Notes	Group 2011 HK$'000	Group 2010 HK$'000	Company 2011 HK$'000	Company 2010 HK$'000
Investments in associates, included in non-current assets:					
Unlisted shares, at cost		–	–	46,168	46,168
Shares listed in Hong Kong, at cost		–	–	46,814	46,814
Share of net assets	(a)	12,188,939	2,767,735	–	–
Due from associates	(b)	17,987	–	17,987	–
Due to associates	(b)	–	(543)	–	(543)
Goodwill on acquisition	(c)	367,060	342,666	–	–
		12,573,986	3,109,858	110,969	92,439
Dividend receivable from an associate, included in current assets	29	1,215,206	–	–	–
Total interests in associates		13,789,192	3,109,858	110,969	92,439

23. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

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

	2011	2010
	HK$'000	*HK$'000*
Share of the associates' assets and liabilities		
Non-current assets	**23,561,871**	4,047,922
Current assets	**6,607,641**	5,019,678
Non-current liabilities	**(7,455,467)**	(1,607,285)
Current liabilities	**(9,782,092)**	(4,159,005)
Non-controlling interests	**(743,014)**	(533,575)
Net assets	**12,188,939**	2,767,735
Share of the associates' results		
Revenue	**1,692,358**	2,311,453
Other income	**378,090**	50,122
Total revenue	**2,070,448**	2,361,575
Total expenses	**(1,613,742)**	(2,118,601)
Profit before tax	**456,706**	242,974
Income tax	**(83,314)**	(46,525)
Profit for the year	**373,392**	196,449

Significant increase in the Group's share of net assets of associates as at 31 December 2011 was mainly due to the reclassification of the Group's investments in PetroChina Beijing Gas from a jointly-controlled entity to an associate during the year as further detailed in note 22(a) to the financial statements and the completion of an open offer of new shares by BE Water in March 2011.

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

23. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**342,666**	55,622
Acquisition of an additional interest in an associate	**24,394**	1,941
Goodwill recognised at initial recognition upon the loss of control over a subsidiary	**–**	285,103
At 31 December	**367,060**	342,666

(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**
中石油北京天然氣管道有限公司@	PRC/Mainland China	RMB10,240,000,000	40	40	40	Provision of natural gas transmission services
Beijing Enterprises Water Group Limited π	Bermuda/Hong Kong	HK$690,917,049	44.11	44.11	44.11	Investment holding
Beijing Development (Hong Kong) Limited Ω	Hong Kong	HK$677,460,150	42.87	42.87	42.87	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

23. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

(d) (Continued)

@ 40% equity interest of PetroChina Beijing Gas is indirectly held by a wholly-owned subsidiary of the Company.

π 44.11% 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 2011, based on its then published price quotation, amounted to approximately HK$6,430,345,000.

Ω 2.18% 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 2011, based on its then published price quotation, amounted to approximately HK$360,169,000.

* 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	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed equity investments, at fair value	**409,135**	101,500	**43,063**	97,045
Unlisted equity investments, at cost	**519,635**	915,012	**132,574**	132,572
Impairment	**(11,358)**	(11,358)	**–**	–
	917,412	1,005,154	**175,637**	229,617

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 ended 31 December 2010, 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 and the carrying amount of the investment being disposed of amounted to HK$1,487,000 at the time of disposal.

25. PROPERTY HELD FOR SALE

The property held for sale of the Group as at 31 December 2011 is situated in Mainland China and was constructed for the intention of selling to Beijing Development, an associate of the Group. Pursuant to a property transfer agreement entered into between the Group and Beijing Development in February 2012, the Group agreed to sell the property to Beijing Development for a cash consideration of RMB32,000,000 (approximately HK$39,422,000). The transaction has not been completed as at the date of approval of these financial statements.

26. INVENTORIES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Raw materials	**4,153,245**	3,120,085
Work in progress	**475,989**	311,451
Finished goods	**656,377**	295,087
	5,285,611	3,726,623

27. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group	
	2011	2010
	HK$'000	*HK$'000*
Amounts due from contract customers:		
Non-current portion	**566,032**	223,672
Current portion	**46,631**	2,105
	612,663	225,777
Amounts due to contract customers	**(123,822)**	(59,409)
	488,841	166,368
Contract costs incurred plus recognised profits less recognised losses to date	**873,635**	345,433
Less: Progress billings received and receivable	**(384,794)**	(179,065)
	488,841	166,368

28. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade and bills receivables	**1,864,047**	1,722,160	**1,086**	1,035
Impairment *(note (c))*	**(277,609)**	(375,152)	**–**	–
	1,586,438	1,347,008	**1,086**	1,035

Notes:

(a) Included in the Group's trade and bills receivables as at 31 December 2011 was an aggregate amount of HK$50,459,000 (2010: HK$54,516,000) 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 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.

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	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Billed:				
Within one year	**536,266**	586,580	**1,086**	1,035
One to two years	**43,152**	25,166	**–**	–
Two to three years	**15,615**	33,216	**–**	–
Over three years	**124,980**	70,237	**–**	–
	720,013	715,199	**1,086**	1,035
Unbilled	**866,425**	631,809	**–**	–
	1,586,438	1,347,008	**1,086**	1,035

28. 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	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**375,152**	290,870
Acquisition of a subsidiary	**–**	116
Impairment/(reversal of impairment) during the year recognised in the income statement, net *(note 7)*	**(112,926)**	90,651
Amount written off as uncollectible	**(145)**	(17,430)
Deconsolidation of subsidiaries	**–**	(1,235)
Exchange realignment	**15,528**	12,180
At 31 December	**277,609**	375,152

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$337,818,000 (2010: HK$435,361,000). 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	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Neither past due nor impaired	**130,620**	105,903	**–**	–
Less than one year past due	**404,561**	480,677	**–**	1,035
More than one year past due	**184,832**	128,619	**1,086**	–
	720,013	715,199	**1,086**	1,035

