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北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

(根據公司條例於香港註冊成立之有限公司)

(網站：www.behl.com.hk)

(股份代號：392)

海外監管公告

本海外監管公告乃根據香港聯合交易所有限公司證券上市規則(「**上市規則**」)第13.09(2)條刊發。

茲提述北京控股有限公司(「**本公司**」)於二零一二年四月三日及二零一二年四月十九日就發行票據刊發的該等公告(「**該等公告**」)。除非另有界定，否則本公告所用詞彙與該等公告所定義者具有相同涵義。

請參閱隨附有關票據的發售章程(「**發售章程**」)，該發售章程已於二零一二年四月二十六日在新加坡證券交易所有限公司網站刊登。

在香港交易及結算所有限公司網站刊登發售章程僅旨在向香港投資者同步發佈資訊及為遵守上市規則第13.09(2)條的規定，並無其他目的。

發售章程並不構成於任何司法權區向公眾人士提呈出售任何證券的招股章程、通告、通函、小冊子或廣告，或作為向公眾人士提呈以供認購或購買任何證券的邀請，亦不得視作公眾人士提呈認購或購買任何證券的邀請。

發售章程不應視作認購或購買本公司任何證券的誘因，且並不存任何誘因。不應按發售章程所載資料作出任何投資決定。

承董事會命
北京控股有限公司
副主席
張虹海

香港，二零一二年四月二十七日

於本公告日期，本公司董事會成員包括執行董事王東先生(主席)、張虹海先生、林撫生先生、李福成先生、周思先生、侯子波先生、郭普金先生、劉凱先生、雷振剛先生、鄂萌先生、姜新浩先生及譚振輝先生；獨立非執行董事武捷思先生、白德能先生、林海涵先生及傅廷美先生。

STRICTLY CONFIDENTIAL — DO NOT FORWARD

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A OR (2) PERSONS OR ADDRESSEES OUTSIDE THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the offering memorandum attached to this e-mail. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached offering memorandum. In accessing the attached offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: By accepting the email and accessing the attached document you shall be deemed to have represented to the Initial Purchasers (as defined in the preliminary offering memorandum) that (1) (i) you are not resident in the United States and, to the extent you purchase the securities described in the attached offering memorandum, you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act") OR (ii) you are acting on behalf of, or you are, a qualified institutional buyer, as defined in Rule 144A under the Securities Act ("QIB"), AND (2) that you consent to delivery of the attached offering memorandum and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the issuer of the securities or any Initial Purchaser or any of their respective directors, employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Restrictions: The attached offering memorandum is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. OR ANY OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXCEPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the issuer of the securities or any Initial Purchaser to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute a general advertisement or solicitation in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers and their affiliates on behalf of the issuer in such jurisdiction.

You are reminded that you have accessed the attached offering memorandum on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

Actions that You May Not Take: You should not reply by e-mail to this communication, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORIZED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED OFFERING MEMORANDUM IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING MEMORANDUM **STRICTLY CONFIDENTIAL**

Talent Yield Investments Limited

(incorporated with limited liability in the British Virgin Islands)

Unconditionally and Irrevocably Guaranteed by

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

Beijing Enterprises Holdings Limited

(incorporated with limited liability in Hong Kong)

(Stock Code: 392)

US$800,000,000 4.50% Guaranteed Senior Notes due 2022

The US$800,000,000 4.50% Guaranteed Senior Notes due 2022 (the "Notes") to be issued by Talent Yield Investments Limited (the "Issuer") will bear interest from and including April 25, 2012 at the rate of 4.50% per annum payable semi-annually in arrears on April 25 and October 25 in each year commencing on October 25, 2012, and will mature on April 25, 2022. The Notes and the Guarantee (as defined below) are together referred to as the "Securities."

The Notes are senior obligations of the Issuer and are unconditionally and irrevocably guaranteed on a senior basis (the "Guarantee") by Beijing Enterprises Holdings Limited (the "Guarantor"). The Issuer is a direct wholly owned subsidiary of the Guarantor and was established solely for the purpose of issuing certain indebtedness including the Notes. The Notes will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer (other than obligations preferred by applicable law) and senior in priority of payment and in all other respects to all other obligations of the Issuer that are designated as subordinate or junior in right of payment to the Notes. The obligations of the Guarantor under the Guarantee will constitute direct, unconditional, unsecured and unsubordinated obligations of the Guarantor and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Guarantor (other than obligations preferred by applicable law) and senior in priority of payment and in all other respects to all other obligations of the Guarantor that are designated as subordinate or junior in right of payment to the Guarantee.

The Issuer may, at any time upon giving not less than 30 nor more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable), redeem the Notes, in whole but not in part, at the Early Redemption Amount. See "Description of the Notes and Guarantee — Optional Redemption." The Notes may be redeemed at any time, at the option of the Issuer, as a whole but not in part, upon notice at 100% of the principal amount thereof, plus accrued and unpaid interest, in the event, as a result of certain developments affecting taxation described herein, the Issuer or the Guarantor is, or would be, obligated to pay Additional Amounts in respect of the Notes or the Guarantee. See "Description of the Notes and Guarantee — Optional Redemption for Taxation Reasons." An investor shall have the right, at such investor's option, to require the Issuer to redeem all or some of such investor's Notes on the Put Date at 101% of their principal amount together with accrued interest up to but excluding the Put Date upon the occurrence of a Change of Control Triggering Event with respect to the Guarantor. See "Description of the Notes and Guarantee — Redemption for Change of Control Triggering Event." For a more detailed description of the Notes and the Guarantee, see "Description of the Notes and Guarantee" beginning on page 99.

Investing in the Notes involves certain risks. See "Risk Factors" beginning on page 15.

The Notes and the Guarantee have not been nor will they be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and they may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes are being offered (A) in the United States only to persons who are "qualified institutional buyers" as defined in Rule 144A under the Securities Act in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (B) outside the United States in offshore transactions pursuant to Regulation S under the Securities Act ("Regulation S"). See "Transfer Restrictions" for a description of certain restrictions on purchase resale or transfer of the Notes.

Approval in-principle has been obtained for the listing of the Notes on the Official List of the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this offering memorandum. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantor, its subsidiaries or associated companies or the Notes. The Notes will be traded on the SGX-ST in a minimum board lot size of not less than US$200,000 (or its equivalent in other currencies) as long as any of the Notes are listed on the SGX-ST and as the rules of the SGX-ST so require. Currently, there is no market for the Notes.

The Notes are expected to be assigned a rating of "Baa1" by Moody's Investors Service, Inc. and "A-" by Standard and Poor's Rating Services. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Price for the Notes: 99.316%

The Initial Purchasers (as defined herein) expect to deliver the Notes to purchasers in book-entry form through The Depository Trust Company and its participants, including Euroclear Bank, S.A./N.V. and Clearstream Banking, *société anonyme*, on or about April 25, 2012, which is the fifth business day following the date of this offering memorandum. See "Plan of Distribution."

Joint Global Coordinators

BofA Merrill Lynch **HSBC** **Morgan Stanley**

Joint Lead Managers and Bookrunners

BofA Merrill Lynch **HSBC** **Morgan Stanley** **DBS Bank Ltd.** **ICBC International** **Standard Chartered Bank**

April 18, 2012

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IN CONNECTION WITH THIS OFFERING, THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME.

In making your investment decision, you should rely only on the information contained in this offering memorandum. We have not, and the Initial Purchasers have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the Initial Purchasers are not, making an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum. Our business, financial condition, results of operations and prospects and those of our subsidiaries, jointly-controlled entities and associates may have changed since that date.

NOTE TO INVESTORS

This offering memorandum is confidential. This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the Securities described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Securities. You are authorized to use this offering memorandum solely for the purpose of considering the purchase of the Notes. Distribution of this offering memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and to make no photocopies of this offering memorandum or any documents referred to in this offering memorandum.

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering and the Notes, including the merits and risks involved. Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the Securities under applicable legal investment or similar laws or regulations.

We have furnished the information in this offering memorandum. You acknowledge and agree that the Initial Purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by each Initial Purchaser. To the fullest extent permitted by law, none of the Initial Purchasers accept any responsibility for the contents of this offering memorandum or for any statement made or purported to be made by the Initial Purchasers or on their behalf in connection with the Company or the issue and offering of the Notes. The Initial Purchasers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) that any of them might otherwise have in respect of this offering memorandum or any such statement. This offering memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference.

The distribution of this offering memorandum and the offering and sale of the Securities in certain jurisdictions may be restricted by law. No representation is made by us or any of the Initial Purchasers that this offering memorandum may be lawfully distributed or that the Notes may be lawfully offered in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and none of them assumes responsibility for facilitating any such distribution or offering or for a purchaser's failure to comply with applicable laws and regulations. We and the Initial Purchasers require persons into whose possession this offering memorandum comes to inform themselves about and to observe any such restrictions. This offering memorandum does not constitute an offer of, or an invitation to purchase, the Securities in any jurisdiction in which such offer or sale would be unlawful. No one has taken any action that would permit a public offering to occur in any jurisdiction. For a description of certain restrictions on offers and sales of the Notes, and distribution of this offering memorandum, see "Transfer Restrictions" and "Plan of Distribution."

We and each of the Initial Purchasers reserve the right to reject any offer to purchase any Notes, in whole or in part, for any reason, or to sell less than the aggregate principal amount of Notes offered by this offering memorandum.

In connection with the issue and distribution of the Notes, the Initial Purchasers or any person acting for them may, subject to applicable laws and regulations, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period of time. However, the Initial Purchasers or any person acting for them are under no obligation to do so. Furthermore, such stabilization, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The Securities have not been and will not be registered under the Securities Act or any state securities laws in the United States. None of the Issuer and the Guarantor are registered, nor will they register, under the U.S. Investment Company Act and investors will not be entitled to the benefits of the U.S. Investment Company Act. Subject to certain exceptions, the Securities may not be offered or sold within the United States. Pursuant to this offering, the Securities may not be offered or sold in the United States, except that the Securities may be offered or sold to (a) persons who are "qualified institutional buyers," as defined in Rule 144A under the Securities Act in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) in offshore transactions in reliance on Regulation S.

Neither the United States Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of the Notes or the Guarantee or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense in the United States. Prospective purchasers are hereby notified that the sellers of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

The Securities are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this offering memorandum entitled "Plan of Distribution" and "Transfer Restrictions." By purchasing the Securities, you will be deemed to have made the acknowledgments, representations, warranties and agreements described under the heading "Transfer Restrictions" in this offering memorandum.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

The Securities may not be offered or sold to any person in the United Kingdom, other than to persons whose ordinary activities involve them acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING

BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATION OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CONVENTIONS

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms “we,” “us,” “our” and words of similar import, we are referring to Beijing Enterprises Holdings Limited itself or to Beijing Enterprises Holdings Limited and its subsidiaries, as the context requires. When we use the term “Company” or “Guarantor” we are referring to Beijing Enterprises Holdings Limited and when we use the term “Group” or “BEHL,” we are referring to Beijing Enterprises Holdings Limited and its subsidiaries.

In this offering memorandum, all references to “PRC” and “China” are references to the People’s Republic of China and, for the purposes of this offering memorandum, do not include Hong Kong, Macau and Taiwan; references to the “PRC Government” are to the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional and local government entities) and instrumentalities thereof, or, where the context requires, any of them; references to “RMB” or “Renminbi” are to Renminbi, the official currency of the People’s Republic of China; references to “HK$” and “HK dollars” are to Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of the PRC (“Hong Kong” or “HK”) and references to “US$” and “U.S. dollars” are to United States dollars, the lawful currency of the United States of America (the “United States” or “U.S.”).

All references to “capacity,” whether referring to production or distribution and transmission volumes or otherwise, are references to estimates of the maximum production, distribution or transmission (as the case may be) possible in the year or period in question, under normal working conditions. These figures should not be relied upon as an accurate predictor of the actual capacity. In calculating the capacity of our facilities, a number of factors were considered, including the specifications of products produced and the optimal working time of that facility. Actual results may differ from capacity as a result of variations in product mix, operational time, equipment conditions and other factors. Historically, we have not achieved 100% utilization rates due to various factors, including reductions in operating times due to reduced customer demand, seasonal production levels, management of inventory levels to satisfy customer orders from existing inventories and other factors.

Certain terms used herein are defined in the “Glossary” contained elsewhere in this offering memorandum.

FINANCIAL DATA

In this offering memorandum, references to “2009,” “2010” and “2011” refer to the years ended December 31, 2009, 2010 and 2011, respectively. The consolidated financial statements presented in this offering memorandum are prepared and presented in accordance with HKFRS which differ in certain respects from generally accepted accounting principles in the United States (“U.S. GAAP”). Prospective investors should be aware that HKFRS and U.S. GAAP differ from each other in certain significant respects. Our financial statements have not been reconciled to U.S. GAAP. If any such reconciliation were performed or an attempt were made to identify relevant differences as between HKFRS and U.S. GAAP as they relate to us, particular financial statement items that are presented under U.S. GAAP could vary materially and adversely from the corresponding items as presented under HKFRS. We have not prepared any financial information in accordance with U.S. GAAP nor a reconciliation or quantification of differences between HKFRS and U.S. GAAP. Investors are encouraged to contact their own financial advisors if they have any questions with respect to HKFRS.

Solely for the convenience of the reader, certain Hong Kong dollar amounts have been translated into U.S. dollars at specified rates. Unless otherwise indicated, U.S. dollar equivalent information for amounts in Hong Kong dollars is based on the linked exchange rate between such currencies under policies of the Hong Kong government in effect as of the date of this offering memorandum, which was HK$7.78 = US$1.00. No representation is made that the Hong Kong dollar or U.S. dollar amounts shown herein could have been or could be converted into U.S. dollars or Hong Kong dollars, as the case may be, at any particular rate or at all. See "Exchange Rates and Exchange Controls."

Certain financial information in this offering memorandum has been rounded for convenience and, as a result, the totals of the data presented in this offering memorandum may vary slightly from the actual arithmetic totals of such information.

NON-GAAP FINANCIAL MEASURES

This offering memorandum includes certain non-GAAP financial measures for the Company. We define EBITDA for the purposes of this offering memorandum as profit for the year *plus* income tax, depreciation, amortization of intangible assets, finance costs, impairment of non-financial and financial assets and provision against inventories, net, dividends received from jointly-controlled entities and associates, (gain) loss on disposal of items of property, plant and equipment, net and fair value loss on the derivative component of convertible bonds *less* share of profits and losses of jointly-controlled entities and associates, (gain) loss on foreign exchange, net, gain on deemed disposal of partial interest in associates and gain on deemed disposal of interest in a subsidiary, which may be different from the way EBITDA is defined by us for other purposes. EBITDA is presented because we believe it provides investors with important additional information to evaluate our performance. Moreover, we believe that investors, analysts and rating agencies will consider EBITDA useful in measuring our ability to meet our debt service obligations. However, EBITDA is not a recognized measurement under U.S. GAAP and when analyzing our performance, investors should use EBITDA in addition to, and not as an alternative to, net income or other performance measures derived in accordance with U.S. GAAP. Set forth below is a reconciliation of our net income to EBITDA. EBITDA, as well as the related ratios presented in this offering memorandum, are supplemental measures of respective performance and liquidity that are not required by, or presented in accordance with HKFRS or U.S. GAAP, are not measurements of financial performance or liquidity under HKFRS or U.S. GAAP and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with HKFRS or U.S. GAAP or as alternatives to cash flow from operating activities as a measure of liquidity. In addition, EBITDA is not a standardized term; accordingly, a direct comparison between companies using such a term may not be possible.

We believe that EBITDA facilitates comparisons of operating performance from period to period and company to company by eliminating potential differences caused by variations in capital structures (affecting interest, finance charges and related derivative gains (losses), net of interest income), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation and amortization of tangible and intangible assets (affecting relative depreciation and amortization expenses). In particular, presentation of EBITDA of the Group adjusts for the non-cash equity in net income of jointly-controlled entities and associates and foreign exchange gains (losses). EBITDA has been presented because we believe that it is frequently used by securities analysts, investors and other interested parties in evaluating similar companies, many of whom present such non-GAAP financial measures when reporting their results. Finally, EBITDA is presented as a supplemental measure of our ability to service our debt. Nevertheless, EBITDA has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for, analysis of our financial condition or results of operations, as reported under HKFRS. Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

INDUSTRY AND MARKET DATA

This document includes market share and industry data and forecasts that we and the Issuer have obtained from industry publications and surveys, reports of governmental agencies and internal company surveys. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but we cannot assure you that the information is complete or accurate. While we have taken reasonable actions to ensure that the information is extracted accurately and in its proper context, we have not independently verified any of the data from third-party sources or ascertained the underlying economic assumptions relied upon therein.

ENFORCEABILITY OF FOREIGN JUDGMENTS

The Issuer is an exempted company incorporated in the British Virgin Islands with limited liability. The British Virgin Islands has a different body of securities laws from the United States and protections for investors may differ. All of the Issuer's assets are located outside the United States. In addition, all of the Issuer's directors and officers are nationals or residents of countries other than the United States (principally in the PRC), and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon the Issuer or such persons or to enforce against the Issuer or such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

Conyers Dill & Pearman, our counsel as to British Virgin Islands laws, has advised the Issuer that the courts of the British Virgin Islands would recognize as a valid judgment, a final and conclusive judgment *in personam* obtained in the federal or state courts in the United States against the Issuer under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the British Virgin Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the British Virgin Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the British Virgin Islands and (f) there is due compliance with the correct procedures under the laws of the British Virgin Islands.

We are incorporated in Hong Kong with limited liability. Hong Kong has a different body of securities laws from the United States and protections for investors may differ. All of our assets are located outside the United States. In addition, all of our directors and officers are nationals or residents of countries other than the United States (principally in the PRC), and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or such persons or to enforce against us or such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We have been advised by Mayer Brown JSM, our Hong Kong legal adviser, that Hong Kong has no statutory or other arrangement for the reciprocal enforcement of judgments with the United States. Subject to the Foreign Judgments (Restriction on Recognition and Enforcement) Ordinance (Cap. 46 of the Laws of Hong Kong), a judgment given by the courts of United States could form the basis of a claim in the Hong Kong courts in respect of the judgment debt if:

(a) the judgment was not obtained by fraud, misrepresentation or mistake nor obtained in proceedings which contravene the rules of natural justice;

(b) enforcement of the judgment would not be contrary to public policy in Hong Kong;

(c) the relevant court of United States had jurisdiction in accordance with the Hong Kong rules on the conflict of laws;

(d) the judgment is for a definite sum of money which is not payable in respect of taxes or other charges of a similar nature or in respect of a fine or other penalty; and

(e) the judgment is final and conclusive between the parties, but if it is capable of being appealed or an appeal is pending, the proceedings in Hong Kong are likely to be stayed by the courts of Hong Kong pending any such appeal being heard.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains "forward-looking" statements that relate to future events, which are, by their nature, subject to significant risks and uncertainties. All statements, other than statements of historical fact contained in this offering memorandum including, without limitation, those regarding the Issuer's and the Guarantor's respective future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where they participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "aim," "intend," "plan," "will," "may," "project," "estimate," "anticipate," "predict," "seek," "should" or similar words or expressions, are forward-looking statements.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause the actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future and are not a guarantee of future performance. Important factors that could cause the actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things, the following:

- in respect of our natural gas business:
  - the loss of our sole supplier of natural gas including, but not limited to, inability to renew or extend contracts, political events, natural disasters or otherwise;
  - an increase in the price of natural gas set by the PRC Government;
  - the ability to maintain or increase market share for piped gas while controlling expenses;
  - competition from energy substitutes such as coal gas, LPG and electricity;
  - the ability to retain licenses granted by the PRC Government;
  - reductions in use of natural gas by major customers, or the termination or expiration of contracts or the loss of customers; and
- in respect of beer brewery business:
  - the effect of competition from local and international breweries;
  - disruption in the supply or fluctuations in the price of raw materials;
  - inability to maintain good relations with our distributors/loss of distributors;
  - infringement of "Yanjing" brand name and related trademarks;
  - product liability claims; and

- in respect of our sewage and water treatment business:
  - water shortages;
  - restrictions on the use and supply of water; and
- other important factors affecting our businesses:
  - our relationships with the PRC Government and the local community;
  - the outcome of any remedial action taken under PRC environmental regulations and/or PRC health and safety regulations;
  - global and regional recession, reduced economic activity or market disruption due to world and regional events;
  - the effects of changes in laws, regulations, taxation or accounting standards or practices;
  - the availability of skilled personnel at a competitive cost or at all;
  - operating hazards, war, terrorism and cancellation or unavailability of insurance coverage;
  - acquisitions, divestitures and various business opportunities that we may pursue;
  - changes in our capital expenditure requirements;
  - changes in relationships with our major customers;
  - changes in relationships with joint venture partners;
  - accidents, natural disasters or outbreaks of infectious diseases, such as swine influenza or avian influenza, in our markets;
  - unpredictable weather conditions;
  - labor unrest or other similar situations;
  - the outcome of pending or threatened litigation; and
  - our success at managing the risks of the above factors.

This list of important factors is not exhaustive. Additional factors that could cause the actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors." When considering the forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We make no representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. Accordingly, you should not place undue reliance on any forward-looking statement.

AVAILABLE INFORMATION

We have agreed that, for so long as the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from such reporting requirements pursuant to Rule 12g3-2(b) thereunder, furnish to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

INCORPORATION BY REFERENCE

We hereby incorporate by reference the consolidated financial statements of the Company with respect to the year ended December 31, 2009 together with the independent auditors' report thereon issued by Ernst & Young dated March 30, 2010, as contained in the 2009 Annual Report of the Company, and such documents are deemed part of this offering memorandum.

GLOSSARY

"2021 Notes"	means the US$600,000,000 5.00% Guaranteed Senior Notes due 2021
"2041 Notes"	means the US$400,000,000 6.375% Guaranteed Senior Notes due 2041
"BEHL" or "Group"	means Beijing Enterprises Holdings Limited and its subsidiaries
"Beijing Development"	means Beijing Development (Hong Kong) Limited
"Beijing Gas"	means Beijing Gas Group Company Limited
"BE Water"	means Beijing Enterprises Water Group Limited
"BMWC"	means Beijing Municipal Water Company
"Board" or "Board of Directors" or "Directors"	means the board of directors of Beijing Enterprises Holdings Limited
"BOT"	means build-operate-transfer
"BT"	means build-transfer
"BVI"	means the British Virgin Islands
"CCGT"	means combined cycle gas turbine
"CNG"	means compressed natural gas
"Code"	means the United States Internal Revenue Code of 1986, as amended
"Company" or "Guarantor"	means Beijing Enterprises Holdings Limited
"Companies Ordinance"	means the Companies Ordinance (Cap. 32) of Hong Kong
"Concession Facilities"	means Phase I of the Beijing Water Plant No. 9 project
"Custodian"	means HSBC Bank USA, National Association
"DTC"	means The Depository Trust Company
"Exchange Act"	means the United States Securities Exchange Act of 1934, as amended
"FSMA"	means the Financial Services and Markets Act 2000

"Global Notes"	means the Regulation S Global Notes and the Rule 144A Global Notes
"Guarantee"	means the guarantee by the Company of the Notes
"HIBOR"	means the Hong Kong Interbank Offer Rate
"HKFRS"	means Hong Kong Financial Reporting Standards
"IFRS"	means the International Financial Reporting Standards
"Indenture"	means the indenture dated April 25, 2012 among the Issuer, the Guarantor and the Trustee
"Initial Purchasers"	means Merrill Lynch International, The Hongkong and Shanghai Banking Corporation Limited, Morgan Stanley & Co. International plc, DBS Bank Ltd., Standard Chartered Bank and ICBC International Securities Limited
"IRS"	means the United States Internal Revenue Service
"Issue Date"	means April 25, 2012
"Issuer"	means Talent Yield Investments Limited
"km."	means kilometer(s)
"LIBOR"	means the London Interbank Offered Rate
"Listing Rules"	means the Rules governing the listing of securities on the Stock Exchange of Hong Kong Limited
"LPG"	means liquefied petroleum gas
"MOH"	means the Ministry of Health of the PRC
"Moody's"	means Moody's Investors Service, Inc.
"NDRC"	means the National Development and Reform Commission
"Noteholders" or "Holders"	means the registered holders of the Notes
"Notes"	means the US$800,000,000 4.50% Guaranteed Senior Notes due 2022
"OID"	means original issue discount
"PBOC"	means the People's Bank of China
"PetroChina Beijing Pipeline" . . .	means PetroChina Beijing Pipeline Company Limited
"PetroChina Associate Company".	means a subsidiary of PetroChina Company Limited that supplies natural gas to us

"Paying and Transfer Agent"	means HSBC Bank USA, National Association
"Purchase Agreement"	means the purchase agreement dated April 18, 2012 entered into among the Initial Purchasers, the Issuer and the Guarantor
"Regulation S".	means Regulation S under the Securities Act
"Regulation S Global Notes"	means the Notes sold outside the United States in offshore transactions pursuant to Regulation S
"Registrar".	means HSBC Bank USA, National Association
"Rule 144A Global Notes".	means the Notes sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act
"S&P"	means Standard and Poor's Rating Services
"SAFE"	means State Administration of Foreign Exchange
"SARS"	means severe acute respiratory syndrome
"Scheme".	means the Guarantor's share option scheme
"Securities"	means the Notes and the Guarantee
"Securities Act"	means the United States Securities Act 1933, as amended
"SFA"	means the Securities and Futures Act, Chapter 289 of Singapore
"SFO"	means the Securities and Futures Ordinance (Cap. 571) of Hong Kong
"SGX-ST"	means Singapore Exchange Securities Trading Limited
"Shares"	means shares of the Guarantor with a par value of HK$0.1
"Shenzhen Shiguan Highway" . . .	means a series of roads and bridges located in the Baoan district in the Shenzhen Municipality
"Trustee"	means HSBC Bank USA, National Association
"U.S. GAAP".	means the generally accepted accounting principles in the United States
"U.S. person".	means a U.S. person as defined in Section 7701 (a)(30) of the Code
"Yanjing Brewery".	means Beijing Yanjing Brewery Co., Ltd.

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SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this offering memorandum. As it is a summary, it does not contain all of the information that may be important to you. You should therefore read this offering memorandum in its entirety.

Overview

We are a conglomerate backed by the Beijing Municipal Government focused on gas utilities, complemented by our consumer products and sewage and water treatment businesses conducted through either our subsidiaries or our associate, BE Water. Since 1997, we have been managing strategic infrastructure and public utilities assets for the Beijing Municipal Government, our majority shareholder. Our broad portfolio of assets includes natural gas distribution and transmission assets, brewery operations, sewage and water treatment facilities and concessions, expressways and toll roads and technology. Leveraging these assets, we seek to achieve consistent financial performance and to attract international investment to further develop Beijing's municipal infrastructure and other businesses. We believe our portfolio of businesses, each with a leading market position and stable cashflows, enables us to manage volatility across our business segments, thereby positioning us to capture growth opportunities in the utilities and consumer products sectors in Beijing and throughout the PRC. We recorded revenue of HK$24,208.4 million, HK$27,612.9 million and HK$30,471.8 million (US$3,916.7 million) for 2009, 2010 and 2011, respectively, and had total assets of HK$59,105.3 million, HK$67,028.8 million and HK$77,355.4 million (US$9,942.9 million) as of December 31, 2009, 2010 and 2011, respectively.

We believe we rank as one of the largest city natural gas operators in the PRC with a natural gas pipeline network of approximately 14,000 km, five citygates, four spherical gas holding stations and approximately 4.3 million natural gas users as of December 31, 2011. With over five decades of fuel gas management experience and expertise, our natural gas distribution network supplies natural gas to industrial, heating and cooling, residential, power and the public sectors in the Greater Beijing city area. Consistent with the Beijing Municipal Government's objective to reduce coal-fired power generation in the Greater Beijing city area, we expect growth opportunities to help us maintain and expand our leading position through coal-to-gas power plant conversions and increased promotion of natural gas as a cleaner alternative to other power generation fuels.

In addition, we operate one of the largest breweries in the PRC with a diversified brand and product portfolio, a leading market position in Beijing and strong national reputation. Since 1999, Yanjing Beer has expanded beyond its leading position in Beijing to operate 39 breweries in 17 provinces with an annual production capacity of approximately 8.75 billion liters as of December 31, 2011. Yanjing Beer produces a wide variety of products designed to appeal to different consumer groups and cover different price points. Through its wide-reaching local production centers, it distributes beer and other beverage products to most areas of the PRC using a three-tier distribution network of distributors, wholesalers and retailers.

Our sewage and water treatment facilities comprise facilities operated or constructed by BE Water in 18 provinces across the PRC and the Beijing No. 9 Water Treatment Plant. BE Water had a daily sewage and water treatment design capacity of 8,728,950 tons as of December 31, 2011. Extensive PRC Government policy directives aimed to ensure safe and reliable water supply throughout the country have resulted in opportunities to bundle sewage and water treatment projects, thereby enabling us to leverage our design, construction and operations expertise for provincial governments nationally. Through our associate, BE Water, we have developed an integrated business model with design and technical consultancy, construction, ownership and operational capabilities for sewage and water treatment projects. Our extensive project capabilities enable us to capture the entire value chain from project concept and design stages to construction and operation.

Our expressways and toll roads business manages and operates the Beijing Capital International Airport Expressway (the "Capital Airport Expressway") and the Shenzhen Shiguan Highway. Since September 1993, the Capital Airport Expressway has connected Beijing Airport to the city center of Beijing. The Shenzhen Shiguan Highway comprises a series of roads and bridges located in the Baoan district of Shenzhen. As our strategy is to focus management's attention on our utilities and consumer products business segments, we plan to gradually divest our expressways and toll roads business. The Municipal Government of Shenzhen has withdrawn our franchise operating rights for the Shenzhen Shiguan Highway. On December 31, 2011, we ceased operation of our toll business on the Shenzhen Shiguan Highway. In 2011, we entered into negotiations with the Municipal Government of Shenzhen to obtain adequate and reasonable compensation. The Municipal Government of Shenzhen approved, in principle, the granting of compensation payments for the withdrawal of this right. We have not reached a definitive agreement with the Municipal Government of Shenzhen regarding the total compensation amount. We have not been notified of any similar withdrawal plan for the Capital Airport Expressway in Beijing.

Competitive Strengths

We believe our competitive strengths include:

Favorable industry dynamics benefiting from supportive PRC Government policies

Our principal business relates to the distribution and transmission of natural gas, particularly to the expanding Greater Beijing city for a 25-year period ending in 2032. In recent policy announcements, the PRC Government has stated its intention to reduce air pollution and other detrimental environmental effects in major urban areas to increase the livability of the PRC's cities. Specifically, according to the Beijing Municipal Government's 12th five-year plan, the Beijing Municipal Government is planning to close substantially all coal-fired power plants and boilers located inside the fifth ring road region of Beijing by 2015 and to increase the percentage of gas consumption of total energy consumption from approximately 13% in 2010 to 24% in 2015. Through coal-to-gas conversions of major power generators in and around Beijing and the expected subsequent increased usage of natural gas following such conversions, we believe that we are well-positioned to benefit from increasingly strong PRC Government policy directives promoting cleaner-burning fuels such as natural gas in the residential, heating and cooling, industrial, power generation, and public sectors.