28. TRADE AND BILLS RECEIVABLES (Continued)

Notes: (Continued)

(c) (Continued)

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.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2011	2010	**2011**	2010
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments		**117,654**	53,005	**450**	2,413
Deposits and other debtors	*(a)*	**1,086,863**	895,704	**8,634**	115,508
Dividend receivable from an associate	*(b)*	**1,215,206**	–	**–**	–
Due from holding companies	*30*	**280,768**	275,954	**87,169**	82,355
Due from fellow subsidiaries	*30*	**80,349**	71,200	**29,893**	30,419
Due from related parties	*30*	**9,700**	21,013	**1,735**	1,774
		2,790,540	1,316,876	**127,881**	232,469
Impairment of deposits and other debtors	*(c)*	**(46,761)**	(116,115)	**–**	(95,202)
		2,743,779	1,200,761	**127,881**	137,267
Portion classified as current assets		**(2,313,196)**	(899,533)	**(127,881)**	(137,267)
Non-current portion		**430,583**	301,228	**–**	–

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes:

(a) The Group's deposits and other debtors as at 31 December 2011 included, inter alia, the following:

(i) investment deposits of HK$29,714,000 (2010: HK$178,259,000) paid for the incorporation or acquisition of subsidiaries in Mainland China. The deposits are classified as non-current assets;

(ii) a deposit of HK$85,774,000 paid for the purchase of a parcel of land located in Mainland China. The deposit is classified as a non-current asset; and

(iii) deposits of HK$314,720,000 (2010: HK$119,343,000) in total paid for the construction of buildings and purchase of machinery. The deposits are classified as non-current assets.

(b) The balance represented the dividend declared to the Group by PetroChina Beijing Gas, an associate of the Group, in respect of its financial year ended 31 December 2010.

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**116,115**	207,573	**95,202**	95,202
Reversal of impairment during the year recognised in the income statement, net *(note 7)*	**(3,191)**	(75,874)	**(27,953)**	
Amount written off as uncollectible	**(67,262)**	(14,079)	**(67,249)**	–
Deconsolidation of subsidiaries	**–**	(3,224)	**–**	–
Exchange realignment	**1,099**	1,719	**–**	–
At 31 December	**46,761**	116,115	**–**	95,202

The above provision for impairment of deposits and other debtors of the Group represented provision for individually impaired deposits and other debtors with an aggregate carrying amount of HK$115,412,000 (2010: HK$184,766,000).

30. 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 due to 北京燕京啤酒集團公司 ("Yanjing Beer Group", a joint venture partner of a subsidiary) as at 31 December 2010, which bore interest at the prevailing PRC one-year bank loan rate published by the People's Bank of China. The balance was repaid during the current year and interest expense of HK$2,048,000 (2010: HK$5,126,000) was recognised in the consolidated income statement during the year ended 31 December 2011.

The balances with fellow subsidiaries, associates and related companies of the Group included in trade and bills receivables, trade and bills payables, and other liabilities are disclosed in notes 28(a), 43 and 44 to the financial statements, respectively.

31. RESTRICTED CASH AND PLEDGED DEPOSITS

		Group	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
Restricted cash	*(a)*	**33,225**	28,191
Pledged deposits	*(b)*	**3,406**	97,741
Restricted cash and pledged deposits		**36,631**	125,932

Notes:

(a) Restricted cash of the Group mainly represented the proceeds of a government surcharge of HK$29,583,000 (2010: HK$28,191,000) collected by Beijing Gas, a wholly-owned subsidiary indirectly held the Company, from piped gas customers on behalf of the BMCDR prior to 2003. The proceeds held on behalf of the BMCDR, which are deposited in a specific bank account of the Group, together with any interest earned therefrom, are repayable to the BMCDR *(note 44(i))*.

(b) Bank balances of HK$3,406,000 (2010: HK$96,420,000) as at 31 December 2011 were pledged to secure certain trade finance facilities *(note 43)* granted to the Group. The balance as at 31 December 2010 also included bank balances of HK$1,321,000 pledged to secure certain bank loans granted to the Group *(note 36(d))*.

32. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances other than time deposits	**6,332,529**	12,158,352	**192,323**	1,344,760
Time deposits	**6,283,541**	2,412,225	**2,142,303**	–
Cash equivalents	**–**	2,155	**–**	80
	12,616,070	14,572,732	**2,334,626**	1,344,840
Less: Restricted cash and pledged deposits *(note 31)*	**(36,631)**	(125,932)	**–**	–
Cash and cash equivalents	**12,579,439**	14,446,800	**2,334,626**	1,344,840

Notes:

(a) At 31 December 2011, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$9.9 billion (2010: HK$12.5 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.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of defaults.

33. SHARE CAPITAL

Shares

	2011	2010
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
1,137,571,000 (2010: 1,137,371,000) ordinary shares of HK$0.10 each	**113,757**	113,737

A summary of the movements in the Company's issued share capital during the years ended 31 December 2011 and 2010 is as follows:

	Notes	**Number of ordinary shares in issue**	**Issued capital** *HK$'000*	**Share premium account** *HK$'000*	**Total** *HK$'000*
At 1 January 2010, 31 December 2010 and 1 January 2011		1,137,371,000	113,737	20,733,395	20,847,132
Exercise of share options	*(a)*	300,000	30	4,896	4,926
Repurchase and cancellation of shares	*(b)*	(100,000)	(10)	–	(10)
At 31 December 2011		1,137,571,000	113,757	20,738,291	20,852,048

Notes:

(a) During the year ended 31 December 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 value of these share options in an aggregate amount of HK$1,162,000 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 34 to the financial statements.

33. SHARE CAPITAL (Continued)

Shares (Continued)

Notes: (Continued)

(b) In January 2011, the Company repurchased a total of 100,000 ordinary shares of the Company on the Stock Exchange at a weighted average cost of HK$45.5368 per share (the highest and lowest purchase prices per ordinary share were HK$46.1 and HK$45.0, respectively) and the total consideration paid amounted to approximately HK$4,560,000. These shares were subsequently cancelled by the Company during the year and the issued capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK$4,550,000 has been charged to the retained profits of the Company. Pursuant to Section 49H of the Hong Kong Companies Ordinance, an amount of HK$10,000 equivalent to the par value of the shares cancelled was transferred from the retained profits of the Company to the capital redemption reserve.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 34 to the financial statements.

34. SHARE OPTION SCHEME

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

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

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

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

34. SHARE OPTION SCHEME (Continued)

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:

	Notes	**2011 Weighted average exercise price** ***(HK$ per share)***	**2011 Number of share options**	2010 Weighted average exercise price *(HK$ per share)*	2010 Number of share options
At 1 January	*(a)*	**12.55**	**300,000**	12.55	300,000
Exercised during the year	*(b)*	**12.55**	**(300,000)**	N/A	–
At 31 December	*(a)*	**N/A**	**–**	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. There was no grant of share options during the year, and there was no share option outstanding under the Scheme as at 31 December 2011 following the exercise of all the 300,000 share option outstanding as at 31 December 2010 during the year.

(b) The weighted average closing price of the ordinary shares of the Company immediately before the dates on which the 300,000 share options were exercised during the year ended 31 December 2011 was HK$40.64.

35. 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 be transferred to the share premium account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.

(iv) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries, jointly-controlled entities and associates. None of the Group's PRC reserve funds as at 31 December 2011 were distributable in the form of cash dividends.

35. 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 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 – Changes 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 and 1 January 2011		20,733,395	228	1,162	13,220	39,209	17,561	25,364	20,830,139
Profit for the year	12	–	–	–	–	–	–	1,147,017	1,147,017
Other comprehensive loss for the year – Changes in fair value of available-for-sale investments		–	–	–	–	(61,982)	–	–	(61,982)
Total comprehensive expense for the year		–	–	–	–	(61,982)	–	1,147,017	1,085,035
Exercise of share options	33(a)	4,896	–	(1,162)	–	–	–	–	3,734
Repurchase and cancellation of shares	33(b)	–	10	–	–	–	–	(4,560)	(4,550)
Interim 2011 dividend	13	–	–	–	–	–	–	(284,393)	(284,393)
Proposed final 2011 dividend	13	–	–	–	–	–	–	(511,907)	(511,907)
At 31 December 2011		20,738,291	238	–	13,220	(22,773)	17,561	371,521	21,118,058

* *The amount represented compensation received from the ultimate holding company during the year ended 31 December 2010 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, for accounting purposes, was accounted for as a deemed contribution from the ultimate holding company. Further details of the compensation are set out in the Company's announcement dated 27 September 2009.*

36. BANK AND OTHER BORROWINGS

	Group 2011 HK$'000	Group 2010 HK$'000	Company 2011 HK$'000	Company 2010 HK$'000
Bank loans:				
Secured	**453,975**	321,499	**–**	–
Unsecured	**8,671,037**	7,430,286	**5,144,112**	5,134,367
	9,125,012	7,751,785	**5,144,112**	5,134,367
Other loans, unsecured	**650,054**	1,795,777	**–**	510,570
Total bank and other borrowings	**9,775,066**	9,547,562	**5,144,112**	5,644,937
Analysed into:				
Bank loans repayable:				
Within one year	**5,569,307**	2,238,277	**2,176,362**	77,000
In the second year	**3,161,313**	2,282,578	**2,967,750**	2,097,997
In the third to fifth years, inclusive	**297,974**	2,974,756	**–**	2,959,370
Beyond five years	**96,417**	256,174	**–**	–
	9,125,011	7,751,785	**5,144,112**	5,134,367
Other loans repayable:				
Within one year	**135,644**	82,032	**–**	–
In the second year	**77,989**	70,218	**–**	–
In the third to fifth years, inclusive	**226,804**	1,309,798	**–**	510,570
Beyond five years	**209,618**	333,729	**–**	–
	650,055	1,795,777	**–**	510,570
Total bank and other borrowings	**9,775,066**	9,547,562	**5,144,112**	5,644,937
Portion classified as current liabilities	**(5,704,951)**	(2,320,309)	**(2,176,362)**	(77,000)
Non-current portion	**4,070,115**	7,227,253	**2,967,750**	5,567,937

36. 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	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**5,144,112**	5,134,367	**5,144,112**	5,134,367
RMB	**4,252,473**	3,995,180	**–**	510,570
US$	**368,848**	395,609	**–**	–
TWD	**–**	11,637	**–**	–
Euro	**9,633**	10,769	**–**	–
	9,775,066	9,547,562	**5,144,112**	5,644,937

(b) Included in the Group's bank and other borrowings as at 31 December 2011 are:

(i) amortised cost of interest-free loans of HK$143,117,000 (2010: HK$145,446,000) granted from a joint venture partner of a subsidiary; and

(ii) certain bank and other loans, with an aggregate carrying amount of HK$480,259,000 (2010: HK$528,764,000), 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$11,145,000 (2010: HK$11,692,000), these loans bear interest at rates ranging from 2% to 6.3% per annum.

The Group's bank and other borrowings as at 31 December 2010 also included loans of RMB450,000,000 (equivalent to HK$510,570,000) and RMB500,000,000 (equivalent to HK$588,235,000) granted by Beijing Enterprises Group to the Company and a subsidiary of the Company, respectively, which bore interest at the rate of 4.24% per annum and would have been fully repayable in 2014. The loans had been early repaid by the Group during the year and interest expense of HK$19,848,000 (2010: HK$46,639,000) was recognised in the consolidated income statement during the year ended 31 December 2011 in respect of these loans.