Strong support from the Beijing Municipal Government

We believe we enjoy several benefits through our strategic relationship with the Beijing Municipal Government, including the ability to manage strategic assets in Beijing, assistance with project sourcing in Beijing and throughout the PRC, cost pass-through negotiation assistance and financing support. The Beijing Municipal Government has entrusted us to manage several key municipal assets, including our effective monopoly rights to distribute natural gas in Beijing and our management of the national beer brand, Yanjing Beer. Through our franchise operating rights for the Beijing No. 9 Water Treatment Plant, we supplied approximately 30.0% of Beijing's water with daily sewage and water treatment capacity of approximately 500,000 tons of water in 2011. Through our natural gas distribution and transmission business as well as sewage and water treatment businesses, we provide services that are critical to the smooth functioning of Beijing.

In addition, we believe our strategic relationship with the Beijing Municipal Government provides PetroChina Beijing Pipeline assistance with identifying and sourcing new natural gas transmission pipelines throughout the PRC as well as securing large-scale projects from local governments. Through strong relationships with the PRC Government's agencies and state-owned enterprises, we believe we benefit in negotiations related to both the pass-through mechanism for preserving margins for natural gas distribution and upstream wellhead price-setting.

Several of our key management officers are appointed directly by the Beijing Municipal Government and are responsible for adding value to the state-owned assets we manage. State Owned Assets Supervision and Administration and Commission of the People's Government of Beijing Municipality ("SASAC") supervises and controls our operating risks. Over the years, we have emerged as the flagship company of the Beijing Municipal Government and have raised approximately HK$13,500 million through overseas financing. This success has been bolstered by the financial support of our majority shareholder, and the ability to secure bank financing for our operations in the PRC from major PRC banks at attractive rates.

A leading PRC gas utility with a large-scale distribution network, integrated business model and effective monopoly in Beijing

We hold effective monopoly rights to supply natural gas in the expanding Greater Beijing city area for a 25-year period ending in 2032 pursuant to notices from the Beijing Municipal Government dated August 16, 2005 and April 21, 2006, respectively and an implementation plan《北京燃氣有限公司管道天燃氣特許經營項目實施方案》agreed in principle by the Beijing Municipal Government in 2006. We believe we rank as one of the largest natural gas retail operators in the PRC, with a natural gas pipeline network of approximately 14,000 km, five citygates, four spherical gas holding stations and approximately 4.3 million natural gas users as of December 31, 2011. This leading position, bolstered by strong support from the Beijing Municipal Government and significant infrastructure investment to extend our network to Beijing's satellite new towns, which capital expenditure has been completed, provides us with a solid platform for growth and a healthy basis for future revenues and establishes significant barriers to entry for potential competitors.

We also participate in midstream natural gas transmission services through our jointly-controlled and 40.0%-owned entity, PetroChina Beijing Pipeline. We believe this strategic cooperation provides us with stable gas supplies, priority for allocation of gas supplies to Beijing and secures competitive pricing terms so as to optimize our profitability.

Gas utilities business, complemented by brewery and sewage and water treatment businesses, reducing business concentration risk

We believe our natural gas distribution and transmission network, brewery operations and sewage and water treatment facilities will provide stable cashflows in coming years due to their strong track record and our prudent financial policy. Enhanced by the alliance between our asset base and the PRC Government's policies for cleaner-burning fuels for power generation and the need to increase the stability of clean water supply to urban areas, we believe we are well positioned to access these opportunities. We have historically generated strong cashflows and have maintained relatively consistent margins, thereby maintaining a solid platform for stable and profitable growth. We believe our business portfolio helps us to mitigate our exposure to any single operation.

Track record of strong growth with attractive and visible growth prospects

We have achieved strong growth over the past several years. Our natural gas sales volume increased from approximately 5.69 billion cubic meters to 6.46 billion cubic meters to 6.47 billion cubic meters for 2009, 2010 and 2011, respectively. PetroChina Beijing Pipeline's natural gas transmission volume increased from approximately 14.39 billion cubic meters to 17.24 billion cubic meters to 20.31 billion cubic meters for 2009, 2010 and 2011, respectively. In addition, we expanded our annual production capacity for our brewery business from approximately 7.00 billion liters to 8.65 billion liters to 8.75 billion liters for 2009, 2010 and 2011, respectively. Our annual sales volume for our brewery business increased from approximately 4.67 billion liters to 5.03 billion liters to 5.51 billion liters for 2009, 2010 and 2011, respectively. As a result, our revenues increased from HK$24,208.4 million to HK$27,612.9 million to HK$30,471.8 million (US$3,916.7 million) and our profit for the year increased from HK$3,046.4 million to HK$3,109.7 million to HK$3,665.2 million (US$471.1 million) for 2009, 2010 and 2011, respectively.

We believe we are well-positioned to participate in the potential future growth in the PRC energy consumption and demographic trends such as the increasing urbanization of the PRC's population. Driven by escalating energy consumption levels and PRC Government policies encouraging cleaner-burning fuels for power generation in urban areas, we expect to expand our natural gas network significantly as natural gas demand increases in the Beijing metropolitan and other areas. Likewise, we expect national water policies to support our sewage and water treatment facilities, including our design and construction capabilities related to greenfield projects.

Excellent management with a proven track record and deep industry expertise

We continue to seek attractive energy and infrastructure investments in the PRC and to enhance the value of our existing businesses. Recent strategic divestments identified by our management team demonstrate our commitment to focusing on key strategic assets with strong and consistent profit margins. Moreover, we believe our strong understanding of the local market and close relationship with the Beijing Municipal Government enables us to manage assets more effectively than our competitors. See "Management."

Business Strategy

Our strategy is to enhance our position as a leading utilities and consumer products company in the PRC by making attractive investments enhancing the value of our existing businesses. Our strategy consists of the following key elements:

Leveraging natural gas experience and extensive network to develop existing and expand into new markets

With over five decades of fuel gas management experience and expertise, our wide-reaching natural gas distribution and transmission network supplies residential, industrial and power generation users in the Greater Beijing city area. As a leading city natural gas provider in the PRC, we are well positioned to extend our distribution network to suburban counties of Beijing. We expect increased urbanization, combined with increasing per capita income of urban populations, to contribute to higher natural gas usage per capita among an expanding population base. In the Greater Beijing city area, we are actively extending our network to 11 districts and counties outside Beijing's Sixth Ring Road with eight districts already connected. In addition to expanding the capacity and geographic coverage of our natural gas distribution and transmission network, we plan to focus on improving the quality of our service and improve our back-office support system.

Promoting natural gas as a cleaner alternative for residential, commercial and power generation uses

Consistent with the PRC Government's policies, especially policies directed at industrial and power generation consumption in Beijing, we plan to promote gas-fired boilers and CNG through the construction of small-scale CNG production facilities. On a larger scale, we intend to become more involved in coal-fired to gas-fired power plant conversions to facilitate cleaner power generation.

Strengthening national branding and expanding production capacity of Yanjing Beer

Since 1999, Yanjing Beer has expanded beyond its leading position in Beijing to operate 39 breweries in 17 provinces with an annual production capacity of approximately 8.75 billion liters as of December 31, 2011. Through our four brands, "Yanjing," "Liquan," "Huiquan" and "Xuelu" (the "1+3 Brands") we have products positioned at different price points catering to different regional markets. We believe this leading platform makes us well-placed to expand our operations to achieve greater penetration of the domestic and international beer markets. Through increasing brand awareness by clear positioning and standardizing our brand management, we seek to leverage our strong production technology and network of local production facilities to increase market penetration in a greater number of markets nationally and internationally and to expand our export sales gradually.

Re-designing our business model to accelerate expansion of sewage and water treatment projects

We possess an integrated business model with design and technical consultancy, construction, ownership and operational capabilities for sewage and water treatment projects. Our extensive project capabilities enable us to capture the entire value chain from project concept and design stages through construction and operation. By reviewing the PRC Government's industrial policies and enhancing our research and development capabilities, we plan to broaden our sewage and water treatment portfolio through the completion of fully integrated projects that utilize our wide range of capabilities and capture a larger share of the value chain for each project.

General Information

Our registered office is located at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, and our telephone number is +852 2915 2898.

SUMMARY OF THE OFFERING

The following is a brief summary of the terms of the offering and is qualified in its entirety by the remainder of this offering memorandum. Words and expressions defined in "Description of the Notes and Guarantee" shall have the same meanings in this summary.

Issuer	Talent Yield Investments Limited
Guarantor	Beijing Enterprises Holdings Limited
Notes	US$800,000,000 4.50% Guaranteed Senior Notes due 2022 (the "Notes").
Issue Price	99.316%
Closing Date	April 25, 2012.
Maturity Date	April 25, 2022.
The Offering	The Notes are being offered (i) in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act and (ii) outside the United States in reliance on Regulation S under the Securities Act. See "Plan of Distribution."
Interest	The Notes will bear interest at the rate of 4.50% per annum, payable semi-annually in arrears on April 25 and October 25 in each year commencing on October 25, 2012. See "Description of the Notes and Guarantee — General."
Status of the Notes and the Guarantee	The Notes will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer (other than obligations preferred by applicable law) and senior in priority of payment and in all other respects to all other obligations of the Issuer that are designated as subordinate or junior in right of payment to the Notes. The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsecured and unsubordinated obligations of the Guarantor and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Guarantor (other than obligations preferred by applicable law) and senior in priority of payment and in all other respects to all other obligations of the Guarantor that are designated as subordinate or junior in right of payment to the Guarantee.

Negative Pledge	So long as any Note remains outstanding, the Issuer and the Guarantor will not, and the Guarantor will ensure that none of its Subsidiaries will create, or have outstanding, any Lien, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without (a) at the same time or prior thereto securing the Notes and the Guarantee equally and ratably therewith or (b) providing such other security for the Notes and the Guarantee as shall be approved by an act of the holders holding at least a majority of the principal amount of Notes then outstanding. See "Description of the Notes and Guarantee — Limitation on Liens."
Payments	All payments of principal and interest made by the Issuer in respect of the Notes and all payments made by the Guarantor pursuant to the Guarantee, shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the BVI, Hong Kong or the PRC or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction of such Taxes is required by law or regulation or by the application or official interpretation thereof. In that event, the Issuer or the Guarantor, as applicable, shall pay such additional amounts as will result in receipt by the holders of the Notes of such amounts as would have been payable to such holders had no such withholding or deduction of such Taxes been required. See "Description of the Notes and Guarantee — Payment of Additional Amounts."
Optional Redemption	The Issuer may, at any time upon giving not less than 30 nor more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable), redeem the Notes, in whole but not in part, at the Early Redemption Amount. See "Description of the Notes and Guarantee — Optional Redemption."
Redemption for Taxation Reasons	The Notes may be redeemed at any time, at the option of the Issuer, as a whole but not in part, upon notice at 100% of the principal amount thereof, plus accrued and unpaid interest, in the event, as a result of certain developments affecting taxation described herein, the Issuer or the Guarantor is, or would be, obligated to pay Additional Amounts in respect of such Notes or Guarantee. See "Description of the Notes and Guarantee — Optional Redemption for Taxation Reasons."

Redemption for Change of Control Triggering Event .... An investor shall have the right, at such investor's option, to require the Issuer to redeem all or some of such investor's Notes on the Put Date in respect of the Notes at 101% of their principal amount together with accrued interest up to but excluding the Put Date upon the occurrence of a Change of Control Triggering Event with respect to the Guarantor. See "Description of the Notes and Guarantee — Redemption for Change of Control Triggering Event."

Form and Denomination .... The Notes will be issued in registered form in minimum denomination of US$200,000 and integral multiples of US$1,000 above that amount. Notes offered in the United States to qualified institutional buyers in reliance on Rule 144A will be represented by one or more Global Notes in fully registered form without interest coupons deposited with HSBC Bank USA, National Association as custodian for, and registered in the name of, Cede & Co., as nominee of DTC. Notes offered outside the United States in reliance on Regulation S will be represented by one or more Global Notes in fully registered form without interest coupons deposited with HSBC Bank USA, National Association as custodian for, and registered in the name of, Cede & Co., as nominee of DTC for the respective accounts of Euroclear and Clearstream.

DTC will credit the account of each of its participants, including Euroclear and Clearstream, with the principal amount of Notes being purchased by or through such participant. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream.

Security Codes	Rule 144A	Regulation S
CUSIP	874246AB7	G8669QAB6
ISIN	US874246AB74	USG8669QAB61
Common Code	077605215	077605240

Clearing .... The Depositary Trust Company.

Governing Law .... The Notes, the Guarantee and the Indenture among the Issuer, the Guarantor and the Trustee dated April 25, 2012 will be governed by and will be construed in accordance with the laws of the State of New York.

Ratings	The Notes are expected to be rated "Baa1" by Moody's and "A-" by S&P. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organization. Prospective investors should evaluate each rating independently of any other rating of the Notes or other securities of the Issuer.
Further Issues	The Issuer and the Guarantor may from time to time without the consent of the investors create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the Issue Date, the issue price, the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) and so that such further issue shall be consolidated and form a single series with the Notes. See "Description of the Notes and Guarantee — Further Issues."
Trustee	HSBC Bank USA, National Association.
Listing	Approval in-principle has been obtained for the listing of the Notes on the Official List of the SGX-ST.
Use of Proceeds	The net proceeds of the issue of the Notes will be used for repayment of existing indebtedness, as general working capital of the Group and for general corporate purposes. See "Use of Proceeds."
Transfer Restrictions	The Notes will not be registered under the Securities Act. The Notes are subject to certain transfer restrictions and may only be offered and sold in transactions that are exempt from or not subject to the registration requirements of the Securities Act. See "Plan of Distribution."

SUMMARY FINANCIAL INFORMATION AND OTHER DATA

You should read the summary financial information presented below in conjunction with the financial statements and the notes thereto included elsewhere in this offering memorandum. You should also read the section of this offering memorandum entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We have derived our summary consolidated income statements 2009, 2010, and 2011 and our summary consolidated statement of financial position data as of December 31, 2009, 2010 and 2011 in the tables below from our audited consolidated financial statements, which have been audited by Ernst & Young, certified public accountants registered in Hong Kong. We have prepared and presented our consolidated financial statements in accordance with HKFRS, which differ in certain material respects from U.S. GAAP. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in millions)			
Consolidated Income Statement:				
REVENUE	24,208.4	27,612.9	30,471.8	3,916.7
Cost of sales	(18,389.9)	(21,213.6)	(23,737.7)	(3,051.1)
Gross profit	5,818.5	6,399.3	6,734.1	865.6
Gain on deemed disposal of interest in a subsidiary	105.4	170.9	—	—
Other income and gains, net	440.8	422.0	872.9	112.2
Selling and distribution costs	(1,360.1)	(1,653.1)	(2,200.1)	(282.8)
Administrative expenses	(1,794.4)	(2,117.4)	(2,442.3)	(313.9)
Fair value gain/(loss) on the derivative component of convertible bonds	—	(214.2)	239.1	30.7
Other operating expenses, net	(325.4)	(203.5)	18.0	2.3
PROFIT FROM OPERATING ACTIVITIES	2,884.8	2,804.0	3,221.7	414.1
Finance costs	(363.6)	(374.5)	(646.6)	(83.1)
Share of profits and losses of:				
Jointly-controlled entities	1,092.1	1,168.7	1,300.2	167.1
Associates	(7.9)	196.4	373.4	48.0
PROFIT BEFORE TAX	3,605.4	3,794.6	4,248.7	546.1
INCOME TAX	(559.0)	(684.9)	(583.5)	(75.0)
PROFIT FOR THE YEAR	3,046.4	3,109.7	3,665.2	471.1
ATTRIBUTABLE TO:				
Shareholders of the Company	2,398.9	2,639.3	2,775.9	356.8
Non-controlling interests	647.5	470.4	889.3	114.3
	3,046.4	3,109.7	3,665.2	471.1
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY				
Basic	HK$2.1	HK$2.3	HK$2.4	US$0.3
Diluted	HK$2.0	HK$2.3	HK$2.4	US$0.3

	As of December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in millions)			
Consolidated Statement of Financial Position:				
Assets:				
Non-current assets:				
Property, plant and equipment	19,045.5	22,244.0	26,317.2	3,382.7
Investment properties	204.4	215.6	681.1	87.5
Prepaid land premiums	1,129.9	1,233.4	1,275.3	163.9
Goodwill	8,649.1	7,245.8	7,453.6	958.0
Operating concessions	1,697.4	1,255.9	1,225.0	157.5
Other intangible assets	26.9	14.2	23.7	3.0
Investments in jointly-controlled entities	5,397.3	6,102.5	210.9	27.3
Investments in associates	899.8	3,109.9	12,574.0	1,616.2
Available-for-sale investments	290.0	1,005.2	917.4	117.9
Amounts due from contract customers	1,286.2	223.7	566.0	72.8
Receivables under service concession arrangements	3,414.8	1,699.2	1,588.0	204.1
Trade and bills receivables	51.7	—	—	—
Prepayments, deposits and other receivables	270.7	301.1	430.6	55.3
Deferred tax assets	564.5	598.2	594.7	76.4
Total non-current assets	42,928.2	45,248.7	53,857.5	6,922.6
Current assets:				
Prepaid land premiums	26.4	27.6	30.2	3.9
Property held for sale	—	—	27.6	3.5
Inventories	2,995.0	3,726.6	5,285.6	679.4
Amounts due from contract customers	55.1	2.1	46.6	6.0
Receivables under service concession arrangements	659.6	900.5	1,003.3	129.0
Trade and bills receivables	1,097.7	1,347.0	1,586.4	203.9
Prepayments, deposits and other receivables	1,654.0	899.7	2,313.2	297.3
Financial assets at fair value through profit or loss	—	—	—	—
Other taxes recoverable	85.1	303.9	589.0	75.7
Restricted cash and pledged deposits	118.2	125.9	36.6	4.7
Cash and cash equivalents	9,486.0	14,446.8	12,579.4	1,616.9
Total current assets	16,177.1	21,780.1	23,497.9	3,020.3
Total assets	59,105.3	67,028.8	77,355.4	9,942.9

	As of December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in millions)			
Equity and Liabilities:				
Equity attributable to shareholders of the Company:				
Issued capital	113.7	113.7	113.8	14.7
Reserves	30,679.6	33,642.4	36,984.0	4,753.7
Proposed final dividends	511.8	511.8	511.9	65.8
	31,305.1	34,267.9	37,609.7	4,834.2
Non-controlling interests	7,711.9	6,668.4	7,587.0	975.2
Total equity	39,017.0	40,936.3	45,196.7	5,809.4
Non-current liabilities:				
Bank and other borrowings	5,264.2	7,227.3	4,070.1	523.1
Guaranteed senior notes	—	—	7,699.1	989.6
Liability component of convertible bonds	2,721.5	2,650.5	2,711.8	348.6
Derivative component of convertible bonds	—	292.4	61.8	7.9
Defined benefit plans	423.9	470.4	522.3	67.2
Provision for major overhauls	184.5	140.2	196.2	25.2
Other non-current liabilities	196.2	157.1	239.3	30.8
Deferred tax liabilities	413.1	364.1	371.4	47.7
Total non-current liabilities	9,203.4	11,302.0	15,872.0	2,040.1
Current liabilities:				
Trade and bills payables	1,408.1	4,553.8	1,904.6	244.8
Amounts due to contract customers	48.3	59.4	123.8	15.9
Receipts in advance	—	—	3,446.9	443.1
Other payables and accruals(1)	5,436.7	6,862.3	4,430.8	569.5
Income tax payables	522.3	626.8	342.3	44.0
Other taxes payables	431.6	367.9	333.3	42.8
Bank and other borrowings	3,037.9	2,320.3	5,705.0	733.3
Total current liabilities	10,884.9	14,790.5	16,286.7	2,093.4
Total liabilities	20,088.3	26,092.5	32,158.7	4,133.5
Total equity and liabilities	59,105.3	67,028.8	77,355.4	9,942.9

(1) For 2009 and 2010, "Other payables and accruals" includes receipts in advance.

	Year Ended December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in millions)			
Other financial information:				
EBITDA[1]	5,345.7	6,271.7	4,709.6	605.3
Dividends received from jointly-controlled entities and associates	883.6	1,779.8	306.6	39.4
Net cash (used in)/provided by:				
Operating activities	3,093.5	6,942.1	(926.3)	119.1
Investing activities	(4,227.9)	(8,812.2)	(6,832.7)	878.2
Financing activities	2,705.0	6,194.2	5,850.3	752.0
Capital expenditures	2,317.3	3,866.9	4,346.1	558.6
Finance costs	363.6	374.5	646.6	83.1
Total cash[2]	9,486.0	14,446.8	12,579.4	1,616.9
Total debt[3]	11,023.6	12,198.1	20,186.0	2,594.6
Net debt/(cash)	1,537.6	(2,248.7)	7,606.6	977.7
Selected pro forma financial ratios for the offering of the Notes:				
Ratio of total debt to EBITDA	2.06	1.94	4.29	4.29
Ratio of net debt to EBITDA	0.29	(0.36)	1.62	1.62
Ratio of EBITDA to finance costs	14.70	16.75	7.28	7.28

(1) We define EBITDA for the purposes of this offering memorandum as profit for the year *plus* income tax, depreciation, amortization of intangible assets, finance costs, impairment of non-financial and financial assets and provision against inventories, net, dividends received from jointly-controlled entities and associates, (gain) loss on disposal of items of property, plant and equipment, net and fair value (gain) loss on the derivative component of convertible bonds, *less* share of profits and losses of jointly-controlled entities and associates, (gain) loss on foreign exchange, net, gain on deemed disposal of partial interest in associates and gain on deemed disposal of interest in a subsidiary, which may be different from the way EBITDA is defined by us for other purposes. EBITDA is presented because we believe it provides investors with important additional information to evaluate our performance. Moreover, we believe that investors, analysts and rating agencies will consider EBITDA useful in measuring our ability to meet our debt service obligations. However, EBITDA is not a recognized measurement under U.S. GAAP and when analyzing our performance, investors should use EBITDA in addition to, and not as an alternative to, net income or other performance measures derived in accordance with U.S. GAAP. Set forth below is a reconciliation of our net income to EBITDA.

(2) Total cash comprises cash and cash equivalents.

(3) Total debt comprises bank and other borrowings, the 2021 Notes, the 2041 Notes and the liability component of convertible bonds.

	Year Ended December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in millions)			
Net income to EBITDA reconciliation:				
Profit for the year	3,046.4	3,109.7	3,665.2	471.1
Add:				
Income tax	559.0	684.9	583.5	75.0
Depreciation	1,305.9	1,383.4	1,669.2	214.6
Amortization of intangible assets	109.0	105.2	104.6	13.4
Finance costs	363.6	374.5	646.6	83.1
Impairment of non-financial and financial assets and provision against inventories, net	242.7	162.0	(144.1)	(18.5)
Dividends received from jointly-controlled entities and associates	883.6	1,779.8	306.6	39.4
Less:				
Share of profits and losses of jointly-controlled entities and associates	(1,084.2)	(1,365.1)	(1,673.6)	(215.1)
(Gain)/loss on foreign exchange, net	6.7	16.5	(55.7)	(7.2)
(Gain)/loss on disposal of items of property, plant and equipment, net	18.4	14.4	(127.3)	(16.4)
Fair value (gain)/loss on the derivative component of convertible bonds	—	214.2	(239.1)	(30.7)
Gain on deemed disposal of partial interest in associates	—	(36.9)	(26.3)	(3.4)
Gain on deemed disposal of interest in a subsidiary	(105.4)	(170.9)	—	—
EBITDA	5,345.7	6,271.7	4,709.6	605.3

RISK FACTORS

Prior to making any investment decision, you should consider carefully all of the information in this offering memorandum, including the risks and uncertainties described below. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Additional considerations and uncertainties not presently known to us, or which we currently deem immaterial, may also have an adverse effect on an investment in the Notes.

Risks Relating to the Company

Our infrastructure and utilities businesses are reliant on concessions and franchises

We operate and manage our natural gas, expressways and toll roads and sewage and water treatment projects in the PRC under concessions, franchises and key contracts. Furthermore, such projects are subject to regulatory controls. Cancellation, non-renewal or change of any such concessions, franchises or key contracts, or imposition of restrictive regulatory controls, may have a material adverse effect on the financial condition and results of operations of such projects.

Our controlling shareholders may have their own strategic goals, which may not be substantially the same as ours and may conflict with our interests and those of our creditors

We are majority owned and controlled by Beijing Enterprises Investment Limited and Beijing Enterprises Group Company Limited, which together hold approximately 59.3% of our issued share capital. Beijing Enterprises Investments Limited is an investment holding company that is beneficially owned by the Beijing Municipal Government through Beijing Enterprises Group Company Limited and other entities under its control. Beijing Enterprises Group Company Limited is a state-owned enterprise and its entire shareholding is in turn controlled by SASAC.

Beijing Enterprises Investments Limited and Beijing Enterprises Group Company Limited, as our controlling shareholders, are able to control the composition of a majority of our Board of Directors and, in general, influence our corporate policies and determine the outcome of most of our corporate transactions and other matters submitted to our shareholders for approval. If the strategic goals of our controlling shareholders are not the same as, or broadly similar to ours, we may not be able to implement our strategic goals in an effective manner.

Our controlling shareholders have other direct or indirect business interests outside the Guarantor which may conflict with our interests and those of our other shareholders and creditors, including holders of the Notes. The actions of our controlling shareholders could favor the interests of such other businesses over our interests, which could materially and adversely affect our business, financial condition and results of operations. To the extent there are any conflicts of interest between our controlling shareholders and our other shareholders or creditors, we cannot assure you that our controlling shareholders will exercise their influence over us in a manner that will be in the best interests of our other shareholders or creditors, including holders of the Notes.

We rely principally on dividends paid by our PRC subsidiaries to fund our cash and financing requirements, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our results of operations

We are an investment holding company and rely principally on dividends paid by our PRC subsidiaries for cash requirements, including the funds necessary to service any debt we incur and to pay any dividend we declare. If any of our PRC subsidiaries incurs debt, the instruments governing the debt may restrict dividends or other distributions on its equity interest to us. Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC entities on a combined basis only out of their retained earnings, if any, determined in accordance with the PRC accounting standards. Our PRC subsidiaries are required to set aside a certain percentage of their net profit for their reserve fund in accordance with the requirements of relevant laws and provisions contained in their respective articles of associations. As a result, our PRC subsidiaries may be restricted in their ability to pay dividends to us or advance any loans or advances. Any such limitations could materially adversely limit our growth, ability to make investments or acquisitions, pay dividends, service our debts or otherwise conduct our business.

Under the new PRC corporate tax law and implementation regulations issued by the State Council, PRC corporate tax is applicable at the rate of 10% to payment of dividends by PRC companies from their earnings derived after January 1, 2008 to "non-resident enterprises" (companies that do not have an establishment or place of business in the PRC, or that have such establishment or place of business in the PRC but its relevant income is not effectively connected with such establishment or place of business in the PRC). The rate of withholding tax will be subject to the terms of any income tax treaty or agreement that the PRC has entered into with the government of the jurisdiction where such "non-resident enterprise" is incorporated.

According to the PRC and Hong Kong Special Administrative Region arrangement on avoiding double taxation or evasion of taxation on income agreed between the PRC and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in the PRC to its shareholders in Hong Kong will be subject to a withholding tax of 5% if such Hong Kong shareholder directly holds a 25% or more interest in the PRC company. If our Hong Kong subsidiaries are considered "non-resident enterprises" under the PRC tax law, any dividend received by our Hong Kong subsidiaries from our PRC subsidiaries may be subject to PRC withholding tax of 5%. Further, according to a circular of the PRC State Administration of Taxation dated October 27, 2009, tax treaty benefits will be denied to conduit or shell companies without business substance. We can provide no assurances that we will continue to be subject to PRC withholding tax rate of 5% in respect of dividend payments made by our PRC subsidiaries to our Hong Kong subsidiaries.

The performance of our businesses depends on future economic growth in the PRC, particularly Beijing

The growth of our businesses depends significantly upon the continuation of economic development and growth in the PRC, which, we believe, will increase demand for infrastructure and utilities-related services. The PRC, including Beijing, has experienced rapid economic development in recent years, but we cannot assure you that such growth will continue at such rates either in the PRC generally or in the particular areas in which our operations and investments are located (including Beijing). A sustained period of slower growth in the PRC could have a material adverse effect on our financial condition and results of operations as well as on our prospects.

In the past, the PRC Government has implemented administrative measures to restrain economic growth rates that were considered unsustainably high. Such action may, as it did in 1994, result in a rapid economic slowdown which could have negative macro-economic effects in the PRC and PRC-related markets. Specific action taken by the PRC Government since 2004 includes raising required reserve ratios and rediscount rates for banks, directing banks to reduce extending loans to overheating sectors of the economy such as the property and steel industries, tightening and enforcing restrictions on land use to reduce new property investment and infrastructure projects and taking measures to reduce speculative currency inflows which may be invested in construction and related industries. The benchmark lending rate for RMB denominated loans with a one-year term had declined to 5.35% as of April 30, 2010 but was raised to 6.05% in February 2011, and 6.31% on April 6, 2011. On July 7, 2011, the benchmark lending rate for RMB denominated loans with a one-year term was increased to 6.56%. The PBOC may raise the benchmark lending rate in order to control the growth rate of the PRC economy or for other policy objectives. Any increases in interest rates on our borrowings may have a material adverse effect on our financial condition and results of operations.

The PRC maintained an average year-on-year GDP growth rate of approximately 9.7% from 2008 through 2010. In 2011, the PRC's GDP growth slowed to 9.2%. The PRC Government has set a target GDP growth rate at 7.5% for 2012. A slowing at PRC economic growth may have a material adverse effect on our financial condition and results of operations.

In general, any form of government control or newly implemented laws and regulations, depending on the nature and extent of such changes and our ability to make corresponding adjustments, may result in a material adverse effect on our business and operating results and our future expansion plans in the PRC. In particular, decisions taken by regulators concerning economic or business interests or goals that are inconsistent with our interests could adversely affect our results of operations.

We intend to gradually withdraw from our expressways and toll roads business

Our revenues from this business segment have decreased significantly since the introduction of the one-way toll fare by the PRC Government. Upcoming toll roads in Shenzhen will directly compete with our Shenzhen Shiguan Highway. Based on these factors we plan to gradually withdraw from this business to focus on our other core business segments. The Municipal Government of Shenzhen has withdrawn our franchise operating rights for the Shenzhen Shiguan Highway. On December 31, 2011, we ceased operation of our toll business on the Shenzhen Shiguan Highway. In 2011, we entered into negotiations with the Municipal Government of Shenzhen to obtain adequate and reasonable compensation. The Municipal Government of Shenzhen approved, in principle, the granting of compensation payments for the withdrawal of this right. We have not reached a definitive agreement with the Municipal Government of Shenzhen regarding the total compensation amount. Negotiations remain ongoing and we cannot assure you that we will receive any compensation for the withdrawal of the Shenzhen Shiguan Highway franchise operating right or provide guidance regarding the timeframe for resolution at this issue. We have not been notified of any similar withdrawal plan for the Capital Airport Expressway in Beijing.