(c) HK$444,445,000 (2010: HK$188,235,000) of the Group's unsecured bank loans as at 31 December 2011 were guaranteed by the joint venture partners of certain of the Group's PRC subsidiaries or their associates.

36. BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

(d) The Group's secured bank loans as at 31 December 2011 were secured by:

(i) a mortgage over a building of the Group with a net carrying amount of HK$27,805,000 (2010: Nil) as at 31 December 2011 *(note 15(b))*; and

(ii) mortgages over the Group's concession rights of two waste power plants (2010: a waste power plant).

The Group's secured bank loans as at 31 December 2010 were also secured by pledges over certain of the Group's bank balances of HK$1,321,000 in aggregate *(note 31(b))*.

(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.

37. 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 the Guaranteed Senior Notes purchase agreement dated 5 May 2011. The Guaranteed Senior Notes are guaranteed by the Company, of which (i) 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; and (ii) US$400,000,000, bearing interest at the 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.

At 31 December 2011, the Guarantee Senior Notes are repayable beyond five years and are carried in the consolidated statement of financial position at their amortised cost.

38. CONVERTIBLE BONDS

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

Group

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

38. CONVERTIBLE BONDS (Continued)

For accounting purposes, each batch of these convertible bonds is bifurcated into a liability component and an equity component or a derivative component, as appropriate, 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

	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*
	(note (a))	*(note (a))*	*(note (b))*	*(note (c))*	
Principal amount outstanding					
At 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, 1 January 2011 and 31 December 2011	–	–	2,175,000	564,610	2,739,610

38. CONVERTIBLE BONDS (Continued)

Group (Continued)

	ZKC Convertible Bonds 1 *HK$'000* *(note (a))*	ZKC Convertible Bonds 2 *HK$'000* *(note (a))*	Guaranteed Convertible Bonds *HK$'000* *(note (b))*	Yanjing Brewery Convertible Bonds *HK$'000* *(note (c))*	Total *HK$'000*
Liability component					
At 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 and 1 January 2011	–	–	2,147,554	502,935	2,650,489
Interest expense *(note 8)*	–	–	52,683	7,149	59,832
Imputed interest expense *(note 8)*	–	–	–	27,799	27,799
Interest paid	–	–	(48,938)	(2,963)	(51,901)
Conversion to ordinary shares of Yanjing Brewery	–	–	–	(12)	(12)
Exchange realignment	–	–	–	25,628	25,628
At 31 December 2011	–	–	2,151,299	560,536	2,711,835
Derivative component					
At 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 and 1 January 2011	–	–	–	292,384	292,384
Fair value gain on revaluation	–	–	–	(239,130)	(239,130)
Conversion to ordinary shares of Yanjiing Brewery	–	–	–	(2)	(2)
Exchange realignment	–	–	–	8,531	8,531
At 31 December 2011	–	–	–	61,783	61,783

38. CONVERTIBLE BONDS (Continued)

Notes:

(a) The ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 were issued to Besto Holdings Limited, Tenson Investment Limited and Newton Finance Holdings Limited (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. 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 Vendors in 2010 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 46, respectively.

(b) 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 the 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.

(c) 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 interest at 0.5%, 0.7%, 0.9%, 1.1% and 1.4% per annum in each of the annual convertible periods. Further details of the Yanjing Brewery Convertible Bonds are set out in the Company's announcement published on 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.

38. CONVERTIBLE BONDS (Continued)

Notes: (Continued)

(c) (Continued)

The fair values of the derivative component of the Yanjing Brewery Convertible Bonds as at the date of issue, 31 December 2011 and 2010 were 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:

	Issue date	**31 December 2011**	**31 December 2010**
Share price of Yanjing Brewery	RMB20.04	RMB13.49	RMB18.99
Exercise price	RMB21.86	RMB21.86	RMB21.86
Remaining life of the derivative	5 years	3.79 years	4.79 years
Risk-free rate	2.77%	3.02%	3.58%
Expected volatility	46.40%	38.79%	46.97%
Expected dividend yield	0.85%	1.26%	0.85%

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

39. DEFINED BENEFIT PLANS

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

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

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

Group

	2011				
	Supplemental post-retirement medical reimbursement plan	**Supplemental post-retirement allowance and beneficiary benefit plans**	**Internal retirement benefit plan**	**Total**	2010 Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Current service cost	**9,077**	**2,652**	**–**	**11,729**	11,569
Past service cost	**11,066**	**5,212**	**490**	**16,768**	20,853
Interest cost on benefit obligations	**8,661**	**4,045**	**557**	**13,263**	11,564
Net actuarial gain recognised during the year	**(9,321)**	**(1,386)**	**(139)**	**(10,846)**	(8,029)
Net benefit expense	**19,483**	**10,523**	**908**	**30,914**	35,957

39. DEFINED BENEFIT PLANS (Continued)

(b) Benefit liabilities

Group

	2011				
	Supplemental post-retirement medical reimbursement plan	**Supplemental post-retirement allowance and beneficiary benefit plans**	**Internal retirement benefit plan**	**Total**	2010 Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Defined benefit obligations	**224,862**	**119,891**	**12,184**	**356,937**	279,058
Unrecognised actuarial gains	**152,794**	**10,799**	**5,022**	**168,615**	194,588
Total benefit liabilities	**377,656**	**130,690**	**17,206**	**525,552**	473,646
Portion classified as current liabilities included in other payables and accruals *(note 44)*				**(3,162)**	(3,131)
Non-current portion				**522,390**	470,515

39. DEFINED BENEFIT PLANS (Continued)

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

Group

	Supplemental post-retirement medical reimbursement plan HK$'000	Supplemental post-retirement allowance and beneficiary benefit plans HK$'000	Internal retirement benefit plan HK$'000	Total HK$'000
At 1 January 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 and 1 January 2011	179,261	85,718	14,079	279,058
Current service cost	9,077	2,652	–	11,729
Past service cost	11,066	5,212	490	16,768
Interest cost	8,661	4,045	557	13,263
Benefits paid	(1,102)	(1,582)	(401)	(3,085)
Actuarial losses/(gains) on obligations	8,160	18,893	(3,173)	23,880
Exchange realignment	9,739	4,953	632	15,324
At 31 December 2011	224,862	119,891	12,184	356,937

39. DEFINED BENEFIT PLANS (Continued)

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

A five-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*
2011	224,862	119,891	12,184	356,937
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

(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:

	2011	2010
Discount rate	**4.25%**	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%

39. 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)	
	2011	2010
	HK$'000	*HK$'000*
Effect on the aggregate of the past service cost and interest cost:		
One percentage point increase	**8,613**	6,389
One percentage point decrease	**(5,901)**	(4,445)
Effect on the defined benefit obligations:		
One percentage point increase	**72,188**	58,218
One percentage point decrease	**(51,957)**	(42,131)

40. PROVISION FOR MAJOR OVERHAULS

Pursuant to the service concession arrangements on the Group's expressway and toll road operations and sewage and water treatment operations, the Group has contractual obligations to maintain the infrastructures it operates to a specified level of serviceability and/or to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession periods. These contractual obligations to maintain or restore the infrastructures, except for 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.

40. 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	2011 HK$'000	2010 HK$'000
At 1 January		**140,192**	184,499
Additional provision		**43,554**	52,393
Increase in discounted amounts arising from the passage of time	*8*	**4,307**	4,168
Deconsolidation of subsidiaries	*46*	**–**	(106,525)
Exchange realignment		**8,104**	5,657
At 31 December		**196,157**	140,192

41. OTHER NON-CURRENT LIABILITIES

	Group 2011 HK$'000	Group 2010 HK$'000
Other liabilities – non-current portion *(note 44)*	**122,401**	27,333
Deferred income *(note)*	**116,919**	129,748
	239,320	157,081

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

42. DEFERRED TAX

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

Group

	2011	2010
	HK$'000	*HK$'000*
Deferred tax assets	**594,721**	598,157
Deferred tax liabilities	**(371,353)**	(364,053)
	223,368	234,104

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

Group

		Attributable to											
	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 (a))*	**Withholding tax** *HK$'000* *(note (b))*	**Net deferred tax assets/ (liabilities)** *HK$'000*
At 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	*45*	–	–	–	–	–	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	*46(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 and 1 January 2011		92,536	(1,496)	29,428	(16,036)	–	221,769	134,150	88,939	(183,367)	12,852	(144,671)	234,104
Acquisition of subsidiaries	*45*	(5,007)	–	–	–	–	479	–	–	–	–	–	(4,528)
Deferred tax credited/(charged) to the income statement during the year	*11*	(20,553)	(223)	–	(34,314)	–	8,105	(14,339)	2,945	8,384	2,924	35,463	(11,608)
Exchange realignment		3,938	(80)	1,453	(1,640)	–	7,291	5,266	4,464	(15,347)	55	–	5,400
At 31 December 2011		70,914	(1,799)	30,881	(51,990)	–	237,644	125,077	96,348	(190,330)	15,831	(109,208)	223,368

42. DEFERRED TAX (Continued)

Notes:

(a) At 31 December 2011, deferred tax assets have not been recognised in respect of unused tax losses of HK$747,836,000 (2010: HK$981,567,000) 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, tax losses of HK$728,128,000 (2010: HK$961,859,000) will expire in one to five years.

(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$4,921,219,000 (2010: HK$5,513,915,000) as at 31 December 2011.

(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.

43. 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:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within one year	**1,867,774**	4,521,600
One to two years	**21,463**	17,024
Two to three years	**3,947**	4,293
Over three years	**11,410**	10,836
	1,904,594	4,553,753

Included in the Group's trade and bills payables as at 31 December 2011 are amounts of HK$13,456,000 (2010: HK$11,609,000) and HK$25,760,000 (2010: HK$28,211,000) due to related companies and an associate (previously a jointly-controlled entity as at 31 December 2010), 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 payable as at 31 December 2011 are secured by a pledge over certain of the Group's bank balances with an aggregate amount of HK$3,406,000 (2010: HK$96,420,000) *(note 31(b))*.

44. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2011	2010	**2011**	2010
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Accruals		**97,261**	103,503	**49,737**	51,017
Defined benefit plans – current portion	*39(b)*	**3,162**	3,131	**–**	–
Other liabilities		**4,189,787**	3,286,195	**27,079**	16,615
Due to the immediate holding company	*30*	**–**	36,345	**–**	36,345
Due to related parties	*30*	**262,985**	367,321	**20,254**	48,086
		4,553,195	3,796,495	**97,070**	152,063
Portion classified as current liabilities		**(4,430,794)**	(3,769,162)	**(97,070)**	(152,063)
Non-current portion	*41*	**122,401**	27,333	**–**	–

The Group's other liabilities as at 31 December 2011 included, inter alia, the following:

(i) an amount of HK$29,583,000 (2010: HK$28,191,000) 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 31(a) to the financial statements;

(ii) construction project costs of HK$103,006,000 (2010: HK$72,960,000) 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; and

(iii) machinery purchase costs of HK$21,432,000 (2010: HK$20,423,000) payable to an associate of the Group. The balance with the associate is unsecured, interest-free and has no fixed terms of repayment.