We may be unsuccessful in completing future acquisitions and may face difficulties in the integration of acquired assets

We assess acquisition opportunities during the course of our business to expand our infrastructure and utilities business and enhance our competitive advantages in the PRC and particularly, in Beijing.

We may consider acquiring infrastructure and utilities and other businesses in Beijing and other parts of China to expand our infrastructure and utilities business and enhance our competitive advantages. Our ability to grow by acquisition is dependent upon, and may be limited by, the availability of suitable acquisition opportunities, our ability to negotiate acceptable acquisition terms, and our assessment of the characteristics of potential acquisition targets.

In addition, the completion of acquisitions will be subject to regulatory approvals and a number of risks, including our ability to fund such acquisitions and the uncertainty of the legal environment in the PRC relating to mergers and acquisitions.

Growth by acquisition involves inherent risks operations. These risks include difficulties in integrating the operations and personnel of acquired companies, diversion of management attention from the operation of existing businesses and potential loss of key personnel and customers of acquired companies. We cannot assure you that we will be able to identify suitable acquisition opportunities, complete such acquisitions on satisfactory terms or, if any acquisitions are consummated, satisfactorily integrate the acquired business.

Many of our properties are subject to usage for special purposes and restrictions on transfer

A substantial portion of the land that we use for our business, particularly properties related to the natural gas distribution and transmission business are used pursuant to land use arrangements entered into with local or provincial PRC Government authorities. Pursuant to such arrangements, we have obtained the land use rights through allocation and authorization from the local government without paying land premium to the land authorities. Such arrangements are not formalized in all cases, and limit our usage of the property to the specific purpose for which the original use has been granted. Under PRC laws and regulations, approvals from, and payment of land premium to, the relevant land authorities are necessary for any transfer, lease, sale and disposal of such allocated or authorized land or the buildings attached thereto.

In addition, our Capital Airport Expressway and Shenzhen Shiguan Highway are built on land that is allocated to our joint venture partners by the relevant local government. Under our joint venture agreements, we can use such land only for the duration of the respective joint venture agreements and for the limited purpose specified.

We cannot assure you that the relevant PRC Government will continue to allow us to use the land and properties allocated to us to the same extent as currently used or at all. In addition, restrictions of transfer of such land and properties may have a material adverse impact on the liquidity of our assets.

We may be deemed a PRC resident enterprise under the new PRC corporate tax law and our global income may become subject to PRC corporate tax

We are an investment holding company with substantially all of our operations conducted through our subsidiaries which are incorporated in the PRC. Under the new PRC corporate tax law that became effective from January 1, 2008, companies incorporated outside the PRC whose "de facto management bodies" are located in the PRC will be considered "resident enterprises" and will generally be subject to corporate tax at the rate of 25% in respect of their global income. Under PRC corporate tax law, "de facto management bodies" is defined as bodies that have material and overall management control over the business, personnel, accounts and properties of a company.

In April 2009, the PRC State Administration of Taxation published the "Notice on Issues Relevant to Foreign-registered Chinese-invested Holding Enterprises Determined as Resident Enterprises in Accordance with Actual Management Organization Standard" (the "Notice"). The Notice was effective from January 1, 2008. The Notice provides, among other things, if a foreign-registered Chinese-invested company whose de facto management bodies are located within the PRC and it satisfies the following conditions, it shall be determined as a resident company and be liable to pay corporate tax at the rate of 25% in the PRC in respect of its global income in: (i) places within the PRC where its top managers and top management departments who are responsible for the production, management and operation of the company, perform their duties; (ii) places within the PRC where the financial decisions (such as borrowing, lending, financing and financial risk management) and the personnel decisions (such as appointment, dismissal and remuneration payment) of the company are made or approved; (iii) places within the PRC where its primary properties, accounting books, company seals, summaries archives of the board meetings and shareholders meetings are kept; and (iv) places within the PRC where one-half or more of the company's directors or top managers having rights to vote shall frequently reside. According to the Notice, a foreign-registered Chinese-invested company shall mean a company that is registered and established outside of PRC in accordance with the laws of a foreign country with companies within PRC as its major share-holding investors, as in our case.

Although we are currently not treated as a PRC resident company by the PRC tax authorities, we cannot assure you that we will not be considered a PRC resident company for PRC corporate tax purposes and be liable to pay 25% corporate tax in respect of our global income.

In the event we are considered a PRC resident company, we will be required to withhold an additional tax of 7% on payments of interest to investors that are non-resident companies located in Hong Kong or 10% on payments of interest to investors that are non-resident companies located outside Hong Kong, because such interest payments will be regarded as being derived from sources within the PRC. Similarly, any gain realized by such non-resident enterprise investors from the transfer of our shares will be regarded as being derived from sources within the PRC and will be subject to 10% withholding tax in the PRC.

We may encounter difficulties in realizing strategic objectives with respect to our subsidiaries

We are a conglomerate backed by the Beijing Municipal Government focused on gas utilities, complemented by our consumer products and sewage and water treatment businesses conducted through either our subsidiaries or our associate, BE Water. Although our management has recently taken a more active approach in managing our core businesses, we generally remain a passive holding company. Each of our subsidiaries and associated companies have their own management team which make decisions in relation to each such subsidiary's operational objectives and profitability targets.

Any conflict in the management and execution of the operations of the Group will require significant attention from management. Further, each of our subsidiaries, associate companies and joint ventures may not be able to realize strategic objectives and other benefits within their respective industries. The diversion of management's attention and any difficulties associated with the integration of future acquisitions could adversely affect our financial condition and results of operations.

Labor disruptions could interrupt our operations

As of December 31, 2011, we, including our subsidiaries but not joint ventures or associated companies, employed approximately 41,300 employees in the PRC. Some of our PRC employees are currently represented by labor unions. In addition, employees of some of our suppliers, contractors or companies (in each case, especially in the PRC) in which we have investments are or may become unionized in the future or experience labor instability. Although we enjoy good labor relations with our employees, we are unable to predict the outcome of any future labor negotiations. Any conflicts with our employees or contractors and/or their respective unions (which may be caused by a variety of factors, including divestments) could have a material adverse effect on our financial condition and results of operations.

Our joint venture partners' interests may conflict with our interests and creditors including, the holders of the Notes

Our joint venture partners may:

- have economic or business interests or goals that are inconsistent with ours;
- be unable or unwilling to fulfill their obligations under the relevant joint venture agreements;
- have financial difficulties; or
- have disputes with us.

A serious dispute with our joint venture partners or the early termination of our arrangements or agreements with them could adversely affect our business, financial condition and results of operations.

We rely on external contractors for building and pipeline construction. Our business, financial condition and results of operations, may be materially and adversely affected by breach of their contractual obligations

We engage external contractors for various services, including building and pipeline construction. We select external contractors through competitive bids and also through our assessment of their capabilities and their reputation for quality and price. Completion of our projects is subject to the performance of these external contractors of their obligations under contracts entered with us, including the pre-agreed schedule for completion, and we cannot assure you that the services rendered by any of these external contractors will always be satisfactory or match our requirements for quality. If the performance of any external contractor is unsatisfactory, or they are in breach of their contractual obligations, we may need to replace such contractor or take other actions to remedy the situation, which could materially and adversely affect the cost and progress of our projects. We may incur additional costs due to a contractor's financial or other difficulties. Any of these factors may have a material adverse effect on our business, financial condition and results of operations.

Increasing competition may adversely affect our profitability

We face competition from international and local companies (including other state-owned companies) with respect to location, facilities and supporting infrastructure, services and pricing. We compete with local and international companies in capturing new business opportunities in the PRC. A number of our competitors have greater financial and capital resources, marketing capabilities and/or brand recognition than us. In addition, some local companies have extensive knowledge and business relationships and a longer operational track record in the relevant local markets than us whereas international companies are able to capitalize on their overseas experience.

We cannot assure you that we will be able to compete successfully against our existing or potential competitors or that increased competition with respect to our activities will not have a material adverse effect on our financial condition and results of operations. If we cannot respond to changes in market conditions or changes in customer preferences as effectively as our competitors, our business, financial condition and results of operations could be materially and adversely affected.

Our operations could be affected by the global economic crisis, the financial crisis in Europe and the slowdown in world markets

The global economic crisis in 2008 caused a slowdown in world markets. Although markets have recovered somewhat, any economic slowdown in the future could affect our business. In addition, banks in the PRC have been tightening credit since 2010 after extensive lending in the first half of 2009. This may cause an increase in the interest expense on our bank borrowings, or banks may reduce the amount of, or discontinue, banking facilities currently available to us. In addition, the sovereign debt crisis in Europe could further weaken the global demand for manufactured products and thereby indirectly weaken the PRC economy and reduce energy demand in the PRC. Reduced energy demand may result in a decrease in demand for gas delivery.

We cannot assure you that any economic recovery is sustainable or that the earlier economic crisis and slowdown have come to an end. If market conditions deteriorate or market downturn occurs and becomes more severe, longer lasting or broader than expected, we could face a material loss of revenue and shareholder value and our business, financial condition and results of operations could be materially and adversely affected.

Any increase in the interest rate may have an adverse effect on our financial performance

We have a substantial amount of bank borrowings and some of our bank loans have floating interest rates. As of December 31, 2011, our bank and other borrowings amounted to HK$9,775.1 million (US$1,256.4 million), some of our loans have floating interest rates linked to, among others, one to three years benchmark rates of the People's Bank of China ("PBOC") and the London Interbank Offered Rate ("LIBOR"). If there is a material increase in the reference rates during the term of our relevant loan facilities or when our current loan facilities become due, our finance costs may increase substantially and our financial condition and results of operations and may be adversely affected.

Risks Relating to our Natural Gas Business

We enjoy an effective monopoly over natural gas distribution in Beijing pursuant to our concession rights, which may not be renewed

According to notices from the Beijing Municipal Government dated August 16, 2005 and April 21, 2006, respectively and an implementation plan《北京燃氣有限公司管道天燃氣特許經營項目實施方案》agreed in principle by the Beijing Municipal Government in 2006. We have been granted a concession right to exclusively operate the natural gas network in Beijing for 25 years. According to the "Municipal Utility Concession Administrative Measures" (the "Concession Measures") issued by the Ministry of Construction in March 2004 and which became effective on May 1, 2004, the concession right of operating a natural gas network in the urban area of a city/county/province has a maximum duration of 30 years. On January 22, 2007, the Beijing Municipal Administration Commission issued the approval document (《北京市燃氣經營許可證》) to us for operating the urban natural gas pipeline networks of Beijing.

Upon the expiry of the concession right in 2032, the concession right is subject to re-approval by relevant governmental authorities. We cannot assure you that the Beijing Municipal Government will renew the concession once the concession expires or becomes ineffective. In the event that the concession right in operating a natural gas pipeline network in Beijing is granted to or shared by other piped natural gas distributors, our monopolistic status would be adversely affected and our future development would be constrained.

We rely on a single supplier for substantially all of our supply of natural gas

Currently, we rely on a single supplier, a subsidiary of PetroChina Company Limited (the "PetroChina Associate Company"), for our natural gas supply. While we have bi-annual contracts with our supplier, we may be unable to negotiate extensions or replacements of these contracts on favorable terms, or at all. The loss of a substantial portion of the volumes of natural gas supplied by the PetroChina Associate Company could also have a material adverse effect on our financial condition and results of operations.

We rely upon the PetroChina Associate Company to produce, in a timely manner, the quality and volumes of natural gas for which it contracts with us. In the event that the PetroChina Associate Company does not perform in accordance with its contractual obligations, we may be required to seek alternative sources of natural gas supply. In the event that such supply becomes scarce, whether as a result of lack of supply, extreme demand, political events, natural disasters or otherwise, we may be required to pay more to secure natural gas supplies, which would have a material adverse effect on our financial condition and results of operations.

We are subject to price controls in our markets for natural gas, which limit our flexibility to raise or set prices and pass along cost increases

Fees charged by us for piped gas to residential customers and pipeline connections to residential customers in the PRC are fixed by local pricing bureaus. In addition, fees charged by us for piped gas to customers who use the natural gas for commercial or industrial purposes must fall within a price range set by local pricing bureaus. We cannot assure you that local pricing bureaus will increase gas tariffs to take account of any future increases in natural gas prices or that the pricing bureaus will not lower existing tariffs. We also cannot assure you that any cost pass through clauses in our agreements with the PRC authorities will not be adjusted on less favorable terms or revoked by the relevant authorities. The automatic cost pass through clause is subject to review every three years.

We are exposed to the credit risk of our non-residential customers, and any increase in the level of non-payment by our customers may affect our business and financial condition

Non-residential customers generally consume high volumes of piped gas and non-payment is a major concern. Although we have the ability to terminate or suspend service to customers who do not pay, any material increase in non-payment by our customers may materially and adversely affect our financial condition and results of operation. As of December 31, 2011, we had approximately HK$436.0 million in accounts receivable (net of impairment) relating to our natural gas operation, that were overdue. It is our policy to grant a 30-day to 60-day credit period to our customers.

For our natural gas pipeline construction projects, we obtain full payment prior to commencing work. For selected pipeline construction projects of the PRC Governments, we may commence work on the project prior to receiving payment, provided we have prior approval from our Board of Directors. Such situations arise typically in connection with one-time projects which, in the opinion of our Board of Directors, carry low counterparty risk. As of December 31, 2011 accounts receivable balance for those accounts that were overdue accounted for approximately 2.6% of our gas distribution revenue for that year. If our accounts receivables were to increase by a substantial amount without the corresponding financing alternatives being available to fund our working capital, it would adversely affect our operating cash flow, financial condition and results of operations.

We are subject to risks related to non-performance by our suppliers, and other counterparties due to force majeure events

Substantially all of our contracts with suppliers and other counterparties have force majeure provisions that permit such parties to suspend, terminate or otherwise not perform obligations under their contracts upon the occurrence of certain events including, but not limited to, strikes and other industrial or labor disturbances, terrorism, restraints of government, civil disturbances, accidents or breakages of machinery or equipment, failure of suppliers, interruptions or delays in transportation, or any natural disaster; all being circumstances not within the control of the party claiming force majeure. A force majeure event under our long-term natural gas supply contracts includes any act, event or circumstance which renders performance uneconomical for us or our supplier. If one or more of our suppliers or other counterparties do not perform under their contracts for any extended period of time, due to the declaration of a force majeure event or otherwise, our results of operations and financial condition could be materially adversely affected.

We face competition from competing products within the energy industry

Due to high barriers to entry, we do not currently face any significant direct competition in the provision of natural gas in Beijing. We do, however, face competition from energy substitutes including coal gas, LPG and electricity. Fuel consumers consider factors such as connection fees, usage charges, energy content, reliability, convenience and safety when choosing a particular type of fuel. Most major appliances, such as cooking stoves or hot water units, can only run on a single fuel such as natural gas, LPG or electricity. We cannot assure you that our existing customers will continue to choose natural gas. Our success depends on our ability to compete effectively with the existing and new energy substitutes in the PRC. Intensified competition among energy sources may result in increased costs and downward pressure on prices, all of which may adversely affect our business and financial condition. We cannot assure you that we will be able to compete successfully against existing and potential energy substitutes or that increased competition within the energy industry will not have an adverse effect on our business and financial condition. Any material decrease in the usage of natural gas by our customers may materially and adversely affect our financial condition and results of operations.

The continuation of our natural gas business depends on our ability to maintain licenses

We conduct our natural gas business pursuant to licenses from the PRC Government which authorizes us, in some instances, to provide exclusive gas delivery services in certain locations. The PRC Government may revoke our licenses in certain circumstances based on the recommendation of the governmental bodies charged with the regulation of the transportation, distribution, marketing and storage of gas. The reasons for which any of our licenses in the PRC may be revoked include:

- repeated failure to comply with the obligations under our licenses and failure to remedy a significant breach of obligation in accordance with specified procedures;
- total or partial interruption of service for reasons attributable to us;
- sale, assignment or transfer of our essential assets or the placing of encumbrances thereon without prior authorization, unless such encumbrances serve to finance extensions and improvements to the gas pipeline system;
- bankruptcy, dissolution or liquidation;
- gas supplied failing to meet the national standards, and if such failure persists in spite of warnings of relevant regulatory agencies and beyond grace periods, if any;
- ceasing and abandoning the provision of the licensed service, attempting to assign or unilaterally transfer our licenses in full or in part without prior authorization, or giving up our licenses, other than in the cases permitted therein; and
- delegation of the functions granted in such licenses without the prior regulatory authorization.

If any of our licenses are revoked, we would be required to cease providing natural gas distribution and transmission services. The loss of some or all of our licenses on our business, financial condition and results of operations may be material and adverse.

Our business operations are subject to risks, some of which may not be fully covered by insurance, of equipment and systems failure, accidents, interruptions and terrorism

Our gas distribution and transmission systems and processing facilities are subject to many operational and technical risks, including the breakdown or failure of equipment, information systems and processes; the performance of equipment below capacity (whether due to misuse, unexpected degradation, design flaws or construction or manufacturing defects); short supply of spare parts; operator errors and labor disputes.

In addition, a natural disaster or other similar events could result in personal injury, property damage and environmental damage, which could curtail our operations and materially adversely affect our cash flows and, accordingly, adversely affect our ability to service our debt. Substantially all of our gas-related operations are exposed to potential natural disasters, including but not limited to typhoons, storms, floods and earthquakes. If one or more facilities that we own or operate is damaged by severe weather or any other disaster, accident, catastrophe or other event, our operations may be significantly interrupted. Similar interruptions could result from damage to production or other facilities or other stoppages arising from factors beyond our control. The occurrence or continuance of any such events could increase costs associated with our operations and reduce our profitability. Risks of substantial costs and liabilities, including those from leaks and explosions and similar events and accidents, are inherent to our operations and we cannot assure you that significant costs and liabilities will not be incurred, including those relating to claims for damages to property or persons.

Although we believe we maintain adequate insurance coverage, we may not be fully insured against all risks inherent to our business. In particular, there are certain types of losses (such as those arising from wars, acts of terrorism or acts of God) that are generally not insured against because they are either uninsurable or not economically insurable. If a significant accident or event occurs against which we are not insured or not fully insured, our financial condition and results of operations may be adversely affected. In addition, we may not always be able to obtain insurance of the type and amount we desire at reasonable rates. Over time, premiums and deductibles for insurance policies may increase substantially, and certain insurance policies could become unavailable or available only for reduced amounts of coverage. If we were to incur significant liability for which we are not insured or not fully insured, such liability could have a material adverse effect on our financial position and results of operations. In addition, any claims made under any insurance policies maintained by us may not be paid in a timely manner, or at all, and may be insufficient if such an event were to occur.

Non-compliance with environmental regulations, including those to be implemented in the future, may result in material adverse effects on our results of operations

A variety of general and industry-specific PRC environmental laws and regulations apply to our operations such as damage caused by air emissions, noise emissions, waste water discharges, waste pollution and solid and hazardous waste handling and disposal. Costs and liabilities relating to compliance with applicable environmental laws and regulations are an inherent part of our business operations. These laws can impose liability for non-compliance or clean up liability on generation of hazardous waste and other substances that are disposed of either on or off-site, regardless of fault or the legality of the disposal activities. We may also be required to investigate and remediate contamination at our properties or where we conduct operations, including contamination that was caused in whole or in part by previous owners of properties. Moreover, environmental laws and regulations are becoming increasingly stringent and may in the future create substantial environmental compliance or remediation liabilities and costs. While we intend to comply with applicable environmental legislation and regulatory requirements, it is possible that such compliance may prove restrictive and/or costly.

In addition to potential clean up liability, we may become subject to monetary fines and penalties for violation of applicable environmental laws, regulations or administrative orders. This may result in closure or temporary suspension or result in the imposition of restrictions on our operations. We may become involved in legal proceedings that may require us to pay fines, comply with more rigorous standards or incur capital and operating expenses for environmental compliance. Third parties may sue us for damages and costs resulting from environmental contamination from our properties and/or production facilities.

We cannot assure you that changes in laws or regulations, including environmental laws and regulations, will not result in us having to incur substantial capital expenditures to upgrade or supplement our existing facilities or becoming subject to any fines or penalties. If we were to incur significant fines or penalties or become involved in protracted litigation, or if any of our facilities are closed or are required to temporarily suspend operations or upgrade to comply with the applicable laws and regulations, then our financial condition and results of operations may be adversely affected.

Our revenues may be adversely affected by changes in climate brought about by global warming

The demand and use of natural gas in the PRC is closely correlated to the weather. Natural gas is used mainly for heating purposes in most areas in the PRC. Any global or localized increase in temperature, particularly in the markets serviced by us, will lead to a decrease in the demand for natural gas. Such decrease in demand and sales will have an adverse effect on our financial condition and results of operations.

Changes in government policies could affect our business

Our business will be affected by changes in policies, laws and regulations (or the interpretation thereof) in the PRC energy industry. For example, if the PRC Government favors a particular type of energy, other than natural gas and coal gas, due to energy policy in general or cost concerns, our financial condition and results of operations will be adversely affected. In addition, recent global concerns over carbon emission may cause the PRC Government to introduce policies that may lead to restrictions on the natural gas industry, such as imposition of a carbon emissions tax.

The NDRC has promulgated the Circular on Raising Domestically-produced Onshore Natural Gas Benchmark Prices on May 31, 2010. It includes the following provisions: (i) to increase natural gas benchmark prices by RMB230 per thousand cubic meters or almost 25% to further reform its natural gas pricing mechanism and to better allocate resources; (ii) the existing "dual-track" natural gas pricing mechanism has been cancelled and price-float range has been expanded to allow producers and buyers to determine specific natural gas prices based on the ex-factory benchmark prices, raising the benchmark prices by a maximum of 10%, meanwhile lowering the ones without limits; (iii) as the prices of domestic natural gas are much lower than that of the prices of alternative energy, CNG shall be priced at or above three quarters of the highest 90 gasoline retail price, which would be applicable to all of the PRC except areas where the current CNG prices are too low and such areas could adjust the CNG prices to at least 60% of the 90 gasoline retail price during the two-year transition period. On December 26, 2011, the NDRC launched a pilot scheme for natural gas pricing mechanism reform in Guangdong and Guangxi Provinces. Under the scheme, the price of natural gas will be pegged to fuel oils used in factories and liquefied petroleum gas used in households, using a "net-back" calculation method that includes all the costs that companies incur to bring products to the marketplace. The reform aims to establish a pricing mechanism for natural gas which reflects market supply and demand and resource scarcity. The pilot scheme may eventually be expanded to other provinces.

We cannot assure you that future government policies relating to the gas industry will not affect our business and operations. If amendments to government policies or the promulgation of new policies are adverse to us, our business, financial condition and results of operations may be materially and adversely affected.

Our sales of natural gas are subject to seasonal fluctuations

Gas consumption in Beijing is subject to seasonal peaks and troughs. Natural gas demand peaks in the period when weather in Beijing reaches low points from October to March. Demand begins to slacken during the warm season, which typically lasts for five to six months from May to September of each year. As such, revenue and costs typically rise during the peak season and decrease during the slack period. In the event that there is a sudden rise in natural gas prices from suppliers and we don't have enough financial resources to withstand expenses during the slack periods, our profitability would be adversely affected.

We rely on the demand for natural gas from our customers in Beijing

For 2009, 2010 and 2011, substantially all of our natural gas-related revenue was generated from customers in Beijing. As such, if there were a downturn in the demand for natural gas in Beijing due to any reason, our sales and profit may be adversely affected.

We may experience difficulties in expanding our business to new cities or regions where we do not have a presence

As part of our business expansion plans, we intend to expand our natural gas distribution and transmission network beyond Beijing through selective acquisitions or by forming joint ventures. We may face unforeseen costs, delays in negotiating terms of agreements, difficulties in obtaining licenses from local government and regulatory authorities and competition from local service providers. Any delays in implementing our expansion plans may divert management attention from daily activities and may have a material adverse impact on our operations, financial condition and results of operations.

Risks relating to our Brewery Business

The brewery business is a highly competitive and fragmented market

The brewery industry in the PRC is highly fragmented with over 400 brewers. While we maintain a competitive position in the Beijing market, our main competitors outside of Beijing include large local and international breweries, such as Tsingtao Brewery Group, China Resources Snow Breweries Co. Ltd., and numerous local breweries, many of whom have better financial and other capital resources and marketing expertise. Competition in the brewery industry is expected to continue to intensify as leading breweries compete against each other to acquire local and regional breweries in order to increase their market share. This is likely to increase price sensitivity, and may have an adverse effect on our business, financial condition and results of operations.

Disruptions in the supply of, or price fluctuations in, our major raw materials may adversely affect our operations

Rice, hops and malt are the major raw materials for our products. Our average unit cost of beer is closely related to the market price of the raw materials, which is affected by factors including market demand and supply, domestic government policy and the occurrence of climatic and other natural disasters such as droughts, floods or earthquakes. We cannot assure you that we will be able to adjust the prices of our products to pass on any increase in the price of the raw materials to our customers. Any failure to pass on any significant increase in the price of our raw materials to our customers, or any significant increase in the price of our raw materials may have an adverse effect on our financial condition and results of operations.

Historically, we have purchased a large portion of our requirement of rice, malt and hops directly from local farmers, and have not entered into any long term procurement agreements with any of them. We cannot assure you that we will continue to be able to procure a sufficient supply of raw materials from local farmers at a price acceptable to us in the future or at all. Any interruption in the supply of our raw materials may have an adverse effect on our financial condition and results of operations.

Our performance may be affected by our relationship with our distributors

Our products are primarily sold through our network of distributors. We believe that we have a good relationship with most of our distributors, however, we cannot assure you that these distributors will continue to purchase beer from us in the future. In the event that a significant number of our distributors cease to purchase beer from us and we are unable to sell beer to alternative customers, our profitability may be adversely affected.

Our business may be adversely affected by any infringement of our trademarks

We use "Yanjing," "Liquan," "Huiquan" and "Xuelu" brand names and related trademarks in selling our beer. We believe that the use of the "Yanjing," "Liquan," "Huiquan" and "Xuelu" brand names is key to establishing our distinctive corporate and market identities. The passing off of products with famous brand names in the PRC remains a concern. Although we are not aware of any material infringement of our trademarks, and there are indications that the PRC Government is tightening its control over intellectual property rights infringement, any significant or uncontrolled infringement could have a material adverse effect on the reputation of the "Yanjing," "Liquan," "Huiquan" and "Xuelu" brand names and our financial condition and results of operations.

Our business performance may be affected by a change in consumers' preference and/or purchasing power

Demand for our brewery products relies on the end-consumers' acceptance of beer in general and the purchasing power of these end-consumers. We cannot assure you that our end-consumers will continue to purchase our brewery products in the future. If the preferences of consumers change in the future and if they prefer other beverages or beer manufactured by other producers, our business and financial results may be adversely affected. A sustained period of slower economic growth in the PRC or, more specifically, in Beijing may dampen the purchasing power of consumers in these regions and in turn have a material adverse effect on our sales and results of operations.

Our business and financial position may be adversely affected by any claims in respect of product liability

We may face claims in respect of product liability such as potential contamination of ingredients or products by bacteria or other external agents that may be wrongfully or accidentally introduced into products or packaging or other potential liability resulting from the handling of brewery products. In July 2005, there were media reports claiming that Chinese beer contained high levels of formaldehyde, which is a cancer-causing agent and banned by food safety laws in the PRC. This was subsequently refuted by reports which were released by, among others, the State Administration of Quality Supervision, Inspection and Quarantine and the China Brewing Industry Association, which confirmed that Chinese beers were safe to drink. Such adverse media coverage had, however, resulted in a decrease in the sales of our brewery products in the second and third quarters of 2005. Although we have not experienced any material claims in respect of our business and operations, any product or packaging problem may nevertheless affect our business, financial condition and results of operations, as well as our reputation. Reputational damage may in turn adversely affect our brand name and have a material adverse impact on our financial condition and results of operations.

Risks Relating to our Water Supply Business

PRC Government policies discourage guaranteed return projects

Existing PRC Government policies discourage PRC entities from providing guaranteed returns to foreign investors in Sino-foreign joint ventures. In accordance with the Notice on Questions relating to the Proper Treatment of Existing Projects with Guaranteed Returns to Foreign Investors (2002 No. 43) (the "No. 43 Notice") promulgated by the PRC State Council on September 10, 2002, local governments are required to adopt effective measures to properly settle all guaranteed return projects with foreign investors. In relation to any under or non-performing guaranteed return projects, local governments are required to settle such projects by means of amendments to contractual arrangements, acquisition of foreign investors' interests, conversion of contractual undertakings into foreign loans and/or dissolution of joint venture companies.

Beijing Municipal Water Company ("BMWC") guaranteed for our benefit a minimum annual net cash income of RMB210 million per annum for each year during the concession period of Phase I of the Beijing Water Plant No. 9 project (the "Concession Facilities") until 2008. Pursuant to the PRC Government plan dated June 20, 2010, BMWC reduced the minimum benefit return payable to us to RMB190 million from the RMB210 million under the Concession Facilities. On April 8, 2011, the guaranteed return was abolished in a supplemental agreement between BMWC and us with respect to Beijing No. 9 Water Treatment Plant, under which our revenue from our water supply business is based on the amount of water actually supplied and the unit price agreed between BMWC and us. Payments from BMWC to us for 2009, 2010 and 2011 are outstanding.

Water shortages and restrictions on the use or supply of water could adversely affect our business

In the event of water shortages, additional costs may be incurred in order to provide emergency reinforcement to supplies in areas of shortage which may adversely affect our business, financial condition and results of operations. In addition, restrictions on the use or supply of water may adversely affect our turnover and, in very extreme circumstances, may lead to significant compensation becoming due to customers because of interruptions to supply, both of which could adversely affect our business, results of operations, profitability or financial condition.

Risks Relating to our Associate, BE Water

BE Water's customers may make claims against it and terminate their services in whole or in part prematurely should BE Water breach terms of its agreements with them or fail to implement projects which satisfy their requirements and expectations

In 2011, BE Water entered into contracts with customers for 11 comprehensive renovation projects and 12 BOT projects which were under construction or will commence construction in 2012. BE Water cannot assure you that the construction of the above projects will be completed on time or that these projects will be completed to the requirements and expectations of its customers. Failure to complete projects on time or fully in compliance with the requirements and expectations of its customers, or the delivery by it of defective systems or products, may lead to claims being brought against it by customers and/or termination of its services in whole or in part by BE Water has customers prematurely and/or calls by customers for payment of the performance bonds BE Water has provided to them. Unsatisfactory design or workmanship, staff turnover, human errors, failure to deliver services on time, default by its sub-contractors or misinterpretation of or failure to adhere to regulations and procedures could result in delays or failures in the construction, testing or commissioning of any water plant. As a result, BE Water could experience delays in the recognition of its revenue from such projects and it may not receive payments from its customers, which could adversely affect its cashflow. This, in turn, could have a material adverse effect on its business, financial condition and results of operations. In addition, its reputation may be negatively affected which could negatively affect its ability to obtain new projects.

BOT projects have long payback periods and BE Water may require additional funding for these and other investment projects

BOT projects typically have long payback periods. These projects require BE Water to make substantial financial investments during the construction phase of the projects, which typically last 12 to 18 months. BE Water is responsible for the costs of construction of the sewage or water treatment facilities, and the operation of the facilities during the concession period, which may be up to 30 years, during which period BE Water bears all the costs of maintenance and repair of the facilities. After the construction is completed and commercial operations of the relevant facilities have commenced, BE Water receives regular, typically monthly, tariff payments from customers during the concession term.