45. 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	2011 HK$'000 (note (a))	2010 HK$'000 (note (b))
Net assets acquired:			
Property, plant and equipment	15	**742,182**	309,632
Prepaid land premiums	17	**40,594**	40,382
Other intangible assets	20	**3,835**	–
Investment in a jointly-controlled entity		**–**	60,751
Deferred tax assets	42	**479**	12,256
Inventories		**31,673**	41,777
Amounts due from contract customers		**52,924**	1,253,250
Trade and bills receivables		**73,769**	96
Prepayments, deposits and other receivables		**57,962**	1,002,450
Income tax recoverable		**14,742**	–
Pledged deposits		**–**	2,581
Cash and cash equivalents		**100,836**	212,056
Trade and bills payables		**(73,378)**	(162,286)
Other payables and accruals		**(49,462)**	(1,190,303)
Income tax payables		**(3,047)**	(17,246)
Bank and other borrowings		**(294,458)**	(1,059,347)
Other non-current liabilities		**(187,847)**	–
Deferred tax liabilities	42	**(5,007)**	(303)
Non-controlling interests		**(4,027)**	(159,572)
		501,770	346,174
Goodwill on acquisition	18	**187,394**	159,089
		689,164	505,263
Satisfied by:			
Cash		**545,542**	458,248
Capital contribution to the acquiree in the form of cash		**–**	908
Reclassification from an investment in a jointly-controlled entity to an investment in a subsidiary		**143,622**	46,107
		689,164	505,263
Profit for the year since acquisition		**25,171**	133,563

45. BUSINESS COMBINATIONS (Continued)

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

	2011	2010
	HK$'000	*HK$'000*
	(note (a))	*(note (b))*
Cash and cash equivalents acquired	**100,836**	212,056
Cash consideration	**(545,542)**	(458,248)
Capital contribution to the acquiree in the form of cash	**–**	(908)
Cash consideration prepaid in prior year *(note (a)(i))*	**178,259**	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(266,447)**	(247,100)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$2,810,193,000 (2010: HK$3,097,557,000) and the Group's revenue (comprising turnover and other income and gains, net) would have been HK$30,827,813,000 (2010: HK$28,968,954,000).

Notes:

(a) Business combinations during the year ended 31 December 2011 mainly included, inter alia, the following transactions:

(i) In January 2011, Beijing Gas acquired the entire equity interest in 北京富華大地燃氣有限公司 ("Fuhua Dadi") for a cash consideration of RMB73,580,000. Fuhua Dadi is principally engaged in the distribution and sale of piped natural gas in rural areas in Beijing;

(ii) In March 2011, the Group acquired a 95.91% equity interest in 內蒙古金川保健啤酒高科技股份有限公司 ("Jinchuan Health Brewery") for a cash consideration of RMB151,520,000. The consideration was paid in advance by Yanjing Brewery during the year ended 31 December 2010 and was included in deposits and other debtors of the Group as at 31 December 2010 *(note 29(a)(i))*. Jinchuan Health Brewery is principally engaged in the production and sale of beer in Mainland China;

(iii) In May 2011, Beijing Gas acquired the remaining 40% equity interest in 北京燃氣集團山東有限公司 ("Shandong Gas") for a cash consideration of RMB119,980,000 and Shandong Gas became a wholly-owned subsidiary of the Group after the transaction. Shandong Gas is principally engaged in the distribution and sale of piped natural gas in Shandong Province, the PRC; and

(iv) In August 2011, Yanjing Brewery acquired the entire equity interest in 河北邢臺天牛啤酒有限公司 ("Tian Niu Beer") for a cash consideration of RMB107,720,000. Tian Niu Beer is principally engaged in the production and sale of beer in Mainland China.

45. BUSINESS COMBINATIONS (Continued)

Notes: (Continued)

(b) Business combinations during the year ended 31 December 2010 mainly included, 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. 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. 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 Yanjing 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 and RMB97,720,000, respectively. Yanjing Yueshan and Yanjing Zhumadian are principally engaged in the production and sale of beer in Mainland China; and

(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. Wuhan Bo Rui is principally engaged in a BOT project in respect of a waste power plant in Wuhan City, Hubei Province, the PRC.

46. DECONSOLIDATION OF SUBSIDIARIES

	Notes	**2011** **HK$'000**	2010 HK$'000
Net assets deconsolidated:			
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
Amounts due from contract customers		–	3,903,581
Receivables under service concession arrangements		–	2,227,134
Deferred tax assets	42	–	30,735
Inventories		–	9,260
Trade and bills receivables		–	83,641
Prepayments, deposits and other receivables		–	1,510,069
Pledged deposits		–	644,800
Cash and cash equivalents		–	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	40	–	(106,525)
Other non-current liabilities		–	(59,245)
Deferred tax liabilities	42	–	(111,604)
Non-controlling interests		–	(2,721,783)
		–	1,489,434
Reclassification from an investment in a subsidiary to an investment in an associate		–	1,489,434

46. DECONSOLIDATION OF SUBSIDIARIES (Continued)

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

	2011	2010
	HK$'000	*HK$'000*
Cash and cash equivalents 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 ended 31 December 2010. The Group lost control over BE Water following 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.

47. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Apart from the transactions detailed in notes 6, 38, 45 and 46 to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2011 and 2010.

48. CONTINGENT LIABILITIES

At 31 December 2011, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2011	2010	**2011**	2010
	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	**–**	93,277
Guarantee given in respect of the Guaranteed Senior Notes issued by Mega Advance *(note 37)*	**–**	–	**7,699,084**	–
Guarantee given in respect of the Guaranteed Convertible Bonds issued by Power Regal *(note 38(b))*	**–**	–	**2,175,000**	2,175,000
	–	93,277	**9,874,084**	2,268,277

49. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties *(note 16)* under operating lease arrangements, with the leases negotiated for original terms ranging from 1 to 8 years. The terms of the leases generally require the tenants to pay security deposits.

At 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within one year	**2,678**	3,888
In the second to fifth years, inclusive	**422**	584
	3,100	4,472

At 31 December 2011, the Company did not have any non-cancellable operating lease arrangements as lessor (2010: 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 2 to 39 years.