Due to the long-term nature of BOT projects and other project formats requiring capital investment, BE Water cannot assure that it will be able to secure adequate funding or refinancing for these projects on terms that are acceptable to it, or at all, or that these projects will achieve their initial expected returns. If BE Water fails to obtain project financing or refinancing for its BOT projects and other such projects in the amount budgeted or at all, it may need to finance these projects, which may strain its resources for developing or acquiring other projects and other corporate purposes.

In addition, failure to properly perform its obligations in respect of these projects may lead to a reduction in its returns and may even lead to a loss of all or part of its initial capital investments. As a result, it may not be able to undertake or acquire new projects and its business, financial condition and results of operations may be materially and adversely affected.

BE Water may not be able to secure new sewage treatment construction projects

A substantial part of BE Water's revenue for its sewage treatment business is generated from its sewage treatment facilities construction projects. For 2009, 2010 and 2011, revenue from the construction services accounted for 61.6%, 85.6% and 51.4%, respectively, of BE Water's total revenue. Although BE Water expects its construction projects to provide an increasing portion of recurring revenue in subsequent periods, a customer that accounts for a significant portion of such revenue in a given period may not generate a similar amount of revenue, if any, in subsequent periods. As such, in order for BE Water to maintain and increase its revenue and profitability, it needs to secure additional projects from other customers and it may not be successful in doing so.

BE Water is subject to risks associated with technological changes

As an established integrated water solutions provider, BE Water must ensure that it is able to continually provide state of the art solutions to its customers that meet their needs in order to maintain its market share. However, there are rapid technological changes and improvements in sewage and water treatment technology and equipment. BE Water's products and technologies must pass rigorous testing and field trials, which can be time-consuming and expensive. The commencement and completion of the tests and field trials are subject to many factors such as delays in producing or failure to produce test results, data or analysis, inadequate or inconclusive results, changes in regulatory policies or industry standards or delays by government or regulatory authorities. Changes in regulations or standards for sewage and water treatment in regions where BE Water conduct its business may also necessitate the use of new technologies or the improvement of its existing technologies.

For example, after the outbreak of SARS in 2003, higher standards for treatment of sewage discharged by hospitals and clinics were imposed by the State Environmental Protection Administration, currently the Ministry of Environmental Protection of the PRC, to prevent the spread of communicable diseases. On July 1, 2007, the Ministry of Health of the PRC (the "MOH") and Standardization Administration of the PRC further adopted 106 standards for drinking water. Under the relevant regulations, immediate compliance with 42 standards was required and compliance with the remaining 64 standards will become mandatory by July 1, 2012. BE Water may need to develop new technologies or upgrade existing technologies, or upgrade existing facilities to meet the standards imposed by the MOH or other regulatory authorities. In the event that BE Water is unable to develop or source new and enhanced sewage and water treatment solutions to keep up with such technological changes or changes in regulatory requirements, its market share, results of operations and profitability may be materially and adversely affected.

BE Water's operations may be limited by environmental regulations, and it may be exposed to risks relating to environmental, health and safety issues

BE Water's water resources, water supply, and water plant development operations could expose it to risk of substantial liability relating to environmental, health and safety issues, such as those resulting from discharge of pollutants into the environment, handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contaminated sites. BE Water may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated construction sites. BE Water may also be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the PRC Government or private litigants as a result of its or its subcontractors' activities. In the course of its operations, hazardous wastes may be generated at third party-owned or operated sites, and hazardous wastes may be disposed of or treated as third party-owned or operated disposal sites. If those sites become contaminated, BE Water may be held responsible for the cost of investigation and remediation of such sites, any associated natural resource damage, and civil or criminal fines or penalties.

Extensive regulations may limit BE Water's flexibility to respond to market conditions and competition, and its water supply operations may suffer

Revenues from BE Water's water supply business operations consist primarily of tariff payments under relevant projects or concession agreements. Adjustments to tariffs are generally subject to regulation by various authorities in the PRC Government. There is no assurance that the government authorities will approve BE Water's applications to increase tariffs. Furthermore, even if the PRC Government agrees to an adjustment to the tariff, there is no assurance that such adjustment will fully reflect an increase in BE Water's actual costs. If BE Water incurs significantly higher operating costs without a corresponding increase in tariffs or in the event of a reduction in tariffs, BE Water may not be able to sustain its profitability or it may even incur a loss, and its financial condition and results of operations may be adversely affected.

BE Water is exposed to the credit risk of and payment delays of its customers

BE Water is subject to credit risks of its customers and its profitability is dependent on its customers making prompt payment on billings for work performed by BE Water. BE Water's construction and service contracts provide for payments by installment. If there is any delay in payments by BE Water's customers, BE Water's working capital, profitability and cash flow may be adversely affected.

The continued growth of BE Water's business requires substantial capital expenditure

BE Water will require significant additional financing to fund capital expenditures and to support the future growth of its business, particularly for its construction projects and acquisition of water plants. Historically, BE Water has financed its capital expenditures from various sources, including cash flow from operations and existing credit facilities. BE Water's ability to arrange for external financing and the costs of such financing are dependent on numerous factors, including general economic conditions, interest rates, credit availability from banks or other lenders. However, there can be no assurance that additional external financing, either on a short-term or on a long-term basis, will be made available or, if available, that such financing will be obtained on terms favorable to BE Water. If, for any reason, adequate capital is not available when needed and at favorable costs, such shortage of capital may have a material adverse effect on BE Water's business, financial condition and results of operations.

Failure to achieve the projected utilization of the facilities BE Water operates may adversely affect its earnings

Each of BE Water's projects has been or will be built to a specific design capacity in accordance with the terms of the relevant concession agreement. Depending on the growth in the population and level of industrialization in the area serviced by the relevant facilities, there is no assurance that the facilities BE Water operates will be able to achieve the forecast utilization of their design capacity, which may adversely affect its results of operations. If the facilities BE Water operates are not utilized to their designed capacities, BE Water may not generate the revenue and profit and its business, financial condition and results of operations may be adversely affected.

Risks relating to our Expressways and Toll Roads Business

Our toll road revenue is dependent upon the toll rates set by local government authorities and other factors

Toll rates charged by us are fixed by various local government authorities, although we may propose toll rate charges. Such toll rates are determined by the local government authorities on a case-by-case basis, taking into consideration factors such as loan repayment terms, the inflation rate, affordability and traffic volume.

We cannot assure you that any future application for toll increase by us will be granted at all or in a timely manner or, if granted, will not be subject to certain conditions. Further, we cannot assure you that the relevant authorities will not request a toll reduction or close any of the existing toll stations. Reductions in tariffs or toll rates may adversely affect our results of operations.

In June 2011, the Beijing Municipal Government requested a reduction in various toll rates and other changes to the toll collection business on the Capital Airport Expressway. We have complied with the request and reduced toll rates in July 2011 from RMB ten to RMB five per vehicle per trip. In addition, to comply with the Beijing Municipal Government's requests, we have suspended toll collection for Beijing bound vehicles passing through the Sanza Toll Station and instituted a same-day, free-return pass policy for vehicles passing through the Tianzhu Toll Station. We cannot assure you that the Beijing Municipal Government will not request further reductions of toll rates or other changes in the toll collection business associated with the Capital Airport Expressway.

The PRC Government has announced its intention to reduce toll stations in urban areas and certain PRC local governments have introduced discounted annual passes for vehicles which, if implemented in relation to our toll road projects, may adversely affect the operating results of such projects.

Our toll road business relies on concessions and licenses granted by the PRC Government

We operate and manage our toll roads projects in the PRC under concessions and subject to licenses granted by the PRC Government. Any cancellation or non-renewal of concessions and licenses may have a material adverse effect on our financial condition and operating results. In 2011, we entered into negotiations with the Municipal Government of Shenzhen to obtain adequate and reasonable compensation. On December 31, 2011, we ceased operation of our toll business on the Shenzhen Shiguan Highway. The Municipal Government of Shenzhen approved, in principle, the granting of compensation payments for the withdrawal of this right. We have not reached a definitive agreement with the Municipal Government of Shenzhen regarding the total compensation amount. Negotiations remain ongoing and we cannot assure you that we will receive any compensation for the withdrawal of the Shenzhen Shiguan Highway franchise operating right or provide guidance regarding the timeframe for resolution at this issue.

Reduction of traffic volume or the rate of growth in traffic volume could adversely affect our results of operations

Revenue from our toll roads and our earnings are principally dependent upon the number and classes of motor vehicles using such roads and the applicable toll regime. The number of vehicles using toll roads and bridges is to a large extent dependent on factors outside our control, including:

- toll rates;
- fuel prices;
- vehicle prices and the cost of running a vehicle;
- alternative transportation choices and routes;
- general development of the provinces, cities and townships served by our toll roads; and
- general economic conditions in the PRC.

The volume of traffic on a given toll road is also influenced by the basis and extent of the road's connection with other parts of the local and national highway network. We cannot assure you that future changes in the highway system and network in the provinces in which our projects are located will not adversely affect the traffic volume on our toll roads and expressways.

Our profitability may be affected by the existence and development of other competing means of transport

The profitability of our toll roads may be affected by the existence, proximity, affordability and efficiency of other competing means of transport and alternative routes which are of similar quality. Several of our existing highway projects have directly competing routes nearby. We cannot assure you that alternative routes that avoid tolls or impose lower or no tolls will not be developed, or that alternative means of transport competing with our existing toll roads will not be constructed or developed in the future.

Some of the toll road joint venture agreements we entered into contain provisions which give us a first right to participate in any project of the relevant joint venture partner to operate and manage competing routes. We cannot assure you, however, that such provisions will be effective or legally enforceable against a joint venture partner which fails to comply with these provisions.

Capital expenditures on, and operation of, toll roads are subject to events outside our control

Our joint ventures invest in and operate toll roads that have already been completed and are operational. As a result, each of our joint ventures is responsible for the maintenance and repair of its toll road at its own cost throughout the operating concession period. Such costs are typically stable and predictable, including periodic road upgrades that require higher capital expenditures. However, the condition and operation of the toll roads operated by our joint ventures may be affected by catastrophic events including but not limited to serious adverse weather, natural disasters, epidemics and major road accidents. To date, no material event of this nature have adversely affected the operation of any of our toll roads. If the condition or our operation of the expressway and toll roads were seriously affected as a result of any such events, our revenue and earnings and financial position of a particular joint venture may be adversely affected, which could in turn have an adverse effect on our financial condition and results of operations.

Risks Relating to the PRC

Our business may be materially and adversely affected by changes in the PRC's political, economic and social conditions, laws, regulations and policies as well as their interpretation and enforcement

Substantially all of our assets are located in, and our revenue is predominantly derived from, our operations in the PRC. Our business, results of operations, financial condition and prospects are subject to the risks of future economic, political and legal developments in the PRC. The PRC economy differs from the economies of other developed countries in terms of structure, government intervention, development, growth rate, control of foreign exchange, and resource allocation. Since the late 1970s, the PRC Government has been implementing economic reform measures in using market forces to develop the PRC economy and has since transitioned from a planned economy to a more market-oriented economy. The PRC Government however continues to play a significant role in regulating industries by promulgating economic policies. We cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, financial condition and results of operations.

The antimonopoly law and the security review system may subject our future acquisitions to increased scrutiny, which could affect our ability to consummate acquisitions on terms favorable to us or at all

The antimonopoly law of China became effective on August 1, 2008. The law was enacted to guard against and cease monopolistic activities, and to safeguard and promote orderly market competition. Under the antimonopoly law, monopolistic acts include monopolistic agreements among business operators, abuse of dominant market positions by business operators and concentration of business operators that eliminates or restricts competition or might be eliminating or restricting competition.

On August 3, 2008, the State Council promulgated the Regulations on the Thresholds for Reporting of Concentration of Business Operators (the "Reporting Threshold Regulations"), which provide specific thresholds for reporting of concentration of business operators. Under the antimonopoly law and the Reporting Threshold Regulations, parties to an acquisition must report to the Ministry of Commerce in advance if in the preceding accounting year the turnover in the aggregate achieved by all the parties to the transaction exceeds RMB10,000 million (US$1,500 million) worldwide or RMB2,000 million (US$300.0 million) within China, and the turnover achieved by at least two of the parties exceeds RMB400.0 million (US$58.6 million) within the PRC. However, the Ministry of Commerce has the right to initiate investigation of a transaction not reaching the above-mentioned reporting thresholds if the Ministry of Commerce has evidence that the transaction has or may have the effect of excluding or restricting competition.

The antitrust scrutiny procedures and requirements set forth in the antimonopoly law and the Reporting Threshold Regulations grant the government extensive authority of evaluation and control over the terms of acquisitions in the PRC by foreign investors, and their implementation involves significant uncertainties and risks. To the extent our future acquisitions meet the threshold requirements set forth in the law and the Reporting Threshold Regulations, or are deemed by the Ministry of Commerce to meet the thresholds, we will be subject to antimonopoly review. The consummation of our future acquisitions could therefore be much more time-consuming and complex, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or prevent the consummation of such acquisitions, and prevent us from attaining our business objectives.

On February 3, 2011, the General Office of the PRC State Council issued the Circular of the General Office of the State Council on the Establishment of Security Review System Regarding Mergers and Acquisitions in China by Foreign Investors with effect in March 2011, according to which, acquisitions by foreign investors of domestic Chinese companies in the certain sectors such as military enterprises, key agricultural products, key energy and resources, key infrastructure, key transportation services, key technologies and key equipment manufacturing activities that raise national security concerns, shall be subject to security review where the foreign investor might acquire actual control of the target Chinese company through the acquisition. On August 25, 2011, the Ministry of Commerce issued the Regulation on Implementation of Security Review Regarding Mergers and Acquisitions in China by Foreign Investors effective September 1, 2011, which outlined the main application as well as work procedures of the security review and clarified the necessary paperwork required from foreign investors applying for the security review. According to the implementation regulation, mergers and acquisitions by foreign investors by way of trusts, multi-level reinvestments, leases, loan offers, variable interest entities and offshore transactions may all face security reviews. The newly issued circular and regulation are unclear with regard to certain aspects including the definition of key sectors which are expected to be further specified and therefore how it will be interpreted and implemented in practice remains to be seen. If our future acquisitions fall within the security review scope, the consummation of such acquisitions could therefore be much more time-consuming and complex, and any required approval processes may delay or prevent the consummation of such acquisitions, and prevent us from attaining our business objectives.

Our business may be adversely affected by a renewed outbreak of SARS, H1N1, avian influenza or any other highly contagious disease

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC, including the cities in which we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as SARS, H5N1 avian flu or the human swine flu, also known as Influenza A

(H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. Past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC.

In addition, the outbreak of SARS or other virulent contagious diseases, such as the H5N1 avian flu or the human swine flu, could potentially disrupt our operations and could cause temporary closures of our production or other facilities. Such closure could severely disrupt our operations and adversely affect our financial condition and results of operations. Our operations could be disrupted if any of our employees were suspected of having Influenza A (H1N1), SARS, H5N1 avian flu or other virulent contagious diseases, since this could require us to quarantine some or all of our employees or disinfect our facilities. In addition, our financial condition and results of operations could be adversely affected to the extent that Influenza A (H1N1), SARS, H5N1 avian flu, other outbreak or natural disaster harms the global or PRC economy in general.

The legal system in the PRC is less developed than in certain other countries and uncertainty with respect to the PRC legal system could affect our operations

As substantially all of our businesses are conducted, and substantially all of our assets are located, in the PRC, our operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

We cannot guarantee the accuracy of facts, forecasts and other statistics derived from official government publications with respect to the PRC, the PRC economy and the PRC industries that affect our business, which are contained in this offering memorandum

Facts, forecasts and other statistics in this offering memorandum relating to the PRC, the PRC economy and the PRC industries that affect our business have been derived from various official government publications generally believed to be reliable. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, or the Initial Purchasers or any of our or their affiliates or advisors and, therefore, none of them makes any representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between official government publications and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, they might not be stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

Risks Relating to the Notes and the Guarantee

Our obligations under the Guarantee are structurally subordinated to all existing and future liabilities and obligations of each of our subsidiaries

The Issuer was established by us specifically for the purpose of issuing the Notes and will on-lend the entire proceeds from the issue of the Notes to us, which we may in turn on-lend to other members of the Group. The Issuer does not and will not have any assets other than such loan and its ability to make payments under the Notes will depend on its receipt of timely payments under such loan arrangement.

We are an investment holding company and operate through our subsidiaries and direct and indirect investments in associated companies and jointly-controlled entities. As a result, our assets consist to a significant extent of shareholdings in our subsidiaries, associated companies and jointly-controlled entities. Claims of creditors of such companies will have priority as to the assets of such companies over us and our creditors, including holders of the Notes seeking to enforce the Guarantee. Our obligations under the Guarantee will not be guaranteed by any of our subsidiaries. The Notes do not contain any restrictions on the ability of our subsidiaries (other than the Issuer) to incur additional unsecured indebtedness.

Our ability to make payments on the Guarantee depends upon receipt of distributions from our subsidiaries, associated companies and joint ventures

We are primarily an investment holding company and our ability to make payments under the Guarantee and to make payments to the Issuer under the loan arrangement to fund payments on the Notes depends upon the receipt of dividends, distributions, interest or advances from its wholly owned or partly owned subsidiaries, associated companies and joint ventures. The ability of our subsidiaries, jointly-controlled entities and associated companies to pay dividends may be subject to applicable laws and regulations. The outstanding indebtedness of our subsidiaries may contain covenants restricting the ability of such subsidiaries to pay dividends in certain circumstances for so long as such indebtedness remains outstanding. See "Description of Other Material Indebtedness — 2011 Yanjing Brewery Term Loans." Moreover, our percentage interests in its subsidiaries, jointly-controlled entities and associated companies could be reduced in the future.

Our subsidiaries in the PRC may be unable to obtain and remit foreign exchange

Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay interest to Noteholders. In addition, since a significant amount of our future cash flow from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of the PRC or otherwise fund our business activities that are conducted in foreign currencies.

The ability of our PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends may affect our ability to satisfy its obligations under the Guarantee. Our subsidiaries in PRC must present certain documents to the SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of China, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE. Prior to payment of interest and principal on any shareholder loan the Group makes to its PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on shareholder loans, which may affect our ability to satisfy its obligations under the Guarantee.

There may be less publicly available information about us than is available in certain other jurisdictions

There may be less publicly available information about companies listed in Hong Kong, such as us, than is regularly made available by public companies in certain other countries. In addition, our financial information in this offering memorandum has been prepared in accordance with HKFRS, which differ in certain respects from U.S. GAAP, IFRS and generally accepted accounting principles in other jurisdictions, or other GAAPs, which might be material to the financial information contained in this offering memorandum. In making an investment decision, investors must rely upon their own examination of us, the terms of the offering and our financial information, and should consult their own professional advisers for an understanding of the differences between HKFRS, IFRS and U.S. GAAP or between HKFRS and other GAAPs and how those differences might affect the financial information contained in this offering memorandum.

We and the Issuer require a significant amount of cash to meet our obligations under our respective indebtedness and to sustain our operations which we may not be able to generate or raise

Our ability and that of the Issuer to make scheduled principal or interest payments on our indebtedness, including, the intercompany loans and the Notes, and payments under the Guarantee, and to fund our ongoing operations, will depend on our future performance and their ability to generate cash which, to a certain extent, is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as discussed in this section, many of which are beyond our and the Issuer's control. If our and the Issuer's future cash flows from operations and other capital resources are insufficient to pay our debt obligations, including the Notes and the Guarantee, or to fund our other liquidity needs, we may be forced to sell assets, attempt to restructure or refinance our existing indebtedness. No assurance can be given that we or the Issuer would be able to accomplish any of these measures on a timely basis or on satisfactory terms or at all.

We and the Issuer may not have the ability to raise the funds necessary to finance an offer to repurchase the Notes upon the occurrence of certain events constituting a change of control or otherwise as required by the Indenture governing the Notes

Upon the occurrence of certain events constituting a change of control, we and the Issuer are required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101% of their principal amount plus accrued and unpaid interest to the date of purchase. If any such event triggering our or the Issuer's repurchase obligations were to occur, we cannot assure you that we or the Issuer would have sufficient funds available at such time to pay the purchase price of the outstanding Notes.

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including a reorganization, restructuring, merger or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "Change of Control" as defined in the Indenture. Except as described under "Description of the Notes and Guarantee — Redemption for Change of Control Triggering Event," the Indenture does not contain provisions that require us or the Issuer to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

The definition of "Change of Control" contained in the Indenture includes a disposition of all or substantially all of our assets. Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of our assets. As a result, it may be unclear as to whether a change of control has occurred and whether we or the Issuer are required to make an offer to repurchase the Notes.

Circumstances may change, leading us to exercise our discretion to use the proceeds of this offering in a manner different from that currently envisaged, and we may not use the proceeds effectively

We intend to use the net proceeds to repay our existing indebtedness and as general working capital. We may use the proceeds from this offering in ways that are different from our current intentions and you may not agree with the uses we choose. We may use the proceeds from this offering in ways that do not necessarily improve our results of operations or enhance our financial condition. The failure to apply these funds effectively could result in financial losses that could cause the price of our shares to decline and delay the development of our various businesses.

The ratings assigned to the Notes may be lowered or withdrawn entirely in the future

The ratings assigned to the Notes may be lowered or withdrawn entirely in the future. The Notes are expected to be assigned a rating of "Baa1" by Moody's and "A-" by S&P. The ratings address the Issuer's and our ability to perform their respective obligations under the terms of the Notes and the Guarantee and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. The Issuer has no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

An active trading market for the Notes may not develop, and the trading price of the Notes could be materially and adversely affected

The Notes are a new issue of securities for which there is currently no trading market. Although approval in-principle has been obtained for the listing of the Notes on the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing on the SGX-ST, or that, if listed, a liquid trading market will develop. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See "Transfer Restrictions." We cannot predict whether an active trading market for the Notes will develop or be sustained.

The transfer of Notes is restricted which may adversely affect their liquidity and the price at which they may be sold

The Notes and the Guarantee have not been registered under, and the Issuer is not obligated to register the Notes or the Guarantee under, the Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. See "Transfer Restrictions." The Issuer has not agreed to or otherwise undertaken to register the Notes and the Guarantee (including by way of an exchange offer), and the Issuer has no intention to do so.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

The Notes will initially only be issued in global certificated form and held through DTC, Euroclear and Clearstream. Interests in the Global Notes will trade in book-entry form only, and notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Notes for purposes of the Indenture. Cede & Co., as nominee for DTC, will be the sole registered holder of the Global Notes. Accordingly, you must rely on the procedures of DTC, Euroclear or Clearstream and if you are not a participant in DTC, Euroclear or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Indenture. Upon the occurrence of an Event of Default under the Indenture, unless and until definitive registered notes are issued with respect to all book-entry interests, if you own a book-entry interest, you will be restricted to acting through DTC. The procedures to be implemented through DTC may not be adequate to ensure the timely exercise of rights under the Notes. See "Form, Denomination and Transfer."

The offering of Notes is susceptible to foreign exchange risk as a consequence of some of our assets being denominated in RMB and the Notes being denominated in U.S. dollars

The offering of Notes is susceptible to foreign currency exchange risk as a consequence of some of our assets being denominated in RMB and the Notes being denominated in U.S. dollars. Furthermore, the Issuer has not hedged its exposure to fluctuations in foreign exchange risks between RMB and the U.S. dollar. Accordingly, fluctuations in the exchange rate between RMB and the U.S. dollar will affect the value of the Notes. Exchange rate movements for RMB against the U.S. dollar are volatile and are the result of numerous factors specific to the PRC and the United States including the supply of, and the demand for, RMB, as well as government policy, intervention or actions, but are also influenced significantly from time to time by political or economic developments, and by macroeconomic factors and speculative actions related to the PRC and other regions. Changes in exchange rates result over time from the interaction of many factors directly or indirectly affecting economic and political conditions in the PRC and related countries. Of particular importance to potential currency exchange risk are: (a) rates of inflation; (b) interest rate levels; (c) balance of payments; and (d) the extent of governmental surpluses or deficits in the PRC and the United States. All of these factors are in turn sensitive to the monetary, fiscal and trade policies pursued by the governments of the PRC and the United States and other countries important to international trade and finance. The weakening of RMB relative to the U.S. dollar may have a material adverse effect on the value of the Notes and the return on an investment in the Notes.

Investors may be unable to effect service of process or to enforce certain judgments on the Issuer or the Guarantor

The Issuer is a private limited liability company incorporated under the laws of British Virgin Islands. All of the Issuer's directors reside outside of the United States, and all or a substantial portion of the assets of the Issuer and such persons are located outside the United States. As a result, it may be difficult for investors to effect service of process upon such persons within the United States, or to enforce against the Issuer or such persons in U.S. courts, judgments obtained in U.S. courts, including judgments predicated upon the civil liability provisions of the Federal securities laws of the United States. Conyers Dill & Pearman, counsel to the Issuer as to the British Virgin Islands law, has advised that it is doubtful whether courts in the British Virgin Islands will enforce judgments obtained in other jurisdictions, including the United States, against the Issuer or its directors or officers under the securities laws of those jurisdictions or entertain actions in the British Virgin Islands against the Issuer or its directors or officers under the securities laws of other jurisdictions. However, the courts of the British Virgin Islands would recognize as a valid judgment, a final and conclusive judgment *in personam* obtained in United States federal or state courts against the Issuer under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the British Virgin Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the British Virgin Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the British Virgin Islands and (f) there is due compliance with the correct procedures under the laws of the British Virgin Islands.

We are the sole guarantor of the Notes. All of our directors, commissioners and executive officers reside outside of the United States, and all or a substantial portion of our assets and such persons are located outside the United States. As a result, it may be difficult for investors to effect service of process upon such persons within the United States, or to enforce against us or such persons in U.S. courts, judgments obtained in U.S. courts, including judgments predicated upon the civil liability provisions of the Federal securities laws of the United States. Our PRC legal adviser has advised that judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the Federal securities laws of the United States, are not enforceable in the PRC and there is doubt as to whether PRC courts will enter judgments in original actions brought in PRC courts predicated solely upon civil liability provisions of the federal securities laws of the United States. A judgment of a non-PRC court will not be enforceable by the courts of PRC, although such a judgment could be offered as evidence in a proceeding on the underlying claim in a PRC court. A claimant may be required to pursue claims in PRC courts on the basis of PRC law. We cannot assure you that the claims or remedies available under PRC law will be the same, or as extensive as those available in other jurisdictions.

We and the Issuer have designated an agent for service of process in the United States with respect to the Notes and the Guarantee executed pursuant to the provisions of the indenture relating to the Notes. However, we have been advised by Haiwen & Partners, our PRC legal counsel that such designation by us would terminate by force of law and without notice upon our insolvency or bankruptcy. As a result, claims against us in bankruptcy or insolvency proceedings with respect to the Notes and the Guarantee will have to be pursued in PRC courts.

Enforcing your rights under the Notes across multiple jurisdictions may prove difficult

The Notes will be issued by the Issuer which is incorporated under the laws of British Virgin Islands, and the Notes will be guaranteed by us. In addition, the Notes and Guarantee are governed by the laws of New York. In the event of a bankruptcy, insolvency, suspension of debt payment or similar event, proceedings could be initiated in Hong Kong and New York. Such multi-jurisdictional proceedings are likely to be complex and costly for creditors and otherwise may result in greater uncertainty and delay regarding the enforcement of your rights. Your rights under the Notes and Guarantee will be subject to the insolvency and administrative laws of several jurisdictions and we cannot assure you that you will be able to effectively enforce your rights in such complex multiple bankruptcy, insolvency or similar proceedings. In addition, the bankruptcy, insolvency, suspension of debt payment or administrative and other laws of Hong Kong and New York may be materially different from, or be in conflict with, each other and those with which you may be familiar, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, and could adversely affect your ability to enforce your rights under the Notes and the Guarantee in the relevant jurisdictions or limit any amounts that you may receive.

The Issuer is a special purpose financing entity with no operations of its own and is dependent upon payments under the Guarantee to meet its obligations under the Notes

The Issuer is a special purpose financing entity with limited assets and has no business operations other than issuing the Notes and certain other indebtedness and engaging in related transactions and future issuances of debt securities upon and with terms substantially similar to the Notes. The proceeds from the issuance of the Notes will be used by the Issuer to provide us with additional financing. The Issuer's ability to make payments on the Notes is dependent directly on payments to the Issuer by us. Our ability to make payments on the Guarantee will depend on a number of factors, including those identified elsewhere in this "Risk Factors" section. If we fail to make scheduled payments under the Guarantee, the Issuer will not have any other source of funds to meet its payment obligations under the Notes.

USE OF PROCEEDS

The net proceeds from this offering, after giving effect to the Initial Purchasers' underwriting commissions (but before giving effect to certain transaction-related expenses), will be approximately US$791.3 million.

We intend to use the net proceeds to repay our existing indebtedness, as general working capital of the Group and for general corporate purposes.

EXCHANGE RATES AND EXCHANGE CONTROLS

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (the "Basic Law"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. However, no assurance can be given that the Hong Kong government will maintain the link at HK$7.80 to US$1.00 or at all.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon buying rate			
	Period End	**Average**	**High**	**Low**
	(HK$ per US$1.00)			
Year:				
2005	7.7533	7.7755	7.7999	7.7514
2006	7.7771	7.7685	7.7928	7.7506
2007	7.7984	7.8008	7.8289	7.7497
2008	7.7449	7.7814	7.8159	7.7497
2009	7.7536	7.7514	7.7618	7.7495
2010	7.7810	7.7691	7.7865	7.7513
2011	7.7663	7.7841	7.8087	7.7634
2012				
January 2012	7.7555	7.7622	7.7674	7.7538
February 2012	7.7551	7.7544	7.7559	7.7532
March 2012 (through March 30, 2012)	7.7638	7.7620	7.7678	7.7551

On March 30, 2012, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was US$1.00 = HK$7.7638 as certified for customs purposes by the Federal Reserve Bank of New York.

CAPITALIZATION

The following table shows our consolidated capitalization as of December 31, 2011 and as adjusted to give effect to the issuance of the Notes as if they were issued on December 31, 2011.

You should read this table in conjunction with our financial statements and the notes thereto included elsewhere in this offering memorandum; and the sections in this offering memorandum entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Use of Proceeds."

	As of December 31, 2011			
	Actual	As adjusted	Actual	As adjusted
	HK$	HK$	US$	US$
	(in millions)			
Bank and other borrowings — non-current portion	4,070.1	4,070.1	523.1	523.1
Liability component of convertible bonds	2,711.8	2,711.8	348.6	348.6
Guaranteed senior notes	7,699.1	7,699.1	989.6	989.6
Notes to be issued	—	6,224.0	—	800.0
Total equity				
Issued capital	113.8	113.8	14.7	14.7
Reserves	36,984.0	36,984.0	4,753.7	4,753.7
Proposed final dividends	511.9	511.9	65.8	65.8
Non-controlling interests	7,587.0	7,587.0	975.2	975.2
Total capitalization[1]	59,677.7	65,901.7	7,670.7	8,470.7

(1) Total capitalization comprises of bank and other borrowings — non-current portion, liability component of convertible bonds, guaranteed senior notes and Notes to be issued and total equity.