At 31 December 2011, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**91,882**	140,179	**11,700**	12,955
In the second to fifth years, inclusive	**177,364**	172,413	**341**	10,834
After five years	**661,546**	714,122	**–**	–
	930,792	1,026,714	**12,041**	23,789

50. CAPITAL COMMITMENTS

At 31 December 2011, the Group had the following capital commitments as at the end of the reporting period:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Buildings	**388,948**	321,425
Plant and machinery	**758,332**	1,181,550
Capital contribution to a jointly-controlled entity	**–**	141,153
Capital contribution to an associate	**1,590,198**	3,044,000
	2,737,478	4,688,128
Authorised, but not contracted for:		
Plant and machinery	**–**	61,800
Acquisition of a subsidiary	**44,444**	440,706
Capital contribution to a subsidiary	**140,107**	–
Capital contribution to a jointly-controlled entity	**–**	14,118
	184,551	516,624
Total capital commitments	**2,922,029**	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:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Contracted, but not provided for	**–**	752,806

At 31 December 2011, the Company did not have any significant capital commitments (2010: Nil).

51. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transaction	*Notes*	**2011** **HK$'000**	2010 HK$'000
Joint venture partners of subsidiaries and their associates				
Yanjing Beer Group and its associates	Purchase of bottle labels	*(i)*	**149,537**	133,207
	Purchase of bottle caps	*(i)*	**85,120**	85,191
	Canning service fees paid	*(ii)*	**36,718**	34,208
	Comprehensive support service fees paid	*(iii)*	**18,729**	17,847
	Land rent expenses	*(iv)*	**2,228**	2,123
	Trademark licensing fees paid	*(v)*	**69,845**	72,386
	Less: Refund for advertising subsidies	*(v)*	**(7,951)**	(6,670)
Fellow subsidiaries				
北京北燃實業有限公司 and its subsidiaries	Sale of piped natural gas	*(vi)*	**244,228**	191,064
	Service contract income	*(vii)*	**24,737**	13,081
	Purchase of raw materials	*(ix)*	**82,300**	55,997
	Building rental expenses	*(ix)*	**78,455**	71,059
	Construction contract fee expenses	*(viii)*	**61,466**	35,847
	Sale of raw materials	*(x)*	**96,530**	67,202
	Repair and maintenance expenses	*(x)*	**16,835**	12,011
北京京泰國際貿易有限公司	Purchase of construction materials	*(ix)*	**–**	551
Jointly-controlled entity				
PetroChina Beijing Gas*	Natural gas transmission fee expenses	*(vi)*	**3,458,658**	3,273,032

* Became an associate in December 2011

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 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.

51. RELATED PARTY DISCLOSURES (Continued)

(a) (Continued)

Notes: (Continued)

(iii) 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.

(iv) The land rent expenses were charged at a mutually-agreed amount of RMB1,849,000 (2010: RMB1,849,000) per annum.

(v) 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.

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

(vii) 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.

(viii) 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.

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

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

51. RELATED PARTY DISCLOSURES (Continued)

(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 28(a), 29(a), 43 and 44 to the financial statements, respectively.

(ii) Details of the balances with jointly-controlled entities, associates, holding companies, fellow subsidiaries and related parties are disclosed in notes 22, 23 and 30 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 36 to the financial statements.

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

(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, 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 businesses, 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 services 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.

51. RELATED PARTY DISCLOSURES (Continued)

(d) Compensation of key management personnel of the Group

	2011	2010
	HK$'000	*HK$'000*
Short term employee benefits	**20,928**	24,585
Pension scheme contributions	**19**	19
Total compensation paid to key management personnel	**20,947**	24,604

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

52. 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 38 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2011 and 2010 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other loans, the Guaranteed Senior Notes, 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, an associate and related parties.

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

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, the Guaranteed Senior Notes, 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 2011

	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Effective interest rate %
Floating rate:								
Restricted cash and pledged deposits	36,631	–	–	–	–	–	36,631	0.5
Cash and cash equivalents	6,295,898	–	–	–	–	–	6,295,898	0.5
Bank and other borrowings	(4,052,799)	(210,828)	(38,795)	(3,006,545)	(90,647)	(458,436)	(7,858,050)	2.85
Fixed rate:								
Cash and cash equivalents	6,283,541	–	–	–	–	–	6,283,541	3.15
Bank and other borrowings	(1,588,554)	(29,735)	(20,370)	(20,370)	(20,370)	(30,213)	(1,709,612)	5.37
Convertible bonds	–	–	(2,151,299)	(560,536)	–	–	(2,711,835)	1.43
Guaranteed Senior Notes	–	–	–	–	–	(7,699,084)	(7,699,084)	5.55

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

At 31 December 2010

	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Effective interest rate %
Floating rate:								
Restricted cash and pledged deposits	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
Convertible bonds	–	–	–	(2,147,554)	(502,935)	–	(2,650,489)	1.43

At 31 December 2011, 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$38,507,000 (2010: HK$30,008,000).

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 2010.

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.

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the 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*
2011		
If Hong Kong dollar weakens against RMB by 5%	224,657	2,256,158
If Hong Kong dollar strengthens against RMB by 5%	(224,657)	(2,256,158)
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)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

Credit risk

The Group engages 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.

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

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 28 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 48 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank loans, other loans, the Guaranteed Senior Notes 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.