Except as disclosed in this offering memorandum, there have been no material adverse changes in our consolidated capitalization since December 31, 2011.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

You should read the selected financial information presented below in conjunction with the financial statements and the notes thereto included elsewhere in this offering memorandum. You should also read the section of this offering memorandum entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We have derived our summary consolidated income statements for 2009, 2010 and 2011 and our summary consolidated statement of financial position data as of December 31, 2009, 2010 and 2011 in the tables below from our audited consolidated financial statements, which have been audited by Ernst & Young, certified public accountants registered in Hong Kong. We have prepared and presented our consolidated financial statements in accordance with HKFRS, which differ in certain material respects from U.S. GAAP. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in millions)			
Consolidated Income Statement:				
REVENUE	24,208.4	27,612.9	30,471.8	3,916.7
Cost of sales	(18,389.9)	(21,213.6)	(23,737.7)	(3,051.1)
Gross profit	5,818.5	6,399.3	6,734.1	865.6
Gain on deemed disposal of interest in a subsidiary	105.4	170.9	—	—
Other income and gains, net	440.8	422.0	872.9	112.2
Selling and distribution costs	(1,360.1)	(1,653.1)	(2,200.1)	(282.8)
Administrative expenses	(1,794.4)	(2,117.4)	(2,442.3)	(313.9)
Fair value gain/(loss) on the derivative component of convertible bonds	—	(214.2)	239.1	30.7
Other operating expenses, net	(325.4)	(203.5)	18.0	2.3
PROFIT FROM OPERATING ACTIVITIES	2,884.8	2,804.0	3,221.7	414.1
Finance costs	(363.6)	(374.5)	(646.6)	(83.1)
Share of profits and losses of:				
Jointly-controlled entities	1,092.1	1,168.7	1,300.2	167.1
Associates	(7.9)	196.4	373.4	48.0
PROFIT BEFORE TAX	3,605.4	3,794.6	4,248.7	546.1
INCOME TAX	(559.0)	(684.9)	(583.5)	(75.0)
PROFIT FOR THE YEAR	3,046.4	3,109.7	3,665.2	471.1
ATTRIBUTABLE TO:				
Shareholders of the Company	2,398.9	2,639.3	2,775.9	356.8
Non-controlling interests	647.5	470.4	889.3	114.3
	3,046.4	3,109.7	3,665.2	471.1
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY				
Basic	HK$2.1	HK$2.3	HK$2.4	US$0.3
Diluted	HK$2.0	HK$2.3	HK$2.4	US$0.3

	As of December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in millions)			
Consolidated Statement of Financial Position:				
Assets:				
Non-current assets:				
Property, plant and equipment	19,045.5	22,244.0	26,317.2	3,382.7
Investment properties	204.4	215.6	681.1	87.5
Prepaid land premiums	1,129.9	1,233.4	1,275.3	163.9
Goodwill	8,649.1	7,245.8	7,453.6	958.0
Operating concessions	1,697.4	1,255.9	1,225.0	157.5
Other intangible assets	26.9	14.2	23.7	3.0
Investments in jointly-controlled entities	5,397.3	6,102.5	210.9	27.3
Investments in associates	899.8	3,109.9	12,574.0	1,616.2
Available-for-sale investments	290.0	1,005.2	917.4	117.9
Amounts due from contract customers	1,286.2	223.7	566.0	72.8
Receivables under service concession arrangements	3,414.8	1,699.2	1,588.0	204.1
Trade and bills receivables	51.7	—	—	—
Prepayments, deposits and other receivables	270.7	301.1	430.6	55.3
Deferred tax assets	564.5	598.2	594.7	76.4
Total non-current assets	42,928.2	45,248.7	53,857.5	6,922.6
Current assets:				
Prepaid land premiums	26.4	27.6	30.2	3.9
Property held for sale	—	—	27.6	3.5
Inventories	2,995.0	3,726.6	5,285.6	679.4
Amounts due from contract customers	55.1	2.1	46.6	6.0
Receivables under service concession arrangements	659.6	900.5	1,003.3	129.0
Trade and bills receivables	1,097.7	1,347.0	1,586.4	203.9
Prepayments, deposits and other receivables	1,654.0	899.7	2,313.2	297.3
Financial assets at fair value through profit or loss	—	—	—	—
Other taxes recoverable	85.1	303.9	589.0	75.7
Restricted cash and pledged deposits	118.2	125.9	36.6	4.7
Cash and cash equivalents	9,486.0	14,446.8	12,579.4	1,616.9
Total current assets	16,177.1	21,780.1	23,497.9	3,020.3
Total assets	59,105.3	67,028.8	77,355.4	9,942.9

	As of December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in millions)			
Equity and Liabilities:				
Equity attributable to shareholders of the Company:				
Issued capital	113.7	113.7	113.8	14.7
Reserves	30,679.6	33,642.4	36,984.0	4,753.7
Proposed final dividends	511.8	511.8	511.9	65.8
	31,305.1	34,267.9	37,609.7	4,834.2
Non-controlling interests	7,711.9	6,668.4	7,587.0	975.2
Total equity	39,017.0	40,936.3	45,196.7	5,809.4
Non-current liabilities:				
Bank and other borrowings	5,264.2	7,227.3	4,070.1	523.1
Guaranteed senior notes	—	—	7,699.1	989.6
Liability component of convertible bonds	2,721.5	2,650.5	2,711.8	348.6
Derivative component of convertible bonds	—	292.4	61.8	7.9
Defined benefit plans	423.9	470.4	522.3	67.2
Provision for major overhauls	184.5	140.2	196.2	25.2
Other non-current liabilities	196.2	157.1	239.3	30.8
Deferred tax liabilities	413.1	364.1	371.4	47.7
Total non-current liabilities	9,203.4	11,302.0	15,872.0	2,040.1
Current liabilities:				
Trade and bills payables	1,408.1	4,553.8	1,904.6	244.8
Amounts due to contract customers	48.3	59.4	123.8	15.9
Receipts in advance	—	—	3,446.9	443.1
Other payables and accruals(1)	5,436.7	6,862.3	4,430.8	569.5
Income tax payables	522.3	626.8	342.3	44.0
Other taxes payables	431.6	367.9	333.3	42.8
Bank and other borrowings	3,037.9	2,320.3	5,705.0	733.3
Total current liabilities	10,884.9	14,790.5	16,286.7	2,093.4
Total liabilities	20,088.3	26,092.5	35,158.7	4,133.5
Total equity and liabilities	59,105.3	67,028.8	77,355.4	9,942.9

(1) For 2009 and 2010, “Other payable and accruals” includes receipts in advance.

	Year Ended December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in millions)			
Other financial information:				
EBITDA[1]	5,345.7	6,271.7	4,709.6	605.3
Dividends received from jointly-controlled entities and associates	883.6	1,779.8	306.6	39.4
Net cash (used in)/provided by:				
Operating activities	3,093.5	6,942.1	(926.3)	119.1
Investing activities	(4,227.9)	(8,812.2)	(6,832.7)	878.2
Financing activities	2,705.0	6,194.2	5,850.3	752.0
Capital expenditures	2,317.3	3,866.9	4,346.1	558.6
Finance costs	363.6	374.5	646.6	83.1
Total cash[2]	9,486.0	14,446.8	12,579.4	1,616.9
Total debt[3]	11,023.6	12,198.1	20,186.0	2,594.6
Net debt/(cash)	1,537.6	(2,248.7)	7,606.6	977.7
Selected pro forma financial ratios for the offering of the Notes:				
Ratio of total debt to EBITDA	2.06	1.94	4.29	4.29
Ratio of net debt to EBITDA	0.29	(0.36)	1.62	1.62
Ratio of EBITDA to finance costs	14.70	16.75	7.28	7.28

(1) We define EBITDA for the purposes of this offering memorandum as profit for the year *plus* income tax, depreciation, amortization of intangible assets, finance costs, impairment of non-financial and financial assets and provision against inventories, net, dividends received from jointly-controlled entities and associates, (gain) loss on disposal of items of property, plant and equipment, net and fair value (gain) loss on the derivative component of convertible bonds, *less* share of profits and losses of jointly-controlled entities and associates, (gain) loss on foreign exchange, net, gain on deemed disposal of partial interest in associates and gain on deemed disposal of interest in a subsidiary, which may be different from the way EBITDA is defined by us for other purposes. EBITDA is presented because we believe it provides investors with important additional information to evaluate our performance. Moreover, we believe that investors, analysts and rating agencies will consider EBITDA useful in measuring our ability to meet our debt service obligations. However, EBITDA is not a recognized measurement under U.S. GAAP and when analyzing our performance, investors should use EBITDA in addition to, and not as an alternative to, net income or other performance measures derived in accordance with U.S. GAAP. Set forth below is a reconciliation of our net income to EBITDA.

(2) Total cash comprises cash and cash equivalents.

(3) Total debt comprises bank and other borrowings, the 2021 Notes, the 2041 Notes and the liability component of convertible bonds.

	Year Ended December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in millions)			
Net income to EBITDA reconciliation:				
Profit for the year	3,046.4	3,109.7	3,665.2	471.1
Add:				
Income tax	559.0	684.9	583.5	75.0
Depreciation	1,305.9	1,383.4	1,669.2	214.6
Amortization of intangible assets	109.0	105.2	104.6	13.4
Finance costs	363.6	374.5	646.6	83.1
Impairment of non-financial and financial assets and provision against inventories, net	242.7	162.0	(144.1)	(18.5)
Dividends received from jointly-controlled entities and associates	883.6	1,779.8	306.6	39.4
Less:				
Share of profits and losses of jointly-controlled entities and associates	(1,084.2)	(1,365.1)	(1,673.6)	(215.1)
(Gain)/loss on foreign exchange, net	6.7	16.5	(55.7)	(7.2)
(Gain)/loss on disposal of items of property, plant and equipment, net	18.4	14.4	(127.3)	(16.4)
Fair value (gain)/loss on the derivative component of convertible bonds	—	214.2	(239.1)	(30.7)
Gain on deemed disposal of partial interest in associates	—	(36.9)	(26.3)	(3.4)
Gain on deemed disposal of interest in a subsidiary	(105.4)	(170.9)	—	—
EBITDA	5,345.7	6,271.7	4,709.6	605.3

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the selected financial and operating data and the financial statements and related notes of BEHL for the years ended December 31, 2009, 2010 and 2011 included elsewhere in this offering memorandum. These financial statements have been prepared in accordance with HKFRS, which differs in certain significant respects from U.S. GAAP. The discussion contains forward-looking statements and reflects the current view of the Company and its subsidiaries, jointly-controlled entities and associates with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth under "Risk Factors" and elsewhere in this offering memorandum.

Overview

We are a conglomerate backed by the Beijing Municipal Government focused on gas utilities, complemented by our consumer products and sewage and water treatment businesses conducted through either our subsidiaries or our associate, BE Water. Our broad portfolio of assets includes natural gas distribution and transmission assets, brewery operations, sewage and water treatment facilities and expressways and toll roads. We hold effective monopoly rights to supply natural gas in the Beijing metropolitan area for a 25-year period ending in 2032 pursuant to a policy guideline of the PRC Government. We also operate one of the largest breweries in the PRC with a diversified brand and product portfolio, a leading market position in Beijing and strong national reputation. Our sewage and Water Treatment facilities comprise facilities operated or constructed by BE Water and Beijing No. 9 water treatment Plant. Through our associate, BE Water, we have developed an integrated business model with design and technical consultancy, construction, ownership and operational capabilities for sewage and water treatment projects. Our expressways and toll roads business manages and operates the Capital Airport Expressway which connects Beijing international airport to the city center and the Shenzhen Shiguan Highway, which comprises a series of roads and bridges located in the Baoan district of Shenzhen. We believe our diversified portfolio of businesses, each with a leading market position and historically stable cashflows, enables us to manage volatility across our business segments, thereby positioning us to capture growth opportunities in the utilities and consumer products sectors in Beijing and throughout the PRC. We recorded revenues of HK$24,208.4 million, HK$27,612.9 million and HK$30,471.8 million (US$3,916.7 million) for 2009, 2010 and 2011, respectively.

Factors Affecting our Business and Results of Operations

Demand and prices for natural gas in the PRC, particularly Beijing

In recent years, our natural gas distribution business has provided a substantial portion of our revenues and our natural gas transmission business has contributed to our overall results, and we anticipate our natural gas business will continue to represent our primary business segment. Natural gas distribution and transmission is a volume-driven business. Our ability to maintain profitability in the natural gas distribution business depends primarily on our ability to pass through increases in natural gas prices to our customers. The NDRC fixes the wellhead price of gas annually, and natural gas prices have risen consistently over the past several years. We have been largely successful in passing through these cost increases to customers, but our revenues may be adversely affected if increased natural gas prices result in weaker demand for natural gas. Moreover, our margins from natural gas distribution may be adversely affected if we are unable to pass along increased costs to customers.

Transmission of natural gas

We hold a 40.0% equity interest in PetroChina Beijing Pipeline through our wholly owned subsidiary Beijing Gas. Through the Shaanxi-Beijing No. 1 and No. 2 lines, we supply substantially all of Beijing's piped natural gas. Through PetroChina Beijing Pipeline's Shaanxi-Beijing No. 3 and No. 4 lines, we expect to extend the existing natural gas transmission network. For 2011, the combined annual capacity for the No. 1 and No. 2 Shaanxi-Beijing lines was 19 billion cubic meters and the estimated capacity for the No. 3 and No. 4 Shaanxi-Beijing lines is 15 and 12 billion cubic meters, respectively. At the PetroChina Beijing Pipeline level, our natural gas transmission business generates lower revenues compared to our natural gas distribution business, but typically yields higher margins as well as greater opportunities for strategic expansion outside the Beijing area. We expect PetroChina Beijing Pipeline's natural gas transmission business to expand, and the revenue contribution from our equity ownership percentage to increase as compared to natural gas distribution.

Market-driven nature of our brewery business

Yanjing Brewery provides a market-driven segment that complements our natural gas distribution and transmission and sewage and water treatment businesses, which are both heavily dependent on PRC Government policies, price-setting and bidding processes. Our brewery business is characterized by its economies of scale, which enable us to acquire raw materials at competitive prices through bulk purchasing and procurement efficiencies. By analyzing prices of raw materials and leveraging the advantages of our economies of scale in achieving low-cost purchases, we have focused on containing production costs. Our success also depends on our ability to pass on increases in our production costs to our customers. The success of Yanjing Beer does, however, depend on its ability to respond quickly to address changes in consumer tastes and preferences. In recent years, we have been able to increase the average selling price of certain brewery products as overall sales volumes have grown and our ability to maintain margins and increase sales volumes will affect our results of operations significantly.

PRC Government policies regarding environmental issues

In recent policy announcements, the PRC Government has stated its intention to reduce air pollution and other detrimental environmental effects in major urban areas. Specifically, according to the Beijing Municipal Government's 12th five-year plan, the Beijing Municipal Government is planning to replace three coal-fired power plants and 63 coal-fired boilers with gas-fired facilities located inside the fifth ring road region of Beijing by 2015 and to increase the percentage of gas consumption of total energy consumption from approximately 13% in 2010 to 24% in 2015. Through coal-to-gas conversions of major power generators in and around Beijing and the expected subsequent increased usage of natural gas following such conversions, we believe that we are well-positioned to benefit from the strong PRC Government policy directives promoting cleaner-burning fuels such as natural gas.

We expect growing water scarcity coupled with the fast pace of urbanization and rapid economic growth, to result in an increasing demand for water resources utilization. In recent years, our sewage and water treatment business has benefited from increased infrastructure investment in such projects, and we believe the PRC Government will likely continue to support environmental measures designed to improve the quality of water resources. Our sewage and water treatment business has focused more heavily on construction projects, which typically yield lower margins, but generate higher revenues and provide opportunities for subsequent operational roles with steady returns.

Results of Operations and Financial Condition

Revenue

We primarily derive our revenues from piped gas, brewery, sewage and water treatment, and expressways and toll roads operations. Revenue represents: (i) 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; (ii) the aggregate of toll revenue, net of business tax; (iii) an appropriate proportion of contract revenue of construction contracts and service contracts, net of value-added tax, business tax and government surcharges; and (iv) the imputed interest income on receivables under service concession arrangements. Our revenues were mainly driven by revenues of our key subsidiaries, Beijing Gas and Yanjing Brewery. Our other business segments contributed to an aggregate of not more than 2.1% of total consolidated revenue.

Cost of sales

The cost of sales for our natural gas distribution business includes the purchase cost of natural gas as well as depreciation of our piped line network and certain direct wages. Cost of sales for our brewery operations includes depreciation, raw materials, direct wage expenses and absorption of certain indirect overhead such as electricity and power costs associated with our brewery facilities. Cost of sales for toll roads mainly comprise amortization and repair and maintenance expenses.

Other income and gains, net

Other income comprises mainly total interest income, government grants (including subsidies on land provided for new bottling plants located in provincial areas), and rental and service income, which includes land leased to third parties under operating lease arrangements. Gains, net comprises, among other things, fair value gain on investment properties, gain on disposal of subsidiaries, net and gain on deemed disposal of partial interest in an associate.

Selling and distribution costs

Selling and distribution costs includes advertising costs, sales promotion expense related to promotional fees paid to wholesalers, loading and transportation expense and salary, travel, and welfare expenses for marketing and selling activities. Our selling and distribution costs relate primarily to Yanjing Brewery and costs related to the brand promotion and distribution of our brewery products.

Administrative expenses

Administrative expenses include wages and fixed costs, traveling costs of our administrative staff, salaries and pension, expenses related to our headquarters and administrative oversight functions, rentals and directors' salaries.

Fair value loss on the derivative component of convertible bonds

Fair value loss on the derivative component of convertible bonds includes amounts attributable to non-controlling shareholders of Yanjing Brewery.

Other operating expenses, net

The impairments of items of property, plant and equipment, inventories and provision for receivables and other intangible assets are included in calculating other operating expenses, net.

Profit from operating activities

Our profit from operating activities is calculated after charging, among others, cost of inventories sold, cost of services provided, depreciation, minimum lease payments under operating leases relating to land and buildings and plant and machinery, employee benefit expenses such as salaries, pension contributions and cost of defined benefit plans, amortization of prepaid land premiums and operating concessions, research and development expenditure, loss on disposal of items of property, plant and equipment, net, provision for major overhauls and impairment of items of property, plant and equipment.

Finance costs

Finance costs consist of interest expense on bank borrowings and other borrowings, including the convertible bonds issued during the relevant period.

Share of profits and losses of jointly-controlled entities and associates

Share of profits and losses of jointly-controlled entities mainly represents our 40% share of profit after taxation of PetroChina Beijing Pipeline and other jointly-controlled entities and associates.

Income tax

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which we operate. In accordance with the relevant tax rules and regulations of the PRC, certain of our subsidiaries enjoy PRC corporate income tax exemptions and reductions. Certain expenses are not deductible for tax purposes and certain losses may not be deferred to future periods.

Results of operations

The following table sets forth a breakdown of our results of operations and each item as a percentage of our revenue for the periods indicated. Due to deconsolidation of BE Water and its subsidiaries from the Group effective from August 2010, our results of operation for 2010 and 2011 may not be comparable to our results of operation for 2009:

	Year Ended December 31,						
	2009		2010		2011		
	HK$	%	HK$	%	HK$	US$	%
	(in millions, except percentages)						
Consolidated income statement:							
Revenue	24,208.4	100.0	27,612.9	100.0	30,471.8	3,916.7	100.0
Cost of sales	(18,389.9)	(76.0)	(21,213.6)	(76.8)	(23,737.7)	(3,051.1)	(77.9)
Gross profit	5,818.5	24.0	6,399.3	23.2	6,734.1	865.6	22.1
Gain on deemed disposal of interest in a subsidiary	105.4	0.4	170.9	0.6	—	—	—
Other income and gains, net	440.8	1.8	422.0	1.5	872.9	112.2	2.9
Selling and distribution costs	(1,360.1)	(5.6)	(1,653.1)	(6.0)	(2,200.1)	(282.8)	(7.2)
Administrative expenses	(1,794.4)	(7.4)	(2,117.4)	(7.7)	(2,442.3)	(313.9)	(8.0)
Fair value loss on the derivative component of convertible bonds	—	—	(214.2)	(0.8)	239.1	30.7	0.8
Other operating expenses, net	(325.4)	(1.3)	(203.5)	(0.7)	18.0	2.3	0.0
Profit from operating activities	2,884.8	11.9	2,804.0	10.1	3,221.7	414.1	10.6
Finance costs	(363.6)	(1.5)	(374.5)	(1.4)	(646.6)	(83.1)	(2.1)
Share of profits and losses of:							
Jointly-controlled entities	1,092.1	4.5	1,168.7	4.2	1,300.2	167.1	4.3
Associates	(7.9)	0.0	196.4	0.7	373.4	48.0	1.2
Profit before tax	3,605.4	14.9	3,794.6	13.6	4,248.7	546.1	14.0
Income tax	(559.0)	(2.3)	(684.9)	(2.5)	(583.5)	(75.0)	(1.9)
Profit for the year	3,046.4	12.6	3,109.7	11.1	3,665.2	471.1	12.1

2011 compared to 2010

Revenues. Our revenues increased by 10.4% from HK$27,612.9 million in 2010 to HK$30,471.8 million in 2011 primarily as a result of increased sales volumes from our natural gas distribution business and increased sales volumes and average selling prices for our brewery products, which were partially offset by the effects of the deconsolidation of BE Water in August 2010. For 2011, our other business segments contributed to less than 2.1% of our total revenue.

Cost of sales. Our cost of sales increased by 11.9% from HK$21,213.6 million in 2010 to HK$23,737.7 million in 2011 primarily due to increases in the cost of natural gas, depreciation of our pipeline network, increased costs for raw materials in our brewery business, increased direct wage expenses and the absorption of indirect overhead.

Gross profit. As a result of the foregoing factors, our gross profit increased by 6.2% from HK$6,399.3 million in 2010 to HK$6,734.1 million in 2011. Our gross profit margin declined slightly to 22.1% in 2011 from 23.2% in 2010 primarily due to an increase in gas wellhead prices without a corresponding increase in residential tariffs as well as an increase in the cost of raw materials used in our brewery business coupled with a limited increase in beer prices.

Gain on deemed disposal of interest in a subsidiary. Our gain on deemed disposal of interest in a subsidiary decreased by 100% from HK$170.9 million in 2010 to nil in 2011 due to the dilution of our equity interest in BE Water due to the conversion of BE Water's convertible bonds held by its minority shareholders into new ordinary shares in 2010, which event did not recur in 2011.

Other income and gains, net. Our other income and gains, net increased by 106.8% from HK$422.0 million in 2010 to HK$872.9 million in 2011 primarily due to increases in government grants, interest income, gain on disposal of items of property, plant and equipment and transfer of assets from customers.

Selling and distribution costs. Our selling and distribution costs increased by 33.1% from HK$1,653.1 million in 2010 to HK$2,200.1 million in 2011 primarily due to the opening of seven new bottling plants in the PRC as well as increased marketing expenses and wages related to Yanjing Beer.

Administrative expenses. Our administrative expenses increased by 15.3% from HK$2,117.4 million in 2010 to HK$2,442.3 million in 2011 primarily due to the expansion of our brewery and natural gas distribution business as well as an increase in related wages and fixed costs related to such expansion. In 2011, such administrative costs were related primarily to the development of our natural gas distribution network in 11 counties in the Greater Beijing city area, and the establishment of seven new bottling plants in the PRC by Yanjing Brewery. We experienced an increase in wages from 2010 to 2011 as a result of an increase in both hiring and salary levels with increased salary levels primarily resulting from inflationary pressures in the PRC.

Fair value gain/(loss) on the derivative component of convertible bonds. We recorded a fair value gain on the derivative component of convertible bonds of HK$239.1 million in 2011 as compared to a fair value loss on the derivative component of convertible bonds of HK$214.2 million in 2010 primarily due to the change in fair value recognized in relation to the conversion option of the convertible bonds issued by Yanjing Brewery, which is classified as a derivative financial instrument.

Other operating expenses, net. Our other operating expenses, net decreased from HK$203.5 million in 2010 to a net gain of HK$18.0 million in 2011 primarily due to a reversal of provision for certain investments made in prior years which fully offset the expenses.

Profit from operating activities. As a result of the foregoing factors, our profit from operating activities increased by 14.9% from HK$2,804.0 million in 2010 to HK$3,221.7 million in 2011.

Finance costs. Our finance costs increased by 72.7% from HK$374.5 million in 2010 to HK$646.6 million in 2011 primarily due to increased interest expense related to interest payable in connection with the 2021 Notes and 2041 Notes issued in 2011.

Share of profits and losses of jointly-controlled entities. Our share of profits of jointly-controlled entities increased by 11.3% from HK$1,168.7 million in 2010 to HK$1,300.2 million in 2011 primarily due to increased revenues resulting from higher gas transmission volumes by PetroChina Beijing Pipeline, which resulted in an increase in our share of profits from such entity.

Share of profits and losses of associates. Our share of profits and losses of associates increased by 90.1% from HK$196.4 million in 2010 to HK$373.4 million in 2011 primarily due to an increase in operating profits of our associates.

Profit before tax. As a result of the foregoing factors, our profit before tax increased by 12.0% from HK$3,794.6 million in 2010 to HK$4,248.7 million in 2011.

Income tax. Our income tax decreased by 14.8% from HK$684.9 million in 2010 to HK$583.5 million in 2011 primarily due to a decrease in the income tax rate applicable to our natural gas distribution business to 15.0%.

Profit for the year. As a result of the foregoing factors, our profit for the year increased by 17.9% from HK$3,109.7 million in 2010 to HK$3,665.2 million in 2011.

2010 compared to 2009

Revenues. Our revenues increased by 14.1% from HK$24,208.4 million in 2009 to HK$27,612.9 million in 2010 primarily as a result of increased sales volumes from our natural gas distribution business and increased sales volumes and average selling prices for our brewery products. Our sewage and water treatment business contributed approximately 8.7% of our revenues, which represented primarily nine BT projects under construction.

Cost of sales. Our cost of sales increased by 15.4% from HK$18,389.9 million in 2009 to HK$21,213.6 million in 2010 primarily due to increased costs associated with increased sales volumes from our natural gas distribution and brewery businesses as well as higher materials costs related to the increased construction projects for our sewage and water treatment business. Our cost of sales increased by a slightly greater percentage than revenues primarily due to lower gross margins for our natural gas distribution sales following an increase in the wellhead price in 2010, but such margin compression was offset partially by increased margins in our brewery operations as a result of improved procurement policies for brewery raw materials and higher average selling prices for certain brewery products.

Gross profit. As a result of the foregoing factors, our gross profit increased by 10.0% from HK$5,818.5 million in 2009 to HK$6,399.3 million in 2010.

Gain on deemed disposal of interest in a subsidiary. Our gain on deemed disposal of interest in a subsidiary increased by 62.1% from HK$105.4 million in 2009 to HK$170.9 million in 2010 primarily due to the dilution of our equity interest in BE Water due to the conversion of BE Water's convertible bonds held by its minority shareholders into new ordinary shares.

Other income and gains, net. Our other income and gains, net decreased by 4.3% from HK$440.8 million in 2009 to HK$422.0 million in 2010 primarily due to the gain on disposal of subsidiaries, net in 2009 and the lack of similar disposals in 2010.

Selling and distribution costs. Our selling and distribution costs increased by 21.5% from HK$1,360.1 million in 2009 to HK$1,653.1 million in 2010 primarily due to the opening of several new bottling plants by our brewery business as well as increased marketing expenses related to Yanjing Beer.

Administrative expenses. Our administrative expenses increased by 18.0% from HK$1,794.4 million in 2009 to HK$2,117.4 million in 2010 primarily due to the expansion of our brewery and natural gas distribution business as well as an increase in related wages and fixed costs. In 2010, such administrative costs related primarily to the development of our natural gas distribution network in 11 counties in the Greater Beijing city area, and the establishment of three new bottling plants by Yanjing Brewery. We experienced an increase in wages from 2009 to 2010 both as a result of an increase in hiring and salary levels (the latter was increased due to inflation in the PRC).

Fair value loss on the derivative component of convertible bonds. We incurred a fair value loss on the derivative component of convertible bonds of HK$214.2 million in 2010 primarily due to the change in fair value recognized in relation to the conversion option of the convertible bonds issued by Yanjing Brewery, which is classified as a derivative financial instrument.

Other operating expenses, net. Our other operating expenses, net decreased by 37.5% from HK$325.4 million in 2009 to HK$203.5 million in 2010 primarily due to a reversal of provision for certain investments made in prior years which partially offset the expenses.

Profit from operating activities. As a result of the foregoing factors, our profit from operating activities decreased slightly by 2.8% from HK$2,884.8 million in 2009 to HK$2,804.0 million in 2010.

Finance costs. Our finance costs increased by 3.0% from HK$363.6 million in 2009 to HK$374.5 million in 2010 primarily due to increased interest expense related to interest on our convertible bonds, which was partially offset by a decrease in imputed interest on our convertible bonds.

Share of profits and losses of jointly-controlled entities. Our share of profits of jointly-controlled entities increased by 7.0% from HK$1,092.1 million in 2009 to HK$1,168.7 million in 2010 primarily due to increased revenues resulting from higher gas transmission volumes by PetroChina Beijing Pipeline, which resulted in an increase in our share of profits from such entity.

Share of profits and losses of associates. Our share of profits and losses of associates increased from a share of loss of HK$7.9 million in 2009 to a share of profit of HK$196.4 million in 2010 primarily due to the deconsolidation of BE Water.

Profit before tax. As a result of the foregoing factors, our profit before tax increased by 5.2% from HK$3,605.4 million in 2009 to HK$3,794.6 million in 2010.

Income tax. Our income tax increased by 22.5% from HK$559.0 million in 2009 to HK$684.9 million in 2010 primarily due to additional withholding taxes in relation to dividends from our PRC subsidiaries as well as increased profits before tax, higher expenses not deductible for tax and increased tax loss that could not be deferred to future periods.

Profit for the year. As a result of the foregoing factors, our profit for the year increased by 2.1% from HK$3,046.4 million in 2009 to HK$3,109.7 million in 2010.

Liquidity and capital resources

The following table sets forth certain information concerning our historical cash flows:

	Year Ended December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in millions)			
Net cash (used in)/provided by:				
Operating activities	3,093.5	6,942.1	(926.3)	(119.1)
Investing activities	(4,227.9)	(8,812.2)	(6,832.7)	(878.2)
Financing activities	2,705.0	6,194.2	5,850.3	752.0

Net cash (used in)/provided by operating activities

In 2011, our net cash used in operating activities was HK$926.3 million (US$119.1 million) compared to HK$6,942.1 million (US$890.0 million) provided by operating activities in 2010. The decrease in net cash generated from operating activities was primarily attributable to a substantial decrease in trade and bills payables in 2011 as compared to a substantial increase in trade and bills payables in 2010 related to gas purchases.

In 2010, our net cash provided by operating activities was HK$6,942.1 million (US$890.0 million) compared to net cash provided by operating activities of HK$3,093.5 million in 2009. The net cash generated from operating activities was mainly attributable to a substantial increase in trade and bills payables and dividends received from jointly-controlled entities and associates in 2010.

Net cash used in investing activities

In 2011, our net cash used in investing activities was HK$6,832.7 million (US$878.2 million) compared to HK$8,812.2 million (US$1,130.0 million) in 2010. The decrease in net cash used in investing activities was mainly attributable to a decrease in time deposits with maturity of more than three months and a decrease in pledged deposits in 2011.

In 2010, our net cash used in investing activities was HK$8,812.2 million (US$1,130.0 million) compared to HK$4,227.9 million in 2009. The net cash used in investing activities was mainly attributable to purchases of items of property, plant and equipment and deconsolidation of interest in BE Water, an increase in pledged deposits and an increase in time deposits with maturity of more than three months when acquired in 2010.

Net cash (used in)/provided by financing activities

In 2011, our net cash provided by financing activities was HK$5,850.3 million (US$752.0 million) compared to HK$6,194.2 million (US$794.1 million) in 2010. The decrease in net cash generated from financing activities was mainly attributable to an increase in interest paid attributable to the 2021 and 2041 Notes, a decrease in capital contribution by non-controlling equity holders and the lack of an additional issuance of convertible bonds.

In 2010, our net cash provided by financing activities was HK$6,194.2 million compared to HK$2,705.0 million in 2009. The net cash provided by financing activities was mainly attributable to new loans of HK$11,510.3 million in 2010 compared to HK$6,951.7 million in 2009, which was partially offset by lower cashflows from the issue of convertible bonds from 2009 to 2010.

Level of total liabilities and interest rates

As of December 31, 2011, our total liabilities was HK$32,158.7 million (US$4,133.5 million). Our outstanding material liabilities as of December 31, 2011, was principally comprised of bank and other borrowings, the 2021 Notes and the 2041 Notes issued in 2011, trade and bills payables, other payables and accruals and the liability component of convertible bonds. For a calculation of interest rates per annum on the carrying amounts of our borrowings by currency, see Note 36 to our consolidated financial statements for 2011 included elsewhere in this offering memorandum.

Cash and cash equivalents

As of December 31, 2011, we had cash and cash equivalents of HK$12,579.4 million (US$1,616.9 million) compared to HK$14,446.8 million and HK$9,486.0 million as of December 31, 2010 and 2009, respectively. Cash and cash equivalents decreased between December 31, 2010 and December 31, 2011 primarily due to an increase in investments in associates and the paydown of trade and bills payables relating to gas purchases. As of December 31, 2011, our cash and bank balances denominated in Renminbi totaled approximately HK$9.9 billion compared to HK$12.5 billion and HK$8.0 billion as of December 31, 2010 and December 31, 2009, respectively. Pursuant to the current PRC foreign exchange policies, the Renminbi is not fully convertible into other currencies.

Since December 31, 2011, cash and cash equivalents have decreased primarily due to the settlement of outstanding payables of approximately HK$1.0 billion to PetroChina Associate Company for gas purchased during the first quarter of 2012.

Capital expenditures

Our liquidity requirements relate to funding working capital, capital expenditures, debt service and maintaining cash reserves. After funding operating expenses and working capital, our primary use of cash is to service existing long-term debt and to fund our capital expenditure requirements and investments in various projects and companies. Our capital expenditures in 2009, 2010 and 2011 were HK$2,317.3 million, HK$3,866.9 million and HK$4,346.1 million, respectively, consisting of additions of property, plant and equipment, operating concessions and other intangible assets. Capital expenditures during these periods were primarily related to expansion of our natural gas distribution network, including pipelines and gas meters, buildings and other facilities improvements related to opening several new bottling facilities by our brewery business and new investments consisting of capital contributions to the Datong Group in connection with a coal-to-gas project and the capital subscription of BE Water.

Taxes

Income tax expenses

We incurred income tax expenses of HK$559.0 million, HK$684.9 million and HK$583.5 million (US$75.0 million) for 2009, 2010 and 2011, respectively.

Deferred income taxes

We recognize deferred income tax assets and liabilities relating to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for fiscal losses carried forward. The deferred tax liabilities in 2009, 2010 and 2011 were HK$413.1 million, HK$364.1 million and HK$371.4 million, respectively.

Contractual obligations and commitments

The following table sets forth information regarding our contracts and commitments as of December 31, 2011:

	Maturity Period				
	Amount Outstanding	Less Than One Year	1-2 Years	3-5 Years	More Than 5 Years
	(HK$ in millions)				
Banks loans	9,429.2	5,468.3	419.0	3,125.0	416.8
Convertible bonds	2,884.3	53.1	54.3	2,777.0	—
Other loans	689.1	101.0	101.3	211.6	275.3
Guaranteed senior notes	15,821.5	431.0	431.0	1,293.1	13,666.4
Total	28,824.1	6,053.4	1,005.6	7,406.7	14,358.5

Since December 31, 2011, consolidated short term and long term bank and other borrowings have increased primarily due to an increase in short term bank loans of Yanjing Brewery of approximately HK$1.9 billion for settlement of payables to its suppliers and for its general corporate purposes.

Derivative products and hedging policies

We have not entered into any swaps or other derivative products, but may do so in the future to hedge the interest rate risk and currency risk of our outstanding borrowings.

Off-balance sheet arrangement

We do not have any off-balance sheet arrangements as of the date of this offering memorandum.

Market risk

Market risk is the risk of loss related to adverse changes in the market prices. Our market risk relates primarily to fluctuations in interest rates and exchange rates, credit risk, liquidity risk and fair value risk.

Working capital

As of December 31, 2011, our cash and cash equivalents amounted to HK$12,579.4 million. Taking into account the estimated net proceeds from this offering, available banking facilities and cash flow from our operations, we confirm that we have sufficient working capital for our present requirements and for the period of 12 months from the date of this offering memorandum.

Interest rate risk

Our business is sensitive to fluctuations in interest rates. As a portion of our long-term indebtedness is under loan agreements with variable interest rates, any increase in interest rates will increase our cost of financing. We currently do not hedge our interest rate risk, but may do so in the future.

Exchange rate risk

We conduct our business primarily in Renminbi. On July 21, 2005, the PRC Government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an appreciation of the Renminbi against the U.S. dollar recently. The PRC Government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates. A depreciation of the Renminbi would adversely affect the value of any dividends or other payments we pay to investors outside the PRC. An appreciation of the Renminbi, however, would adversely affect the value of the proceeds we receive from the Notes offering if they are not converted into Renminbi in a timely manner. In addition, we undertake certain transactions denominated in currencies other than the Renminbi and, as of December 31, 2011, had HK$5,144.1 million and HK$368.8 million worth of bank and other borrowings denominated in Hong Kong dollars and U.S. dollars, respectively. Any appreciation or depreciation of the Renminbi against either of these currencies would affect the value of these assets and liabilities. We currently do not engage in hedging activities designed or intended to manage such currency risk.

Credit risk

Our credit risk is primarily attributable to our trade receivables. We deal with what we believe to be creditworthy counterparties and customers with long-term relationships. We believe the credit risk relating to trade receivables is low. Our customers' default rate has been low in the past. Our credit risk exposure is spread among a large number of customers. As such, we believe we have no significant concentration of credit risk. We do not hold any collateral for trade and other receivables.

Liquidity risk

Our management aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financial resources, including short-term and long-term bank loans and the issuance of convertible bonds. Liquidity risk relates to our ability to maintain adequate cash and cash equivalents to pay our debts as they become due as well as to make investments in our portfolio companies as required. Our objective is to maintain a balance between the continuity of funding and flexibility through the use of bank loans, other loans and convertible bonds. In addition, banking facilities have been put in place for contingency purposes. Our subsidiaries and associates may pursue debt or equity capital-raising alternatives from time to time.

Equity price risk

We are exposed to equity price risks arising from equity investments. These equity investments are held for strategic rather than trading purposes, and we do not actively trade these investments.

Inflation and deflation risk

According to the China Statistical Bureau, China's overall national inflation rate, as represented by the general consumer price index, was approximately -0.7%, 3.3% and 5.4% in 2009, 2010 and 2011, respectively. As of the date of this offering memorandum, we have not been materially affected by any inflation or deflation. We cannot assure you that the inflation rate in the PRC will decrease or increase in the future. We cannot predict the impact that a sustained increase in inflation will have on our business, financial condition, results of operations or prospects.

Critical accounting policies

We have prepared our consolidated financial statements contained elsewhere in this offering memorandum in accordance with HKFRS. Our significant accounting policies are described in Note 2.4 to our audited 2011 consolidated financial statements. In preparing our consolidated financial statements, our management is required to make estimates and judgments under critical accounting policies, the most significant of which are described below.

Estimate of gas and water consumption

Determination of the revenue for the distribution and sale of natural gas and water may include an estimation of the natural gas supplied to customers for whom actual meter 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 natural gas, we recognize revenue from prepayments made by customers using integrated circuit cards ("IC card customers") upon their consumption of gas. We estimate the consumption of gas by IC card customers with reference to the average consumption volume of the customers for whom meter reading is available with similar consumption patterns. The actual consumption could deviate from those estimates.

Classification between operating concessions and receivables under service concession arrangements

As explained in Note 2.4 to the 2011 financial statements, if we are 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 recognized 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 us 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.

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 recognized 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 our 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

We recognize revenue for construction and service contracts according to the percentage of completion of the individual contract of construction or service work. Our 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 our 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. We review and revise the estimates of both contract revenue and contract costs in the budget prepared for each construction contract and service contract as the contract progresses.

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

We have contractual obligations which we must fulfill as a condition of our license and that is (a) to maintain the infrastructures we operate 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 recognized 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 us 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.

Useful lives and residual values of property, plant and equipment

Our management determines the useful lives, residual values and related depreciation charges for our 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. Our 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

We determine 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 us 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.

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

The carrying amounts of items of property, plant and equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in Note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on our results of operations or financial position.

Impairment of available-for-sale investments

We follow the guidance of HKAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, we evaluate, 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.

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

Our 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 collectability and aged analysis of accounts and on our management's estimation in assessing the ultimate realization 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 judgments 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 recognized in the periods in which such estimates have been changed.

Provision against obsolete and slow-moving inventories

Our management reviews the condition of inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. We estimate the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions. We carry out an inventory review at the end of each reporting period and make provision against obsolete and slow-moving items. We reassess the estimation at the end of each reporting period.

The identification of obsolete and slow-moving inventory items requires the use of judgments 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 recognized in the periods in which such estimates have been changed.

Defined benefit plans

The present value of our retirement benefit obligations under various defined benefit plans 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.

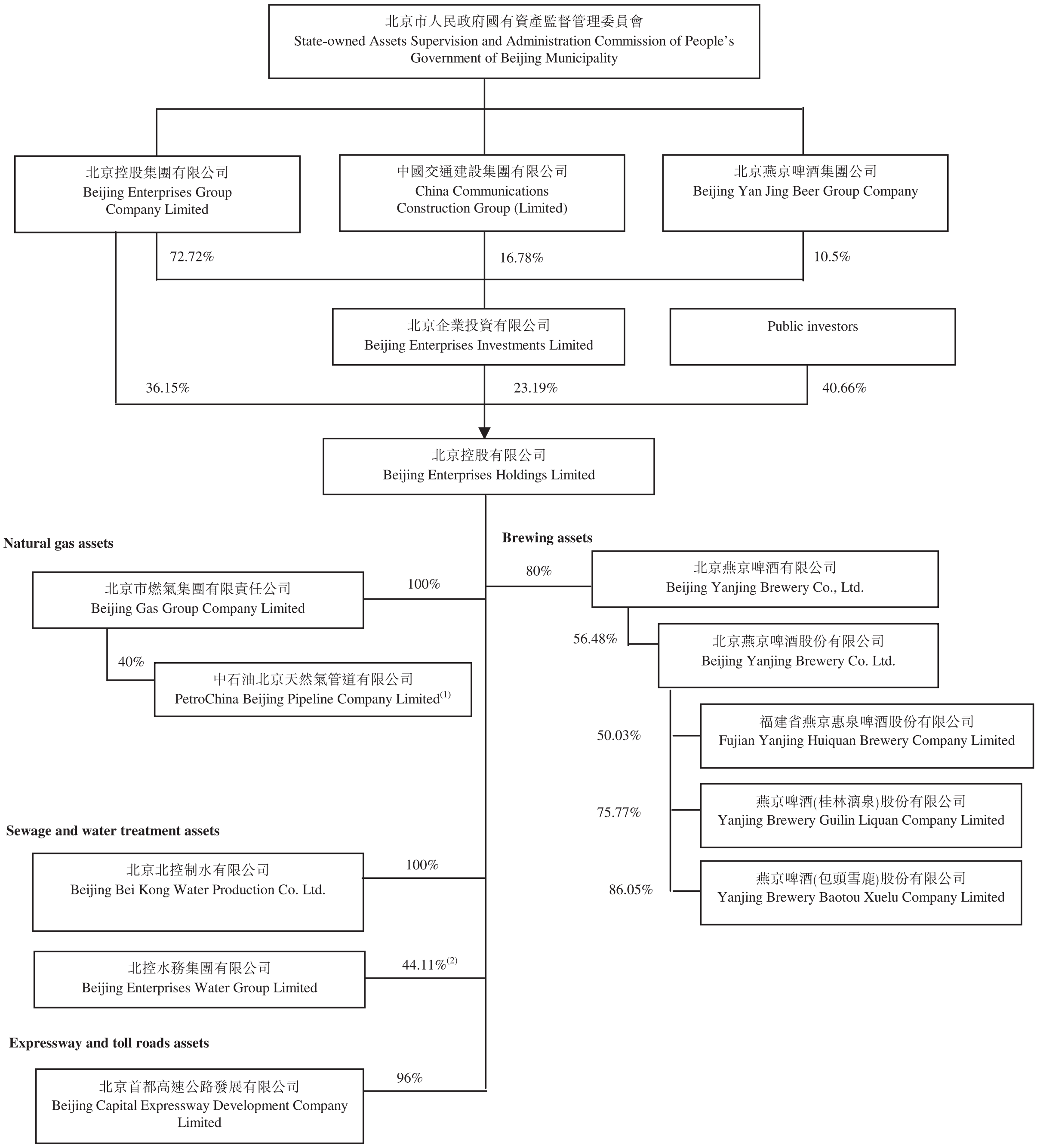
Current tax and deferred tax

We are subject to income taxes in Hong Kong, Mainland China and overseas. We carefully evaluate tax implications of transactions in accordance with the prevailing tax regulations and makes tax provision accordingly. However, judgment is required in determining our 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.

Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. 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.

CORPORATE STRUCTURE

The following chart sets forth our corporate structure as of the date of this offering memorandum. The chart set forth a simplified version of our structure showing only our principal subsidiaries, jointly-controlled entities and associates. The shareholding interests indicated are the direct shareholding interests held by the immediate parent and therefore may not reflect our effective interest in the relevant entity.



(1) Accounted for as a jointly-controlled entity.

(2) Accounted for as an associate.

Overview

We are a conglomerate backed by the Beijing Municipal Government focused on gas utilities, complemented by our consumer products and sewage and water treatment businesses conducted through either our subsidiaries or our associate, BE Water. Since 1997, we have been managing strategic infrastructure and public utilities assets for the Beijing Municipal Government, our majority shareholder. Our broad portfolio of assets includes natural gas distribution and transmission assets, brewery operations, sewage and water treatment facilities and concessions, expressways and toll roads and technology. Leveraging these assets, we seek to achieve consistent financial performance and to attract international investment to further develop Beijing's municipal infrastructure and other businesses. We believe our portfolio of businesses, each with a leading market position and stable cashflows, enables us to manage volatility across our business segments, thereby positioning us to capture growth opportunities in the utilities and consumer products sectors in Beijing and throughout the PRC. We recorded revenue of HK$24,208.4 million, HK$27,612.9 million and HK$30,471.8 million (US$3,916.7 million) for 2009, 2010 and 2011, respectively, and had total assets of HK$59,105.3 million, HK$67,028.8 million and HK$77,355.4 million (US$9,942.9 million) as of December 31, 2009, 2010 and 2011, respectively.

We believe we rank as one of the largest city natural gas operators in the PRC with a natural gas pipeline network of approximately 14,000 km, five citygates, four spherical gas holding stations and approximately 4.3 million natural gas users as of December 31, 2011. With over five decades of fuel gas management experience and expertise, our natural gas distribution network supplies natural gas to industrial, heating and cooling, residential, power and the public sectors in the Greater Beijing city area. Consistent with the Beijing Municipal Government's objective to reduce coal-fired power generation in the Greater Beijing city area, we expect growth opportunities to help us maintain and expand our leading position through coal-to-gas power plant conversions and increased promotion of natural gas as a cleaner alternative to other power generation fuels.

In addition, we operate one of the largest breweries in the PRC with a diversified brand and product portfolio, a leading market position in Beijing and strong national reputation. Since 1999, Yanjing Beer has expanded beyond its leading position in Beijing to operate 39 breweries in 17 provinces with an annual production capacity of approximately 8.75 billion liters as of December 31, 2011. Yanjing Beer produces a wide variety of products designed to appeal to different consumer groups and cover different price points. Through its wide-reaching local production centers, it distributes beer and other beverage products to most areas of the PRC using a three-tier distribution network of distributors, wholesalers and retailers.

Our sewage and water treatment facilities comprise facilities operated or constructed by BE Water in 18 provinces across the PRC and the Beijing No. 9 Water Treatment Plant. BE Water had a daily sewage and water treatment design capacity of 8,728,950 tons as of December 31, 2011. Extensive PRC Government policy directives aimed to ensure safe and reliable water supply throughout the country have resulted in opportunities to bundle sewage and water treatment projects, thereby enabling us to leverage our design, construction and operations expertise for provincial governments nationally. Through our associate, BE Water, we have developed an integrated business model with design and technical consultancy, construction, ownership and operational capabilities for sewage and water treatment projects. Our extensive project capabilities enable us to capture the entire value chain from project concept and design stages to construction and operation.

Our expressways and toll roads business manages and operates the Beijing Capital International Airport Expressway (the "Capital Airport Expressway") and the Shenzhen Shiguan Highway. Since September 1993, the Capital Airport Expressway has connected Beijing Airport to the city center of Beijing. The Shenzhen Shiguan Highway comprises a series of roads and bridges located in the Baoan district of Shenzhen. As our strategy is to focus management's attention on our utilities and consumer products business segments, we plan to gradually divest our expressways and toll roads business. The Municipal Government of Shenzhen has withdrawn our franchise operating rights for the Shenzhen Shiguan Highway. On December 31, 2011, we ceased operation of our toll business on the Shenzhen Shiguan Highway. In 2011, we entered into negotiations with the Municipal Government of Shenzhen to obtain adequate and reasonable compensation. The Municipal Government of Shenzhen approved, in principle, the granting of compensation payments for the withdrawal of this right. We have not reached a definitive agreement with the Municipal Government of Shenzhen regarding the total compensation amount. We have not been notified of any similar withdrawal plan for the Capital Airport Expressway in Beijing.

Competitive Strengths

We believe our competitive strengths include:

Favorable industry dynamics benefiting from supportive PRC Government policies

Our principal business relates to the distribution and transmission of natural gas, particularly to the expanding Greater Beijing city for a 25-year period ending in 2032. In recent policy announcements, the PRC Government has stated its intention to reduce air pollution and other detrimental environmental effects in major urban areas to increase the livability of the PRC's cities. Specifically, according to the Beijing Municipal Government's 12th five-year plan, the Beijing Municipal Government is planning to close substantially all coal-fired power plants and boilers located inside the fifth ring road region of Beijing by 2015 and to increase the percentage of gas consumption of total energy consumption from approximately 13% in 2010 to 24% in 2015. Through coal-to-gas conversions of major power generators in and around Beijing and the expected subsequent increased usage of natural gas following such conversions, we believe that we are well-positioned to benefit from increasingly strong PRC Government policy directives promoting cleaner-burning fuels such as natural gas in the residential, heating and cooling, industrial, power generation, and public sectors.

Strong support from the Beijing Municipal Government

We believe we enjoy several benefits through our strategic relationship with the Beijing Municipal Government, including the ability to manage strategic assets in Beijing, assistance with project sourcing in Beijing and throughout the PRC, cost pass-through negotiation assistance and financing support. The Beijing Municipal Government has entrusted us to manage several key municipal assets, including our effective monopoly rights to distribute natural gas in Beijing and our management of the national beer brand, Yanjing Beer. Through our franchise operating rights for the Beijing No. 9 water treatment plant, we supplied approximately 30.0% of Beijing's water with daily sewage and water treatment capacity of approximately 500,000 tons of water in 2011. Through our natural gas distribution and transmission business as well as sewage and water treatment businesses, we provide services that are critical to the smooth functioning of Beijing.

In addition, we believe our strategic relationship with the Beijing Municipal Government provides PetroChina Beijing Pipeline assistance with identifying and sourcing new natural gas transmission pipelines throughout the PRC as well as securing large-scale projects from local governments. Through strong relationships with the PRC Government's agencies and state-owned enterprises, we believe we benefit in negotiations related to both the pass-through mechanism for preserving margins for natural gas distribution and upstream wellhead price-setting.

Several of our key management officers are appointed directly by the Beijing Municipal Government and are responsible for adding value to the state-owned assets we manage. SASAC supervises and controls our operating risks. Over the years, we have emerged as the flagship company of the Beijing Municipal Government and have raised approximately HK$13,500 million through overseas financing. This success has been bolstered by the financial support of our majority shareholder, and the ability to secure bank financing for our operations in the PRC from major PRC banks at attractive rates.

A leading PRC gas utility with a large-scale distribution network, integrated business model and effective monopoly in Beijing

We hold effective monopoly rights to supply natural gas in the expanding Greater Beijing city area for a 25-year period ending in 2032 pursuant to notices from the Beijing Municipal Government dated August 16, 2005 and April 21, 2006, respectively and an implementation plan《北京燃氣有限公司管道天燃氣特許經營項目實施方案》agreed in principle by the Beijing Municipal Government in 2006. We believe we rank as one of the largest natural gas retail operators in the PRC, with a natural gas pipeline network of approximately 14,000 km, five citygates, four spherical gas holding stations and approximately 4.3 million natural gas users as of December 31, 2011. This leading position, bolstered by strong support from the Beijing Municipal Government and significant infrastructure investment to extend our network to Beijing's satellite new towns, which capital expenditure has been completed, provides us with a solid platform for growth and a healthy basis for future revenues and establishes significant barriers to entry for potential competitors.

We also participate in midstream natural gas transmission services through our jointly-controlled and 40.0%-owned entity, PetroChina Beijing Pipeline. We believe this strategic cooperation provides us with stable gas supplies, priority for allocation of gas supplies to Beijing and secures competitive pricing terms so as to optimize our profitability.

Gas utilities business, complemented by brewery and sewage and water treatment businesses, reducing business concentration risk

We believe our natural gas distribution and transmission network, brewery operations and sewage and water treatment facilities will provide stable cashflows in coming years due to their strong track record and our prudent financial policy. Enhanced by the alliance between our asset base and the PRC Government's policies for cleaner-burning fuels for power generation and the need to increase the stability of clean water supply to urban areas, we believe we are well positioned to access these opportunities. We have historically generated strong cashflows and have maintained relatively consistent margins, thereby maintaining a solid platform for stable and profitable growth. We believe our business portfolio helps us to mitigate our exposure to any single operation.

Track record of strong growth with attractive and visible growth prospects

We have achieved strong growth over the past several years. Our natural gas sales volume increased from approximately 5.69 billion cubic meters to 6.46 billion cubic meters to 6.47 billion cubic meters for 2009, 2010 and 2011, respectively. PetroChina Beijing Pipeline's natural gas transmission volume increased from approximately 14.39 billion cubic meters to 17.24 billion cubic meters to 20.31 billion cubic meters for 2009, 2010 and 2011, respectively. In addition, we expanded our annual production capacity for our brewery business from approximately 7.0 billion liters to 8.65 billion liters to 8.75 billion liters for 2009, 2010 and 2011, respectively. Our annual sales volume for our brewery business increased from approximately 4.67 billion liters to 5.03 billion liters to 5.51 billion liters for 2009, 2010 and 2011, respectively. As a result, our revenues increased from HK$24,208.4 million to HK$27,612.9 million to HK$30,471.8 million (US$3,916.7 million) and our profit for the year increased from HK$3,046.4 million to HK$3,109.7 million to HK$3,665.2 million (US$471.1 million) for 2009, 2010 and 2011, respectively.

We believe we are well-positioned to participate in the potential future growth in the PRC energy consumption and demographic trends such as the increasing urbanization of the PRC's population. Driven by escalating energy consumption levels and PRC Government policies encouraging cleaner-burning fuels for power generation in urban areas, we expect to expand our natural gas network significantly as natural gas demand increases in the Beijing metropolitan and other areas. Likewise, we expect national water policies to support our sewage and water treatment facilities, including our design and construction capabilities related to greenfield projects.

Excellent management with a proven track record and deep industry expertise

We continue to seek attractive energy and infrastructure investments in the PRC and to enhance the value of our existing businesses. Recent strategic divestments identified by our management team demonstrate our commitment to focusing on key strategic assets with strong and consistent profit margins. Moreover, we believe our strong understanding of the local market and close relationship with the Beijing Municipal Government enables us to manage assets more effectively than our competitors. See "Management."

Business Strategy

Our strategy is to enhance our position as a leading utilities and consumer products company in the PRC by making attractive investments enhancing the value of our existing businesses. Our strategy consists of the following key elements:

Leveraging natural gas experience and extensive network to develop existing and expand into new markets

With over five decades of fuel gas management experience and expertise, our wide-reaching natural gas distribution and transmission network supplies residential, industrial and power generation users in the Greater Beijing city area. As a leading city natural gas provider in the PRC, we are well positioned to extend our distribution network to suburban counties of Beijing. We expect increased urbanization, combined with increasing per capita income of urban populations, to contribute to higher natural gas usage per capita among an expanding population base. In the Greater Beijing city area, we are actively extending our network to 11 districts and counties outside Beijing's Sixth Ring Road with eight districts already connected. In addition to expanding the capacity and geographic coverage of our natural gas distribution and transmission network, we plan to focus on improving the quality of our service and improve our back-office support system.

Promoting natural gas as a cleaner alternative for residential, commercial and power generation uses

Consistent with the PRC Government's policies, especially policies directed at industrial and power generation consumption in Beijing, we plan to promote gas-fired boilers and CNG through the construction of small-scale CNG production facilities. On a larger scale, we intend to become more involved in coal-fired to gas-fired power plant conversions to facilitate cleaner power generation.

Strengthening national branding and expanding production capacity of Yanjing Beer

Since 1999, Yanjing Beer has expanded beyond its leading position in Beijing to operate 39 breweries in 17 provinces with an annual production capacity of approximately 8.75 billion liters as of December 31, 2011. Through our 1+3 Brands we have products positioned at different price points catering to different regional markets. We believe this leading platform makes us well-placed to expand our operations to achieve greater penetration of the domestic and international beer markets. Through increasing brand awareness by clear positioning and standardizing our brand management, we seek to leverage our strong production technology and network of local production facilities to increase market penetration in a greater number of markets nationally and internationally and to expand our export sales gradually.

Re-designing our business model to accelerate expansion of sewage and water treatment projects

We possess an integrated business model with design and technical consultancy, construction, ownership and operational capabilities for sewage and water treatment projects. Our extensive project capabilities enable us to capture the entire value chain from project concept and design stages through construction and operation. By reviewing the PRC Government's industrial policies and enhancing our research and development capabilities, we plan to broaden our sewage and water treatment portfolio through the completion of fully integrated projects that utilize our wide range of capabilities and capture a larger share of the value chain for each project.

Our Business Segments

The following table sets forth our revenues for each business segment for the periods presented:

	2009	2010	2011
		(HK$ in millions)	
Piped gas	11,942.6	14,119.4	16,460.3
Brewery	9,758.1	10,544.8	13,373.4
Sewage and water treatment	1,875.3	2,405.3	195.7
Expressway and toll roads	410.0	391.8	288.4
Corporate and others	222.4	151.6	154.0
Total	24,208.4	27,612.9	30,471.8

Our Natural Gas Business

Distribution and transmission of natural gas is our core business segment.

Gas Distribution

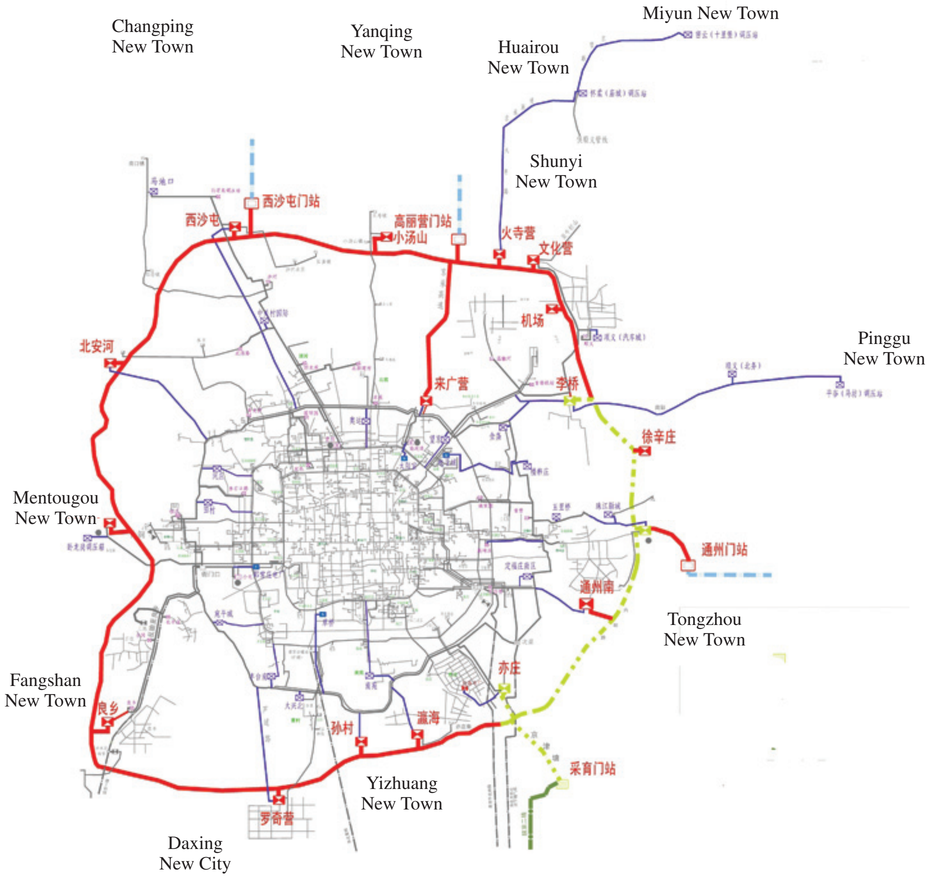
We carry out distribution of natural gas through our wholly owned subsidiary, Beijing Gas. We believe we are one of the largest natural gas suppliers and service providers in the PRC. In 2011, we recorded total gas sales volume of 6.47 billion cubic meters, an increase of 0.2% over the previous year. We had a total of approximately 4.3 million subscribers as of December 31, 2011. In 2011, we had approximately 210,495 new subscribers including 207,000 residential users and 3,495 public sector subscribers. Our pipeline network spans over 14,000 km. Our pipeline network connects eight out of 11 districts in Greater Beijing city area.