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

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

At 31 December 2011

	On demand *HK$'000*	**Within 1 year** *HK$'000*	**More than 1 year but less than 2 years** *HK$'000*	**More than 2 years but less than 3 years** *HK$'000*	**More than 3 years but less than 4 years** *HK$'000*	**More than 4 years but less than 5 years** *HK$'000*	**More than 5 years** *HK$'000*	**Total** *HK$'000*
Bank loans	**–**	**5,468,364**	**418,986**	**57,679**	**3,043,616**	**23,718**	**416,797**	**9,429,160**
Other loans	**–**	**100,981**	**101,271**	**101,665**	**102,118**	**7,734**	**275,290**	**689,059**
Guaranteed Senior Notes	**–**	**431,019**	**431,019**	**431,019**	**431,019**	**431,019**	**13,666,395**	**15,821,490**
Convertible bonds	**–**	**53,125**	**54,254**	**2,206,032**	**570,868**	**–**	**–**	**2,884,279**
Trade and bills payables	**–**	**1,904,594**	**–**	**–**	**–**	**–**	**–**	**1,904,594**
Accruals and other liabilities	**–**	**4,047,728**	**239,320**	**–**	**–**	**–**	**–**	**4,287,048**
Due to related parties	**262,985**	**–**	**–**	**–**	**–**	**–**	**–**	**262,985**
	262,985	**12,005,811**	**1,244,850**	**2,796,395**	**4,147,621**	**462,471**	**14,358,482**	**35,278,615**

At 31 December 2010

	On demand *HK$'000*	Within 1 year *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 3 years *HK$'000*	More than 3 years but less than 4 years *HK$'000*	More than 4 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total *HK$'000*
Bank loans	–	2,342,890	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	–	3,362,365	27,333	–	–	–	–	3,389,698
Due to the immediate holding company	–	36,345	–	–	–	–	–	36,345
Due to related parties	367,321	–	–	–	–	–	–	367,321
	367,321	10,489,979	2,566,085	259,656	3,380,324	3,711,717	628,976	21,404,058

53. 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**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets:				
Non-current receivables under service concession arrangements	**1,588,046**	1,699,231	**1,588,046**	1,699,231
Non-current prepayments, deposits and other receivables	**430,583**	301,228	**430,583**	301,228
Financial liabilities:				
Non-current bank and other borrowings:				
Floating rate borrowings	**3,805,251**	5,858,630	**3,805,251**	5,858,630
Fixed rate borrowings	**123,217**	1,228,237	**122,658**	1,015,090
Interest-free borrowings *(note (ii))*	**189,104**	140,386	**192,453**	135,140
Convertible bonds	**2,773,618**	2,942,873	**2,785,473**	2,960,555
Guaranteed Senior Notes	**7,699,084**	–	**7,699,084**	–

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$143,117,000 (2010: HK$145,446,000) obtained by the Group from a joint venture partner of a subsidiary and is repayable within 14 years (2010: 15 years) and an interest-free loan of HK$11,145,000 (2010: HK$11,692,000) obtained from an overseas government as further detailed in notes 36(b)(i) and (ii) to the financial statements, respectively.

53. 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 2011 and 2010.

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 and the Guaranteed Senior Notes divided by the sum of total equity, interest-bearing bank borrowings and the Guaranteed Senior Notes. The gearing ratios as at the end of the reporting periods are as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Guaranteed Senior Notes	**7,699,084**	–
Interest-bearing bank borrowings	**9,620,804**	9,390,424
Total Guarantee Senior Notes and interest-bearing bank borrowings	**17,319,888**	9,390,424
Total equity	**45,219,980**	40,936,261
Total equity and interest-bearing bank borrowings and Guarantee Senior Notes	**62,539,868**	50,326,685
Gearing ratio	**28%**	19%

54. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 31 December 2011 amounted to HK$7,211,311,000 (2010: HK$6,989,508,000) and HK$61,068,766,000 (2010: HK$52,238,228,000), respectively.

55. EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed in note 19(a)(ii) regarding an order made by the Shenzhen Municipal Government to stop charging the public for use of the Group's Shenzhen Shiguan Road and Bridge operated by Shenzhen Guanshun by 31 December 2011, the Group has no significant event subsequent to the reporting period.

56. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation.

57. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2012.

FIVE YEAR FINANCIAL SUMMARY

31 December 2011

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 2010, is set out below:

RESULTS

	Year ended 31 December				
	2007 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*	2010 *HK$'000*	**2011** ***HK$'000***
CONTINUING OPERATIONS					
Revenue	10,975,515	19,704,247	24,208,430	27,612,778	**30,471,759**
Operating profit	1,587,555	2,289,768	2,521,232	2,429,459	**2,575,122**
Share of profits and losses of:					
Jointly-controlled entities	178,243	912,628	1,092,074	1,168,658	**1,300,189**
Associates	261,009	(146,811)	(7,920)	196,449	**373,392**
Profit before tax	2,026,807	3,055,585	3,605,386	3,794,566	**4,248,703**
Income tax	(263,872)	(359,297)	(558,997)	(684,850)	**(583,456)**
Profit for the year from continuing operations	1,762,935	2,696,288	3,046,389	3,109,716	**3,665,247**
DISCONTINUED OPERATIONS					
Profit for the year from discontinued operations	80,827	–	–	–	**–**
Profit for the year	1,843,762	2,696,288	3,046,389	3,109,716	**3,665,247**
ATTRIBUTABLE TO:					
Shareholders of the Company	1,478,212	2,281,828	2,398,883	2,639,278	**2,775,880**
Non-controlling interests	365,550	414,460	647,506	470,438	**889,367**
	1,843,762	2,696,288	3,046,389	3,109,716	**3,665,247**

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2007 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*	2010 *HK$'000*	**2011** ***HK$'000***
Total assets	45,022,029	51,696,742	59,105,310	67,028,794	**77,355,433**
Total liabilities	(13,457,639)	(15,386,272)	(20,088,309)	(26,092,533)	**(32,158,704)**
NET ASSETS	31,564,390	36,310,470	39,017,001	40,936,261	**45,196,729**
Equity attributable to shareholders of the Company	26,889,314	29,631,948	31,305,082	34,267,909	**37,609,667**
Non-controlling interests	4,675,076	6,678,522	7,711,919	6,668,352	**7,587,062**
TOTAL EQUITY	31,564,390	36,310,470	39,017,001	40,936,261	**45,196,729**

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STOCK CODE : 392

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