We enjoy effective monopoly rights to distribute natural gas in Beijing for 25 years, pursuant to concession rights granted by the Beijing People's Government. According to the Concession Measures, the concession right of operating a natural gas network in the urban area of a city/county/province has a maximum duration of 30 years. On January 22, 2007, the Beijing Municipal Administration Commission issued the approval document (《北京市燃氣經營許可證》) to us for operating the urban natural gas pipeline networks of Beijing. Upon the expiry of the concession right in 2032, the concession right is subject to re-approval by relevant governmental authorities.

We were granted "High-New Technology Status" by the PRC State Administration of Taxation in November 2011 and enjoy a preferential Enterprise Income Tax rate of 15.0% from 2011 through 2013.

In addition, through an indirect wholly-owned subsidiary, we are in the process of acquiring Beijing Luyuanda CNG Company Limited, a company specializing in the compressed natural gas business. We believe that the acquisition will strengthen our investment and operation in the gas business in rural areas of Beijing, enable us to enter into the autogas market and further enhance the scope of our natural gas business.

The following map shows our natural gas distribution network in Beijing:



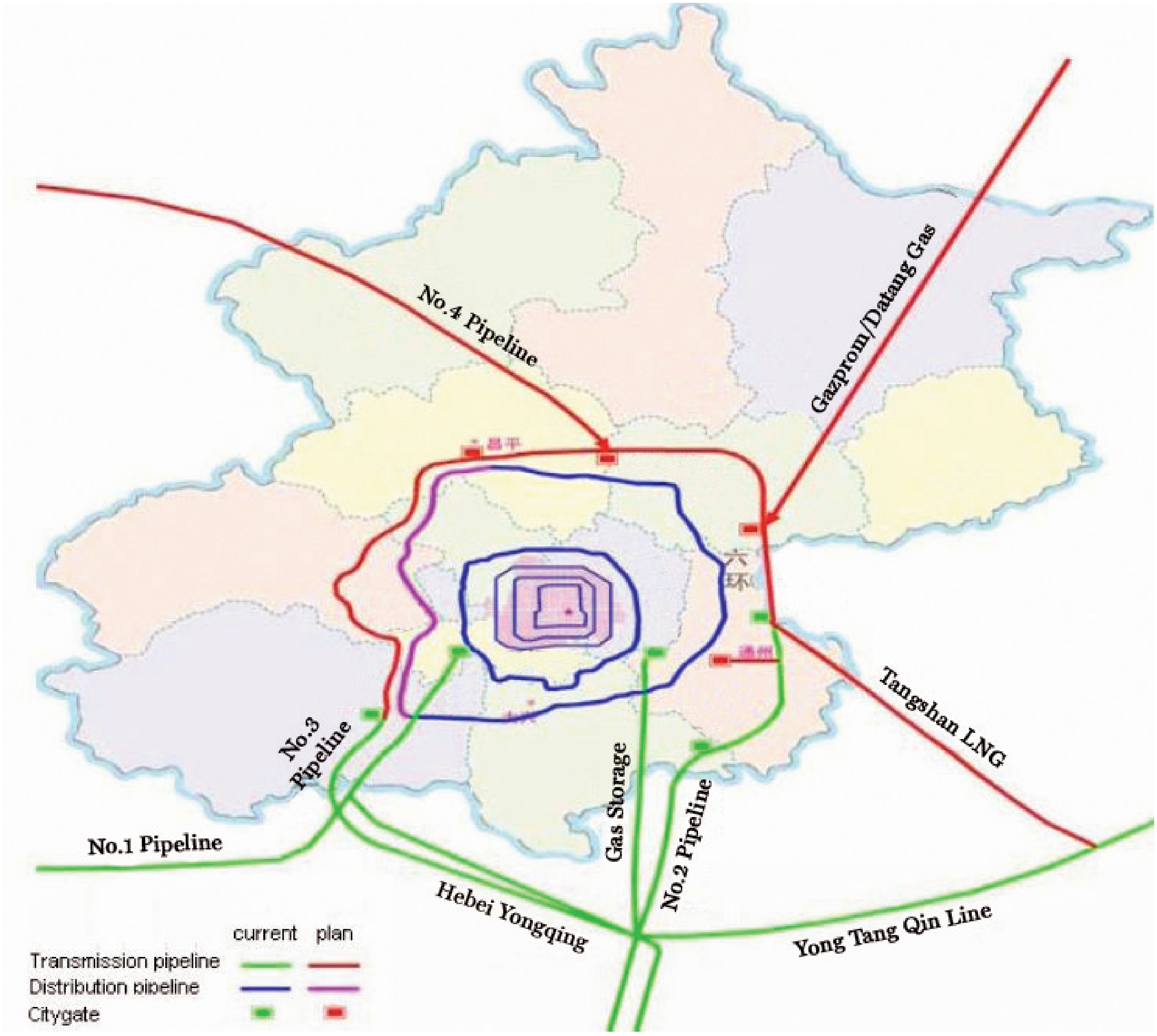
Gas Transmission

Through our jointly-controlled and 40.0% owned entity, PetroChina Beijing Pipeline, we provide natural gas transmission services from one of the largest gas field in the PRC, Changqing, to Beijing, Tianjin and Hebei regions through our Shaanxi-Beijing pipelines. PetroChina Beijing Pipeline had a natural gas transmission volume of 20.31 billion cubic meters in 2011.

Our Shaanxi-Beijing No. 1 and 2 lines are approximately 918 km. and 935 km. in length and have an annual transmission capacity of 4.0 billion and 15.0 billion cubic meters, respectively. The Shaanxi-Beijing No. 1 line supplies gas to the Beijing, Tianjin, Yanshan, Canghua and Hebei regions and the Shaanxi-Beijing No. 2 line services the main city areas of Beijing, Tianjin, Shaanxi, Hebei and Shandong.

The Shaanxi-Beijing No. 3 line (the "No. 3 Pipeline") is approximately 900 km. in length and has an annual transmission capacity of 15.0 billion cubic meters. The No. 3 Pipeline supplies gas to the Bohai rim, Shandong, Beijing and the north-east grid of Liaoning. Phase 1 of the No. 3 Pipeline commenced natural gas transmission on December 30, 2010. The total natural gas transmission capacity, after integration of the No. 3 Pipeline in February 2012, has increased to 34.0 billion cubic meters per annum. We are also planning to add the Shaanxi-Beijing No. 4 line, which will be approximately 950 km. in length with an annual transmission capacity of 12.0 billion cubic meters, to service Beijing, the north-east grid of Liaoning and the Bohai rim. We expect the Shaanxi-Beijing No. 4 line to be operational by 2014.

The following map shows the natural gas transmission network in the Beijing area:



For 2011, revenues from the natural gas segment totaled HK$16.46 billion, representing a year-on-year growth of 16.6%, and total capital expenditures were approximately HK$1,928.0 million.

To extend and improve our presence in the gas industry chain, we continue to extend our market coverage to the suburban counties of Beijing by way of selective acquisitions and mergers with smaller companies with strong local presence, resources and experience in gas projects. We, together with PetroChina Beijing Pipeline, expect to invest in long-distance pipeline construction.

Supply of natural gas

We source substantially all of our gas from Changqing, one of the largest operating natural gas fields in the PRC. Our sole supplier of natural gas is the PetroChina Associate Company. We have bi-annual contracts for the supply of natural gas with PetroChina Associate Company. We intend to source one billion cubic meters of gas from Datang Coal from 2013. We believe the transmission costs of gas from Changqing gas field are lower compared with other major gas fields because of its proximity to Beijing.

Upstream and downstream integration

Through PetroChina Beijing Pipeline, we are able to source gas for the Beijing, Tianjin and Hebei regions directly from gas fields in Changqing using the Shaanxi-Beijing lines. Through our alliance with the PetroChina Associate Company, we have been able to secure a stable source of gas at relatively competitive prices. We plan to continue to expand both our upstream and downstream businesses. See "— Planned expansion."

Pricing

NDRC fixes the non-residential user prices and any increase in distribution costs are automatically passed on to the users. The provincial governments fix the residential user price which takes into account, among other things, distribution costs and alternative fuel prices. Residential user prices and adjustments are set through public consultation hearings which usually take four to six months to approve changes.

The natural gas tariff paid for by customers reflects the city gate price required to be paid by city gas distributors, the connection fee (outside Beijing) and margin. The city gate price includes the ex-plant price plus the transportation tariff fixed by the municipal NDRC. The connection fee is mandated by the applicable provincial government.

The NDRC regulates the benchmark ex-plant price of natural gas which takes into account production cost. Buyers and sellers can negotiate a contract price up to 10% higher than the NDRC benchmark ex-plant price. There is no floor price limit.

The NDRC determines the transportation tariff for national long distance transmissions and the provincial price control bureaus regulate the transportation tariff for provincial pipelines. The transportation tariff is calculated based on cost of pipelines, distance between city gate and gas source and includes an operator margin of approximately 12%.

With an aim to match domestic gas prices with the international prices, the NDRC increased the benchmark ex-plant price in June 2010. In July 2010, the NDRC directed local governments to implement the June tariff increase by August 2010 with retrospective application for June and July 2010. Local governments were also instructed to develop mechanisms to pass on all tariff increases to the end user.

In September 2010, NDRC announced a 11%-23% increase in gas tariff for non-residential users in Beijing to pass the increase in upstream gas cost to users. The revised tariff for residential users was pending administrative approval as of the date of this offering memorandum. We believe domestic natural gas is undervalued and as China continues to source gas from cross-border pipelines at international prices, the average cost of gas in the PRC will continue to rise.

On December 26, 2011, the NDRC launched a pilot scheme for natural gas pricing mechanism reform in Guangdong and Guangxi Provinces. Under the pilot scheme, the price of natural gas will be pegged to fuel oils used in factories and liquefied petroleum gas used in households, using a "net-back" calculation method that includes all costs that companies incur to bring such products to the marketplace. The reform aims to establish a pricing mechanism for natural gas reflecting market supply and demand as well as resource scarcity and may eventually be expanded to other provinces.

Seasonal demand

Gas consumption by residential, commercial and industrial users in Beijing is seasonal. Natural gas demand peaks during October to March and slackens during the warm season, which typically lasts from May to September. To smooth seasonal fluctuations in the demand for and consumption of natural gas in Beijing, Beijing Gas extended its customer base to users involved in heat-electricity co-generation and gas cooling.

Customers

The following table sets forth our top 10 customers and their corresponding sales volumes for 2011:

	2011
	(million cubic meters)
Gas Thermal Power Co. Ltd. Sun Palace Beijing	700.89
Beijing Huadian Electric Power Company Ltd	477.23
Jing Feng Thermal Power Plant	347.11
Beijing Thermal Power Group Co., Ltd.	216.93
Shunyi Gas Company	160.19
E-east	142.75
Beijing Huaneng Co-Generation Ltd	83.57
Capital Airport	73.29
Beijing Shougang Special Steel Co., Ltd	34.89
Beijing Jingqiao Thermoelectric Co., Ltd.	20.35
Total	2,257.20

The following table provides sales volume for our natural gas business by customer type:

	2011	
	Sales Volume	Percentage of total sales
	(million cubic meter)	(%)
Heating and cooling	2,826,275	43.7
Cogeneration power plants	1,765,613	27.3
Public sector	491,526	7.6
Industrial	148,752	2.3
Household and others	1,235,283	19.1
Total	6,467,449	100.0

Government regulations and policies

We operate our natural gas distribution business under effective concessions and key contracts with our customers and suppliers. We enjoy effective exclusivity in supplying natural gas in Beijing pursuant to our concession rights.

We believe favorable government policies towards the natural gas industry will promote growth. The PRC Government targets raising natural gas usage in primary energy mix to 10% by 2020 and reducing carbon emissions by 40-45% by 2020. This is expected to substantially increase the proportion of natural gas usage in the primary energy mix over the next several years. In keeping with its objectives of providing power from cleaner sources, the PRC Government's 12th five-year plan aims to replace 3.04GW coal-fired power units with Beijing Gas' CCGT. The gas consumption volume in Beijing is expected to reach 18 billion cubic meters in 2015 according to the Beijing Municipal Government's 12th five-year plan.

Planned expansion

Based on our effective monopoly right to supply natural gas in Beijing until 2032 and following our expansion plans, we intend to upgrade our operational standards and proactively develop our residential, commercial and industrial user base in Beijing so as to increase our sales volume. We continue to increase the distribution and transmission of natural gas in the suburban areas of Beijing through our existing pipeline network and by way of selective acquisitions and mergers.

We have signed cooperation agreements with Datang International (through its largest shareholder and its subsidiary), Huaneng International and Huadian Operation. We believe that Beijing Gas will be able to meet the additional supply requirements based on the above cooperation agreement from our Shaanxi-Beijing No. 3 and 4 lines. We are also building infrastructure for gas supply such as the No. 4 Pipeline and Phase II of Sixth Ring Road Gas Project. We are also involved in the building of ancillary infrastructure facilities for the four thermal power plants in Beijing.

Our expansion plans include construction of underground storage reservoirs through PetroChina Beijing Pipeline, construction of Caofeidian LNG receiver terminal and extension transmission pipelines jointly with PetroChina Beijing Pipeline and the government entities in the Hebei province. We are also planning to invest, in gas projects in Shandong province through strategic alliances with PetroChina Beijing Pipeline and in Inner Mongolia Keqi Coal-based Gas Company Limited with the Datang Group. We expect the production capacity of the Inner Mongolia Keqi Coal-based Gas Company Limited to be approximately 4,000 million cubic meters per annum. Our proposed capital contribution will be approximately RMB2,560 million.

A joint venture company, Shandong Natural Gas Utilization Company Limited, was established with Shandong Gas Pipeline Network Investment Company and Qingdao Sinogas General Machinery Corporation to enable Beijing Gas to enter into the Shandong province which is expected to become one of the largest gas consumption provinces in the PRC.

A joint venture company, PetroChina Beiran (Jinzhou) Company Limited, was established by PetroChina Natural Gas Co., Ltd., Beijing Gas and Jinzhou Hua Xin Assets Management Co., Ltd. on March 25, 2010 for production, supply and sale of natural gas; investment, establishment, operation and maintenance of natural gas pipelines; and other related businesses. Beijing Gas is a 48% shareholder in the joint venture.

Our Brewery Business

The PRC is one of the largest producer and consumer of beer in the world. However, the per capita consumption of beer in China is lower than certain European countries and we believe that there is significant potential for growth. We own a 56.48% equity interest in Yanjing Brewery, which is one of the largest beer breweries by production volume in the PRC and in Asia. Yanjing Brewery was listed on the Shenzhen Stock Exchange in July 1997. In 2011, we sold 5.51 billion liters of beer and we believe we accounted for approximately 10.8% of the total 51.17 billion liters of national beer sales volume in the PRC. In 2011, we established seven new bottling plants across the PRC and made selective acquisitions in an attempt to expand our geographic coverage and to increase our production capacity. We believe these acquisitions have helped consolidate our market position in Beijing and also enabled us to expand in the northern China market.

In 2011, the production and sales volume of our 1+3 Brands outside Beijing was 2.43 billion liters, representing approximately 56.0% of the total sales volume for all of our brands outside Beijing. “Yanjing” brand sold 1.89 billion liters in markets other than Beijing and we maintained a leading position in the Guangxi, Guangdong and the Inner Mongolian markets. We have a diverse portfolio of brands targeting different regions and price points. Our Yanjing beer is a national brand and falls in the high-end to medium-price category. Liquan mainly targets Guangxi Province in southern China, Huiquan mainly targets Fujian Province in eastern China and Xuelu mainly targets Inner Mongolia in northern China.

Products

We produce over 100 types of beer and other beverages, such as mineral water, soft drinks and juices, for consumption in the PRC and overseas markets. We are planning to diversify our product range to include tea and natto (fermented soybeans) products. We plan to increase our production capacity by organic growth as well as through selective acquisitions.

Our principal brewery product is "Pilsner Beer" which is brewed primarily to satisfy the demand of Chinese consumers. We produce beer of 8, 10, 11 and 12 degrees plato (which measures the sugar content of the beer) and our key products include the "11 Degree Light" beer, "10 Degree Dry" beer and "11 Degree" beer. Our products have won numerous national and international awards, including the 31st Annual Brussels International Gold Award. Also, Yanjing Brewery participated as a sponsor of the 2008 Olympic Games.

Increasing raw material prices, labor costs and fuel consumption all contribute to the increasing production cost of our finished beverage products. In the past, we have been able to pass on increased production costs to our customers without corresponding reductions in our sales volumes, but we cannot assure you we will be able to pass through such costs in the future. Our most recent price adjustment was made in March of 2012.

Production facilities

We operate 39 breweries across 17 provinces in the PRC with a total annual designed production capacity of approximately 8.75 billion liters. We intend to reorganize our existing facilities, acquire new breweries and establish new brewery facilities and bottling plants to achieve production expansion targets in future periods.

The shaded areas of following map identify the provinces where we have brewery distribution and production facilities in the PRC:

The following table sets forth production capacities of our breweries:

	Designated production capacity	No. of breweries
	(billion liters)	
Beijing	1.50	2
Guangxi	1.20	2
Inner Mongolia	1.15	8
Fujian	0.80	4
Shandong	0.75	3
Guangdong	0.50	1
Hubei	0.40	2
Henan	0.40	2
Hunan	0.35	2
Zhejiang	0.35	2
Jiangxi	0.30	3
Shanxi	0.20	2
Yunnan	0.20	1
Xinjiang	0.15	1
Hebei	0.25	2
Sichuan	0.15	1
Shenyang (Liaoning)	0.10	1
Total	8.75[1]	39

(1) Designed production capacity includes equipment under installation as well as production capacity not adjusted for typical seasonal variation in actual production volume.

Raw materials

The principal raw materials for our brewery products are water, malt, rice, and hops. We primarily source rice and hops from local farmers in the PRC with whom we do not have long-term procurement contracts, and water is sourced from our own underground spring located near our production facilities in Beijing and from local water sources in other areas. We source a portion of our rice requirement from international sources. We have not experienced any shortage of raw materials or any disruption in the supply of such raw materials. Due to our high production volumes, we believe we are able to source raw materials in bulk at lower prices as compared to prevailing market rates for smaller quantities, thereby leveraging our economies of scale.

Production and quality control

We adhere to a strict system of quality control over our brewery operations. We employ a team of technicians that monitors the production quality at various stages of the production process, including on-site yeast propagation, testing for oxidation and unwanted bacteria, sampling products for taste and freshness, and ensuring that cans and bottles are properly cleaned, sterilized and filled at the correct pressure, temperature and volume. We also maintain a strong focus on research and development. Our research and development team is responsible for designing new technology, developing new products, enhancing quality control measures and optimizing production efficiency.

Sales, marketing and distribution

Although Beijing is our primary market, we also supply beer in Guangxi, Fujian, Inner Mongolia, Hunan, Sichuan, Xinjiang and Shandong provinces. We utilize a three-tier distribution structure that includes a network of distributors, wholesalers and retailers. Our local distributor network includes state-owned cigarette and alcohol distribution companies, collective distributors and individual wholesalers. We also sell brewery products directly to restaurants and bars. We believe our diversified distribution network maximizes product exposure and minimizes dependence on any single wholesaler or distributor. We choose distributors in each market that will devote attention and resources to the promotion and sale of Yanjing beer in developing such markets. We have enjoyed long-term relationships with most of our distributors and require them to exclusively distribute Yanjing Brewery products.

We are focused on increasing our brand value in both domestic and international markets. We are taking steps to standardize brand operations and management, maintain our strong market position in core markets and expand in rural and international markets. We plan to achieve our sales and production targets in future periods by constructing greenfield plants, making selective acquisitions and upgrading our existing facilities.

Competition

The brewery industry in the PRC is highly fragmented with approximately 470 regional breweries. Our main competitors in the PRC include domestic and international breweries, such as Tsingtao Brewery Group and China Resources Snow Breweries Co. Ltd. as well as numerous local breweries. We expect competition in the brewery industry to continue to intensify as leading breweries compete against each other to acquire local and regional breweries to increase their market share. Competition is primarily based on brand recognition, product quality and taste, packaging, price and distribution capabilities. We believe that we will be able to capitalize on the strength of the "Yanjing" brand name, market leadership in the Beijing beer market, product quality and broad distribution channels to maintain our leading position in Beijing and increase our presence in other markets in the PRC.

Our Sewage and Water Treatment Business

We operate sewage and water supply services, construction of water related facilities and technical and consultancy services, through our associate, BE Water, and water supply concession through the Beijing No. 9 Water Treatment Plant owned by BEHL. We plan to expand our water treatment operations through the development of the Beijing No. 10 Water Treatment Plant in connection with which we have been granted construction and operation rights. As of December 31, 2011, the coverage of sewage and water treatment plants owned by BE Water extended to 18 provinces across the PRC. During 2011, the total daily design capacity for BE Water increased by 2,819,450 tons to 8,728,950 tons including plants in operation with a total daily design capacity of 5,080,750 tons and plants not yet operational with an expected total daily capacity of 3,648,200 tons. This increase represents an increase of 47.7% as compared with 2010. The increment of 2,819,450 tons daily design capacity included BOT projects of 544,500 tons, transfer-operate-transfer projects of 475,000 tons, entrustment projects of 744,500 tons and acquired projects of 1,055,450 tons.

Our sewage and water treatment business primarily comprises the provision of sewage treatment and water supply services to municipal governments. For 2009, 2010 and 2011, revenue from our sewage and water treatment service business accounted for 7.7%, 8.7% and 0.6% of our total revenue, respectively.

The following table sets forth certain information for BE Water's sewage treatment and reclaimed water and water supply facilities in operation as of December 31, 2011:

	Number of plants	Design capacity	Actual processing capacity
		(tons per day)	(million tons per year)
Sewage treatment and reclaimed water service:			
Western China	21	1,281,500	329.9
Southern China	21	1,456,000	376.1
Shandong region	8	417,000	119.3
Eastern China	11	346,250	55.5
Northern China	6	455,000	88.6
	67	3,955,750	969.4
Water supply	8	1,125,000	158.6
Total	75	5,080,750	1,128.0

Our sewage and water treatment service business operates under concession agreements with local government and municipalities. One of our major customers is BMWC and BMWC guaranteed a minimum annual net cash income of RMB210 million to us for the term of the concession facility for Beijing No. 9 Water Treatment Plant until 2008. Since January 2008, pursuant to a PRC Government plan, BMWC reduced the amount payable to us from RMB210 million to RMB190 million per annum. On April 8, 2011, the guaranteed return was abolished in a supplemental agreement between BMWC and us with respect to Beijing No. 9 Water Treatment Plant, under which our revenue from our water supply business is based on the amount of water actually supplied and the unit price agreed between BMWC and us. We have not received payments from BMWC for 2009, 2010 and 2011.

Sewage treatment

BE Water designs and constructs facilities that removes pollutants from sewage and water using multiple processes, including the application of chemicals and biological agents and the use of physical processes. BE Water has developed several proprietary technologies designed to enhance existing technologies for the treatment of sewage and water from different sources and across industries. BE Water adapts and deploys these technologies in various combinations according to the specific requirements of its customers and the project type. For example, BE Water developed LIER-POOLK technology, for which it has registered a patent, for the treatment of industrial sewage containing toxic materials and high concentrations of ammonia nitrogen and tar. This technology is highly effective and cost efficient in removing sulphur oxide, oil, ammonia nitrogen and organic materials from industrial waste water. BE Water's LIER-POOLK waste treatment technology was awarded with Grade A quality certificates issued by the State Ministry of Construction and the Development, the Reform Commission and the Ministry of Environmental Protection.

While specific processes and technologies deployed in sewage treatment vary by different projects and industries and in accordance with the specific requirements of each of our customers, the sewage treatment process typically begins with the pre-treatment of the waste water to remove large solid materials in the raw waste water. Waste water is then transferred to a sedimentation tank where smaller solid waste and sludge are separated from the waste water by sedimentation. The waste water is then discharged into biochemical pools where oxidation ditches are used to introduce an optimal level of oxygen to encourage the growth of micro-organisms that consume organic pollutants in the waste water. Separation of sludge from waste water is then conducted at a secondary sedimentation stage. The treated waste water is disinfected to kill harmful micro-organisms before being reintroduced into the environment or otherwise being reused. Some separated sludge flows back into the biochemical pool to maintain a sufficient level of micro-organisms, while the residual sludge from the treatment process is sent to sludge landfill sites for disposal.

As of December 31, 2011, BE Water had an operating sewage treatment capacity (including reclaimed water processing capacity) of 3,955,750 tons per day. The average daily processing volume was 2.8 million tons and average daily treatment rate of 71.0%. The average tariff charge for sewage treatment was approximately HK$1.15 per ton.

Regional sewage treatment operations in the PRC

Western China

BE Water operates 21 sewage treatment plants in western China with a combined daily design sewage treatment capacity of 1,281,500 tons, representing an increase of 281,500 tons per day, or 28.2%, as compared with 1,000,000 tons per day for 2010. BE Water's sewage treatment plants in western China are located mainly in Yunnan, Guangxi, Sichuan and Guizhou. For 2011, the actual sewage processing volume was 329.9 million tons.

Southern China

BE Water operates 21 sewage treatment plants in southern China with a combined daily design sewage treatment capacity of 1,456,000 tons, representing an increase of 664,000 tons per day, or 83.8%, as compared with 792,000 tons per day in 2010. BE Water's sewage treatment facilities are located mainly in Guangdong, Hunan provinces and Hainan Province and the actual aggregate processing volume of such facilities for 2011 amounted to 376.1 million tons.

Shandong region

In 2011, the total daily design sewage treatment capacity of BE Water's sewage treatment operations in the Shandong region increased by 120,000 tons to 417,000 tons as compared with 297,000 tons for 2010. BE Water has eight plants in Shandong region whose actual combined sewage processing volume for 2011 was 119.3 million tons.

Eastern China

For 2011, the total daily design sewage treatment capacity of BE Water's operation in eastern China increased by 176,250 tons per day to 346,250 tons per day as compared to 2010. BE Water's sewage treatment plants in eastern China are located in Zhejiang province. In 2011, the actual combined sewage processing volume of BE Water's plants was 55.5 million tons.

Northern China

BE Water has six sewage treatment plants in northern China with a combined sewage treatment capacity of 455,000 tons per day, which remains the same as compared to 2010. The six sewage treatment plants are located mainly in the Liaoning province. In 2011, BE Water's northern China sewage treatment operation recorded the actual sewage processing volume of 88.6 million tons.

Water supply services

BE Water has eight operating water supply plants with a combined water supply capacity of 1,125,000 tons per day. In 2011, BE Water's aggregate actual water supply volume amounted to 158.6 million tons compared to 47.6 million tons in 2010. BE Water's water supply plants are located in the Guizhou province, Shandong province and Guangxi province and BE Water's water supply systems are equipped with large-scale pipelines and water treatment facilities. For 2010 and 2011, the average tariff charge of water supply was approximately HK$1.57 per ton and HK$2.36 per ton, respectively.

Construction services for water environmental renovation

Water environmental renovation projects

BE Water provides water environmental renovation projects for the design, construction and installation of sewage or water treatment related facilities and pipeline networks for our customers at a fixed contract price subject to agreed variation orders. BE Water's comprehensive renovation projects primarily involve the construction of intercepting canals and ancillary facilities, sludge and sewage treatment plants, water environmental renovation facilities, pipeline networks and other related infrastructure. Upon completion, BE Water delivers the project to its customers for their operation and bear no further responsibility for the maintenance or repair of the facilities. BE Water recognizes revenue from its comprehensive renovation projects on the basis of the percentage of completion of the projects, commencing when a legally binding contract is executed and when the total construction costs of the facilities under development can be reliably estimated. In 2011, BE Water entered into contracts with customers for 11 comprehensive renovation projects of which three were under construction. For 2011, BE Water recorded revenues of HK$752.1 million from comprehensive renovation projects.

Construction of water plants

BE Water has entered into a number of service concession contracts on a BOT basis for its water treatment business. For BOT projects, BE Water typically designs and constructs sewage and water treatment facilities, which BE Water operates for a contractually agreed period of up to 30 years. BE Water bears all relevant design, construction and operating costs of the treatment facilities and does not receive payments from customers during the construction stage of the projects. Concession periods in respect of BOT projects usually have a term of up to 30 years.

Upon commencement of operations, BE Water receives regular, usually monthly, payments from the local government based on a contractually agreed tariff and the volume of water. BE Water is responsible for all repair and maintenance costs during the term of the concession. At the end of the agreed concession period, BE Water is required to transfer the treatment facilities to the local government, but BE Water may be reappointed under a bidding process to continue to operate the facilities on an operate-and-manage basis.

BOT projects require substantial investments for the construction of the treatment facilities. BE Water funds its BOT projects through a combination of internal resources and external borrowings. For 2011, BE Water recorded construction revenues of HK$612.9 million from its BOT projects.

In 2011, 21 water plants were under construction. These water plants are mainly located in Sichuan, Yunnan, Shandong, Liaoning, Heilongjiang and Hunan provinces.

Technical services for water environmental renovation

BE Water maintains a number of licenses in engineering consulting and design of water treatment plants. As an integrated water system solution provider, BE Water has not only acquired extensive experience in bidding, building and operating sewage and water treatment projects, but also successfully marketed its treatment technology and experience in construction services to other operators and constructors based in the PRC. BE Water recorded a decrease in revenues from technical and consultancy services in 2011 as compared with 2010 primarily due to decrease in provision of technical services and construction advisory and management services for comprehensive renovation projects.

Our Expressways and Toll Roads Business

Our expressways and toll roads business includes the Capital Airport Expressway and the Shenzhen Shiguan Highway. We are currently planning the divestment of our expressways and toll roads business to enable us to focus on our utilities and consumer products business segments to enable us to focus on our core utilities and consumer products business segments. The Municipal Government of Shenzhen has withdrawn our franchise operating rights for the Shenzhen Shiguan Highway. In 2011, we entered into negotiations with the Municipal Government of Shenzhen to obtain adequate and reasonable compensation. On December 31, 2011, we ceased operation of our toll business on the Shenzhen Shiguan Highway. The Municipal Government of Shenzhen approved, in principle, the granting of compensation payments for the withdrawal of this right. We have not reached a definitive agreement with the Municipal Government of Shenzhen regarding the total compensation amount. Negotiations remain ongoing and we cannot assure you that we will receive any compensation for the withdrawal of the Shenzhen Shiguan Highway franchise operating right or provide guidance regarding the timeframe for resolution of this issue. We have not been notified of any similar withdrawal plan for the Capital Airport Expressway in Beijing.

Capital Airport Expressway

We hold a 96% interest in Beijing Capital Expressway Development Co., Ltd., which manages and operates the Capital Airport Expressway, a toll road connecting the international airport in Beijing and the city center of Beijing. We hold the exclusive right to operate the Capital Airport Expressway for a period of 30 years from 1997 with the right to use the land from the Beijing Municipal Government for the purpose of operating the Capital Airport Expressway free of charge. The infrastructure facilities of the Capital Airport Expressway will revert to the Beijing Municipal Government at no consideration upon the expiry of the term of the joint venture.

The Capital Airport Expressway is a six-lane highway spanning a total distance of 18.7 km. The traffic speed limit is 120 km per hour, with a design capacity of 6,300 vehicles per hour. The expressway is equipped with a centralized traffic monitoring system, illumination, identifiers and stake lines.

Shenzhen Shiguan Highway

We hold a 55% interest in Shenzhen Guanshun Road & Bridge Co., Ltd. ("Shenzhen Guanshun"), which manages and operates a series of roads and bridges located in the Baoan district in the Shenzhen Municipality known as the Shenzhen Shiguan Highway. Shenzhen Guanshun is a cooperative joint venture between us and Shenzhen Shiguan Road Company Limited. It holds the operating right to operate the Shenzhen Shiguan Highway for a period of 20 years from April 12, 2002.

The Shenzhen Shiguan Highway is a four-lane highway spanning a total distance of 37.6 km. The traffic speed limit is 80 km per hour, with a design capacity of 50,000 vehicles per day.

Toll rates

Revenues from our expressway and toll road projects are substantially comprised of toll receipts collected at toll plazas located at each of the interchanges and barriers. Toll rates for expressways are determined by the provincial government, and are generally assessed as a RMB per km. traveled based on vehicle classification, including the type and weight of vehicle and the number of axles and wheels. Toll rates for highways are not assessed as a RMB price per km, but rather on a fixed rate determined by the provincial government for each different vehicle classification. For example, Tianzhu terminal of Capital Airport Expressway commenced its one-way payment policy for return trip of vehicles leaving Beijing from September 2009 and traffic volumes decreased significantly as a result. In June 2011, the Beijing Municipal Government requested a reduction in various toll rates and other changes to the toll collection business on the Capital Airport Expressway. We have complied with the request and reduced toll rates in July 2011 from RMB ten to RMB five per vehicle per trip. In addition, to comply with the Beijing Municipal Government's requests, we have suspended toll collection for Beijing bound vehicles passing through the Sanza Toll Station and instituted a same-day, free-return pass policy for vehicles passing through the Tianzhu Toll Station. We cannot assure you that the Beijing Municipal Government will not request further reductions of toll rates or other changes in the toll collection business associated with the Capital Airport Expressway. See "Risk Factors — Risks relating to our Expressways and Toll Roads Business."

Approval for toll increases rests primarily with the relevant provincial government and provincial price bureaus, which generally take into account factors such as the toll rate of comparable expressways and toll roads in the same region, affordability to users, prevailing rate of inflation and return for investors.

Toll collection

We closely monitor the collection of tolls and endeavor to minimize fraud and pilfering. Every toll collector must issue a ticket, pre-printed or computer printed, for each vehicle passing through such collection point and place all cash received into a sealed box. At the end of his or her shift, the toll collector delivers the box and ticket stubs of the pre-printed tickets to the station supervisor. A reconciliation of the cash receipts against the total number of tickets issued is carried out by a cashier.

In addition to regular reconciliation, we carry out periodic spot checks of each toll collector. Each toll booth and toll plaza is installed with closed circuit television cameras and monitoring systems to monitor traffic and toll collection 24 hours a day, seven days a week. Pictures of each vehicle passing through the station are captured and video recordings are retained for 15 to 20 days. Video records are retrievable from internal computer networks by supervisors or management staff for systematic investigations for any losses of tolls.

Maintenance

Road maintenance generally funded through regular working capital. Maintenance is carried out to ensure compliance with the requirements and standards of maintenance under each road's class classification. Maintenance of roads and other facilities falls into two main categories: routine maintenance and major repairs. Routine maintenance includes the clearing of carriageways, minor road pavement repairs, replacement of damaged road equipment, clearing of culverts and drains, grass cutting, landscape and building maintenance. Major repairs include substantial repair of damaged road pavement or rectification of major structural defects or failures to works such as drainage systems or embankments. Normally, major repairs of each expressway or toll road are carried out every five to seven years.

Competition

Our projects face competition from existing routes or alternative routes of comparable quality to our roads and bridges and alternative modes of transportation, which may avoid the tolls, charge lower tolls or provide more direct routing. The profitability of an expressway or a toll road may be impacted by the existence of other competing means of transport and alternative routes which are of similar quality, and their proximity to such expressway or toll road. Our existing highway projects have directly competing routes.

Employees

As of December 31, 2011, we employed approximately 45,000 employees, substantially all of whom are located in the PRC and Hong Kong. Staff benefits include salaries, provident fund, insurance and medical cover, housing and share option schemes. We believe our employees are critical to our success and we are committed to investing in the development of such employees through continuing education and structured training, as well as the creation of opportunities for career growth. The following table sets forth information regarding the approximate number of employees by business segment:

	As of December 31, 2011
Brewery	37,000
Natural gas	5,500
Sewage and water treatment	2,000
Expressways and toll roads	400
Other	100
Total	45,000

Environmental Compliance

We believe we are in compliance in all material respects with applicable environmental regulations in the jurisdictions in which we operate. We are not aware of any environmental proceedings or investigations to which we or any member of the Group is or might become a party and which might have a material adverse effect on our properties and operations.

PRC Government Regulation

Our businesses are subject to various laws and regulations in the PRC. See "Regulation." Our properties are subject to routine inspections by government officials with regard to various safety and environmental issues. We believe we are in compliance in all material respects with government regulations currently in effect in the jurisdictions in which we operate. We are not aware of significant problems with respect to compliance with government regulations in relation to our operations which could have a material adverse effect on our properties or operations, nor are we aware of any pending government legislation that could have a material adverse effect on our properties or operations.

Insurance

We are covered by insurance policies for losses from fire, flood, riot, strike, malicious damage, other material damage to property, business interruption and public liability. We believe our properties are covered with adequate insurance provided by reputable independent insurance companies in the relevant jurisdictions and with commercially reasonable deductibles and limits on coverage, which are normal for the type and location of the properties to which they relate. Notwithstanding such insurance coverage, damage to the buildings, facilities, equipment or other properties as a result of occurrences such as fire, floods, earthquake, water damage, explosion, power loss, typhoons, nuclear accidents and other natural disasters or terrorism, could potentially have a material adverse effect on our financial condition and results of operations.

Property

We occupy our headquarters in Hong Kong pursuant to a lease agreement with a term from November 1, 2010 until October 31, 2012.

Many of our properties that we use for our business, particularly properties related to the natural gas distribution and transmission, are used pursuant to land use arrangements entered into with local or provincial PRC Government authorities. Pursuant to such arrangements, we have obtained the land use rights through allocation and authorization from the local government without paying land premium to local land authorities. Such arrangements are not formalized in all cases, and limit our usage of the property to the specific purpose for which the original use has been granted. Under PRC laws and regulations, approvals from, and payment of land premium to local land authorities are necessary for any transfer, lease, sale and disposal of such allocated or authorized land or the buildings attached thereto.

In addition, the Capital Airport Expressway and Shenzhen Shiguan Highway are built on land that is allocated to our joint venture partners by the relevant local governments. Under our joint venture agreements, we can use such land only for the duration of the respective joint venture agreements and for the limited purpose specified.

Litigation

From time to time, we may be involved in legal proceedings concerning matters that arise in the ordinary course of business operations. However, we are currently not involved in, nor have we been recently involved in, any legal or arbitral proceedings, if determined adversely against us, to have a material adverse effect on our consolidated financial position and results of operations.

Subsidiaries, Jointly-controlled Entities and Associates

Notes 21 to 23 to our audited consolidated financial statements for 2011 set forth our subsidiaries, jointly-controlled entities and associates as of December 31, 2011 which, in the opinion of our Directors, principally affected the results for the year or formed a substantial proportion of the net assets of the Group for the year, to which such accounts relate.

MANAGEMENT

Our board of directors (the "Board") comprises of 12 executive directors and four independent non-executive directors. The principal focus of our Board is on overall strategic development, internal control system and risk management system. The Board provides guidance on business plans and monitors the results of such plans implemented by the management and reviews and approves our financial objectives and major financial activities.

The members of our Board as of the date of this offering memorandum are as follows:

Name	Age	Title
Executive Directors		
WANG Dong	46	Chairman
ZHANG Honghai	59	Vice Chairman and Chief Executive Officer
LIN Fusheng	48	Vice Chairman
LI Fucheng	57	Vice Chairman
ZHOU Si	55	Vice Chairman
HOU Zibo	47	Executive Director
E Meng	53	Executive Vice President
LIU Kai	58	Executive Director
GUO Pujin	58	Executive Director
LEI Zhengang	58	Executive Director
JIANG Xinhao	47	Vice President
TAM Chun Fai	50	Chief Financial Officer and Company Secretary
Independent Non-executive Directors		
WU Jiesi	60	Independent Non-executive Director
Robert A. THELEEN	66	Independent Non-executive Director
LAM Hoi Ham, JP	73	Independent Non-executive Director
FU Tingmei	45	Independent Non-executive Director

The biographies of our executive directors, independent non-executive directors and senior management are as follows:

Executive Directors

Mr. Wang Dong, aged 46, was appointed as Chairman of BEHL and Beijing Enterprises Group Company Limited in August 2009. Between 2001 to 2008, Mr. Wang served as Deputy General Manager, Executive Deputy General Manager and Chairman of BBMG Group Company Limited. Between 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 management, finance and state-owned assets supervision. Mr. Wang graduated from Mining Mechanical Engineering Faculty of Beijing Institute of Iron and Steel in 1986, and graduated with a master's degree in Public Administration from People's University of China. Mr. Wang joined us in August 2009.

Mr. Zhang Honghai, aged 59, was appointed as Vice Chairman and Chief Executive Officer of BEHL in 2003. Mr. Zhang also serves as Director of Beijing Enterprises Group Company Limited, Executive Director of Beijing Development (Hong Kong) Limited and Chairman and Executive Director of Beijing Enterprises Water Group Limited. Mr. Zhang had worked for the Beijing Municipal Government for many years. Prior to joining us, Mr. Zhang was the director of the Foreign Affairs

Office of the People's Government of Beijing Municipality, and Hong Kong and Macao Affairs office of the People's Government of Beijing Municipality. He is currently Vice President of the Beijing Chinese Overseas Friendship Association. Mr. Zhang initially served as Deputy General Manager and subsequently as Vice Chairman and General Manager of Beijing International Trust Investment Limited between 1990 to 1998. He has extensive experience in corporate management. Mr. Zhang graduated from Peking University in 1982 and completed a postgraduate program in business studies at the International Business School of Hunan University. Mr. Zhang also obtained an EMBA degree from Guanghua School of Management, Peking University in 2007. Mr. Zhang joined us in December 2003.

Mr. Lin Fusheng, aged 48, was appointed as Vice Chairman of BEHL in 2011. He also serves as Vice Chairman and General Manager of Beijing Enterprises Group Company Limited. Before joining BEHL, Mr. Lin 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 Industry 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, Beijing. Mr. Lin graduated from Harbin Institute of Technology in 1987 and was awarded a post-graduate master's degree in thermal energy engineering. Mr. Lin received an MBA from Tsinghua University in 2001.

Mr. Li Fucheng, aged 57, was appointed as Vice Chairman of BEHL in 2003. During his tenure with Yanjing Brewery since 1983, he held various positions including Deputy Secretary and Deputy Director, and is currently serving as Chairman and General Manager of the Yanjing Group. Mr. Li has extensive experience in the brewery industry. Mr. Li joined us in April 1997.

Mr. Zhou Si, aged 55, was appointed as Vice Chairman of BEHL in 2007. He also serves as Vice Chairman of Beijing Enterprises Group Company Limited and Chairman of Beijing Gas, Beijing Beiran Enterprise Company Limited and Beijing Enterprises Group Real-Estate Co., Ltd. Between 1984 to 2003, he served as the Chief Officer of the General Planning Division and subsequently as the Head and Deputy Director of the Planning Division of Beijing Municipal Management Commission. Mr. Zhou has extensive experience in economics, finance and enterprise management. Mr. Zhou graduated from Beijing Normal University in 1982 and Tsinghua University in 1998. Mr. Zhou joined us in June 2005.

Mr. Hou Zibo, aged 47, was appointed as Executive Director of BEHL in March 2012. He 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 us in March 2012.

Mr. E Meng, aged 53, was appointed as Executive Director in 2005 and Executive Vice President of BEHL in 2008. Mr. E also serves as Vice General Manager and Chief Financial Officer of Beijing Enterprises Group Company Limited, the Chairman and Executive Director of Beijing Development (Hong Kong) Limited, the Executive Director of Beijing Enterprises Water Group Limited and Independent Non-executive Director of JLF Investment Company Limited. He is a qualified PRC accountant, asset appraiser, certified real estate appraiser and tax appraiser. Between 1988 to 1997, he served as Deputy Director of Beijing New Technology Development Zone and was concurrently acting as Director of the Department of Financial Auditing, General Manager of Investment Operation Company, chief accountant of Beijing Tianping Accounting Firm, and 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 graduated from China Science and Technology University with a master's degree in engineering. Mr. E joined us in November 1997.

Mr. Liu Kai, aged 58, was appointed as Executive Director of BEHL in 2001. Mr. Liu also serves as Director of Beijing Enterprises Group Company Limited and Vice Chairman of Beijing Holdings Limited. Prior to joining us, 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 graduated from the mechanical engineering faculty of Tsinghua University in 1979, and obtained a 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 University. Mr. Liu joined us in January 2001.

Mr. Guo Pujin, aged 58, was appointed Executive Director of BEHL in 2004. Mr. Guo has previously served as Chief Executive Officer of Da Xing district of Beijing and is currently Chairman of Beijing Capital Expressway Development Company Limited. Mr. Guo has extensive experience in government affairs and corporate management in China. Mr. Guo graduated from the political education faculty of Capital Normal University in 1976 and completed his postgraduate studies at Capital Trade and Economics University. Mr. Guo joined us in April 2004.

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

Mr. Jiang Xinhao, aged 47, was appointed as Executive Director of BEHL in 2007. Mr. Jiang also serves as Vice General Manager of Beijing Enterprises Group Company Limited, Beijing Beiran Enterprise Company Limited and Beijing Enterprises Group Real-Estate Co., Ltd., and as Executive Director of Beijing Enterprises Water Group Limited. Between 1995 and 1997, Mr. Jiang served as Deputy General Manager of Jingtai Finance Company, a company incorporated in Hong Kong; and as Director and Vice President of BHL Industrial Investment Company. Between 1997 and February 2005, Mr. Jiang served as Director and Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang served as Manager of the Investment Development Department of Beijing Holdings Limited and as General Manager of Beijing BHL Investment Center between May 2000 and February 2005. He has also served as Policy Analyst of the Chinese State Commission of Restructuring Economic System between 1987 to 1989. Mr. Jiang has extensive experience in economics, finance and corporate management. Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, and then in 1992 with a master's degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. Mr. Jiang joined us in March 2005.

Mr. Tam Chun Fai, Jimmy, aged 50, was appointed as Executive Director in 2007, Chief Financial Officer and Company Secretary in 1997. Mr. Tam also serves as Independent Non-executive Director of Hi Sun Technology (China) Limited and KWG Property Holding Limited. Mr. Tam has extensive experience in auditing and corporate advisory services with major international accounting firms. He has experience 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 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 joined us in April 1997.

Independent non-executive directors

Mr. Wu Jiesi, aged 60, was appointed as Independent Non-executive Director of BEHL in 2004. Mr. Wu also serves as Non-executive Director and Vice Chairman of China Aoyuan Property Group Limited, Independent Non-executive Director of China Taiping Insurance Holdings Company Limited and as Non-executive Director of China Water Affairs Group Limited, Shenzhen Investment Limited and Silver Base Group Holdings Limited. Between 1984 and 1995, Mr. Wu served as President of the Shenzhen branch of the Industrial and Commercial Bank of China. Between 1995 and 1998, Mr. Wu was Vice Mayor of Shenzhen Municipal Government and between 1998 to 2000 he served as assistant to the Governor of Guangdong province. Mr. Wu has also served as Chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, as Honorary President of Guangdong

Investment Limited and Guangdong Tannery Limited, and as Managing Director and Chief Executive Officer of Hopson Development Holdings Limited. He has extensive experience in finance and management. Mr. Wu holds a doctorate degree in Economics and 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. From September 2005 to July 2011, he was Independent Non-Executive Director of China Merchant Bank Co., Ltd.. Mr. Wu joined us in July 2004.

Mr. Robert A. Theleen, aged 66, was appointed as Independent Non-executive Director of BEHL in 2004. Mr. Theleen is Chairman, founder and Co-chief Executive Officer of China Vest, Ltd., a Shanghai-based Merchant Bank. In 1982, he launched one of the first venture capital funds investing in China. Mr. Theleen serves as Trustee of the Asia Foundation and is an active member of the business community in Shanghai. 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 the Vice Chairman of the American Chamber of Commerce in Shanghai for 2012, China. Mr. Theleen joined us in July 2004.

Mr. Lam Hoi Ham JP, aged 73, was appointed as Independent Non-executive Director of BEHL in 2008. Mr. Lam was granted the Medal of Honor by the Hong Kong Government in 1994 and was appointed Justice of the Peace in 1997. Mr. Lam serves as 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, Vice Chairman of Beijing Overseas Friendship Association and committee member of Beijing Health Department Overseas Friendship Association. Mr. Lam graduated from the faculty of economics of The University of Hong Kong. He is a founder of accounting firm H H Lam & Co., and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam joined us in March 2008.

Mr. Fu Tingmei, aged 45, was appointed as Independent Non-executive Director of BEHL in 2008. Between 1992 and 2003, Mr. Fu served as Director of Peregrine Capital Limited, as Deputy Managing Director and subsequently as Managing Director with BNP Paribas Peregrine Capital Limited. Mr. Fu is currently engaged in private investment business. Mr. Fu has extensive experience in law, investment, finance and business management. He graduated from the University of London with a master's degree and a doctorate degree in law in 1989 and 1993, respectively. Mr. Fu joined us in July 2008.

Senior Management

Mr. Xiao Xifa, aged 48, was appointed as Vice President of BEHL in 2008. Mr. Xiao has served as Dean and Managing Director of Beijing Gas and Heating Engineering Design Institute (Limited Company), Managing Director of Beijing United Gas Engineering & Technology Co., Ltd., Manager of asset management department of Beijing Gas Group Company Limited and 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 holds a master's degree in engineering from the University of Science and Technology Beijing and a MBA from Tsinghua University. Mr. Xiao joined us in February 2006.

Ms. Li Yalan, aged 49, was appointed as Vice President of BEHL in 2011. Ms. Li also serves as Vice Chairman and General Manager of Beijing Gas Group Company Limited, Deputy Director of China Gas Association and is a member of the first urban gas expert team under the 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 a 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 a trainee. Ms. Li joined us in 2011.

Mr. Ke Jian, aged 43, was appointed as Vice President of BEHL in April 2011. 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 from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration. He joined us in October 1997.

Compensation

The aggregate amount of salaries or other compensation, discretionary bonuses, pension benefits, other allowances and benefits-in-kind paid to our Directors and senior management in 2009, 2010 and 2011 was approximately HK$23.7 million, HK$24.6 million and HK$20.9 million (US$2.7 million), respectively. Except as discussed herein, no other payments have been paid or are payable, by us to our Directors and senior management.

Remuneration Committee

Pursuant to the Listing Rules, a listed issuer should establish a remuneration committee and the majority of the members of the remuneration committee should be independent non-executive directors. Our remuneration committee consists of two Independent Non-executive Directors, Mr. Wu Jiesi as the Chairman and Mr. Lam Hoi Ham, and one Executive Director, Mr. Liu Kai.

The duties of the remuneration committee include:

- to make recommendations to the Board on our policy and structure for all directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- to make recommendations to the Board on the remuneration packages of individual executive directors and senior management;
- to make recommendations to the Board on the remuneration of non-executive Directors;
- to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- to ensure that no director or any of his associates is involved in deciding his own remuneration.

Audit Committee

Pursuant to the Listing Rules, a listed issuer should establish an audit committee comprising non-executive directors only. The Listing Rules require an audit committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise and the majority of the members of the audit committee should be independent non-executive directors. Our audit committee consists of three Independent Non-executive Directors, Mr. Lam Hoi Ham as the Chairman, Mr. Wu Jiesi and Mr. Fu Tingmei. Each of our 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 audit committee's duties include:

- to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services;
- to monitor integrity of our financial statements and financial reports and to review significant financial reporting judgments contained in them; and
- to oversight our financial reporting system and internal control procedures.

Nomination Committee

Pursuant to the Listing Rules, a listed issuer should establish a nomination committee which is chaired by the chairman of the Board or an independent non-executive director and comprises a majority of independent non-executive directors. Our nomination committee consists of Mr. Wang Dong (chairman of the Board) as the committee chairman, Mr. Lam Hoi Ham and Mr. Fu Tingmei (both are independent non-executive directors) as committee members.

The nomination committee's duties include:

- review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement our corporate strategy;
- identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- assess the independence of independent non-executive directors;
- make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive; and
- where the Board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent.

Share Option Scheme

We adopted the Scheme on October 17, 2005. The Scheme will remain in force for 10 years from such date unless otherwise cancelled or amended. Under the Scheme, our Directors may, at their discretion, invite any person employed by us or any subsidiary and any person who is a director including non-executive director and any of its subsidiaries, to take up share options to subscribe for our ordinary Shares 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 our ordinary Shares. The total number of our ordinary Shares 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 our ordinary Shares in issue.

Other key terms of the Scheme include:

Subscription price: the subscription price shall be such price as the Board may in its absolute discretion determine at the time of grant, but may not be less than the highest of (i) the closing price of our ordinary Shares on the HKSE on the date of grant, which must be a trading day; (ii) the average closing price of our ordinary Shares on the HKSE on the five trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of our ordinary Share.

Option period: the option within which the Shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of the grant.

Rights are personal to grantee: a share option granted under the Scheme is personal to the grantee and shall not be assignable or transferable.

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding beneficial ownership of our shares as of the date of this offering memorandum held by each person who is known to us to have more than 5.0% beneficial share ownership:

Shareholder	Number of Shares	% of Shares
5% or greater beneficial share owner:		
Beijing Enterprises Group Company Limited	675,030,288	59.34%

As used in the following table, beneficial ownership means the sole or shared power to vote or direct the voting or to dispose of or direct the sale of any security. A person is deemed to be the beneficial owner of securities that can be acquired within 60 days upon the exercise of any option, warrant or right. Shares subject to options, warrants or rights that are currently exercisable or exercisable within 60 days are deemed outstanding for computing the ownership percentage of the person holding the options, warrants or rights, but are not deemed outstanding for computing the ownership percentage of any other person. The amounts and percentages as of the date of this offering memorandum are based upon our shares outstanding as of that date.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between the Group and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

The following table below sets forth our related party transactions for 2009, 2010 and 2011:

	Year Ended December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in million)			
Joint venture partners of subsidiaries and their associates				
Yanjing Brewery and its associates				
Purchase of bottle labels	119.6	133.2	149.5	19.2
Purchase of bottle caps	83.7	85.2	85.1	10.9
Canning service fees paid	30.3	34.2	36.7	4.7
Comprehensive support service fees paid	17.7	17.8	18.7	2.4
Land rent expenses	2.1	2.1	2.2	0.3
Trademark licensing fees paid	42.8	72.4	69.8	9.0
Less: Refund for advertising subsidies	(6.2)	(6.7)	(8.0)	(1.0)
Fellow subsidiaries				
Beijing Beiran Enterprise Company Limited and its subsidiaries				
Sale of piped natural gas	211.6	191.1	244.3	31.4
Service contract income	30.0	13.1	24.7	3.2
Purchase of raw materials	138.1	56.0	82.3	10.6
Building rental expenses	65.9	71.1	78.5	10.1
Construction contract fee expenses	43.2	35.8	61.5	7.9
Sale of raw materials	23.3	67.2	96.5	12.4
Repair and maintenance expenses	2.6	12.0	16.8	2.2
Beijing Jingtai International Trading Limited				
Purchase of construction materials	17.8	0.6	—	—
Jointly-controlled entity				
PetroChina Beijing Natural Gas Pipeline Company Limited(1)				
Natural gas transmission fee expenses	3,194.7	3,273.0	3,458.7	444.6

(1) PetroChina Beijing Natural Gas Pipeline Company Limited became an associate in Decemeber 2011.

	Year Ended December 31,			
	2009	2010	2011	
	HK$	HK$	HK$	US$
	(in million)			
Due to/from fellow subsidiaries/jointly-controlled entities/related parties[(1)]				
Due from fellow subsidiaries	42.8	71.2	80.3	10.3
Due from jointly-controlled entities	152.6	158.0	2.6	0.3
Due from related parties	53.0	21.0	9.7	1.2
Due to related parties	368.2	367.3	263.0	33.8
Remuneration paid and payable to:				
Executive directors of the Company	20.3	20.7	20.9	2.7
Independent non-executive directors of the Company	0.7	0.7	0.7	0.1

(1) Other than the balances included in trade and bills receivables and trade and bills payables.

We operate in an economic environment dominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organizations. We have transactions with other state-owned enterprises including, but not limited to, the sale of natural gas, piped water, provision of sewage treatment services, bank deposits and borrowings, and utilities consumptions in the ordinary course of our business. We have also established pricing policies for products and such pricing policies do not depend on whether or not the customers are other state-owned enterprises.

Except as above disclosed and as included in Note 51 to our consolidated financial statements there were no material related party transactions between us, our consolidated subsidiaries and our directors, executive officers and principal shareholders nor, in each case, the companies with whom they are affiliated, as of December 31, 2011.

The following discussion summarizes the principal laws, regulations, policies and administrative directives to which we are subject.

The PRC Legal System

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC Government. Court verdicts do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil and criminal matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local rules and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes or in order to enforce the law. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. The Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional rules and regulations is vested in the regional legislative and administrative bodies which promulgate such laws.

The PRC Judicial System

Under the PRC Constitution and the Law of Organization of the People's Courts, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts.

The local courts are comprised of the basic courts, the intermediate courts and the higher courts. The basic courts are organized into civil, criminal, economic, administrative and other divisions. The intermediate courts are organized into divisions similar to those of the basic courts, and are further organized into other special divisions, such as the intellectual property division. The higher level court supervise the basic and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next higher level. Second judgments or orders given at the next higher level and the first judgments or orders given by the Supreme People's Court are final. First judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgment which has been given in any court at a lower level, or the presiding judge of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on April 9, 1991 and amended on October 28, 2007, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action. However, such selection can not violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of the judgment, order or award. The time limit imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognized and enforced by the court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principal of reciprocity, unless the court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

Relevant Laws and Regulations

Natural gas

Regulations on the Administration of Fuel Gas in Towns and Cities (《城鎮燃氣管理條例》) (the "Gas Regulations"), which was promulgated on November 19, 2010 by the State Council and became effective as of March 1, 2011, applies to the development planning and emergency protection of fuel gas in towns and cities, fuel gas operation and services, use of fuel gas, protection of fuel gas facilities, the prevention and handling of accidents concerning fuel gas safety and related activities. For the purpose of the Gas Regulations, "fuel gas" means gas fuels that are used as fuels and meet certain requirements, such as natural gas (including coal-bed gas), LPG and manufactured gas.

The Gas Regulations set forth, among other things:

Development planning and emergency protection of fuel gas

The department in charge of construction administration of the State Council shall, in conjunction with relevant departments of the State Council, organize the formulation and implementation of the national fuel gas development plans according to the national economic and social development plans, the general plans of land utilization, the city plans and the energy plans, and based on the balance of the total fuel gas resources nationwide.

The local governments at or above the county level shall establish and improve the fuel gas emergency reserve system, organize the formulation of the fuel gas emergency plans and adopt combined measures to improve the fuel gas emergency protection capability.

Fuel gas operation and service

The State implements the permit system for fuel gas operation. An enterprise engaging in fuel gas operation activities must satisfy certain conditions required in the Gas Regulations and obtain a fuel gas operation permit issued by the fuel gas administration department of the local government at or above the county level.

A fuel gas operator shall provide a continuous, steady and safe supply of fuel gas meeting the quality standard of the State to fuel gas users, guide fuel gas users to use fuel gas in a safe manner and conserve fuel gas, and conduct regular safety inspection of the fuel gas facilities.

Use of fuel gas

A fuel gas user shall comply with the rules for safety use of gas and pay the fuel gas fee within the specified period.

Prevention and handling of accidents concerning fuel gas safety

The fuel gas administration departments shall, in conjunction with the relevant departments, formulate emergency plans for fuel gas accidents, establish a system on the statistical analysis of fuel gas accidents and circulate notices on the results in handling accidents on a regularly basis.

A fuel gas operator shall establish and improve the fuel gas safety evaluation and risk management system and shall, upon discovery of the hidden danger of an accident concerning fuel gas safety, adopt measures to eliminate the hidden danger in a timely manner.

Beijing Gas Management Regulations (《北京市燃氣管理條例》), which was adopted at the 32nd session of the Standing Committee of the Beijing People's Congress in November 2006 and became effective as of May 1, 2007, provides that suppliers and operators of gas within Beijing shall obtain gas operation license issued by gas administration authorities. A franchised operator or project company incorporated according to a franchise agreement shall obtain the operation license.

Regulations on the Franchising Operation of Urban Infrastructures of Beijing (《北京市城市基礎設施特許經營條例》), which was adopted at the 24 session of the Standing Committee of the Beijing People's Congress in December 2005 and became effective as of March 1, 2006, provides that operations in relation to supply of water, gas and heat, sewage treatment and treatment of solid waste, urban railway and other public transport can be franchised.

Brewery

Food Safety Law of the PRC (《中華人民共和國食品安全法》), which was adopted at the 7th Session of the Standing Committee of the 11th NPC on February 28, 2009 and became effective as of June 1, 2009, provides that food producers and operators shall act in compliance with relevant laws, regulations and food-safety standards, be responsible to the society and the general public, ensure food safety, accept public supervision and honor their social responsibilities. Food-safety standards are compulsory standards. Food producers and operators shall comply with food-safety standards and the provisions of the Food Safety Law. The licensing system is adopted by the State for the production and operation of food products. Food producers and distributors and catering service providers shall apply for the food production license, food distribution license and catering service license respectively. Food production or operation without license shall be punished.

Product Quality Law of the PRC (《中華人民共和國產品質量法》), which was adopted at the 30th Session of the Standing Committee of the 7th National People's Congress on February 22, 1993 and became effective as of September 1, 1993, and amended on July 8, 2000 and became effective as of September 1, 2000 provides that producers and sellers shall be liable for product quality in accordance with the law. The quality of a product shall be inspected and proved to be up to the standards. No sub-standard products shall be passed off as a product up to the standards. The State shall, with respect to product quality, enforce a supervision and inspection system with spot check as the primary method of supervision.

Measures on the Administration of Food Production Licensing (《食品生產許可管理辦法》), adopted by General Administration of Quality Supervision, Inspection and Quarantine on April 7, 2010 and which became effective as of June 1, 2010 provides that companies may not engage in food production activities without food production license. For the establishment of a food production enterprise, a food production license shall be obtained in accordance with the laws and regulations on food safety after the enterprise name is pre-approved by the industrial and commercial administrations.

Sewage treatment

The Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), which was adopted at the 32nd Session of the Standing Committee of the 10th National People's Congress on February 28, 2008 and became effective on June 1, 2008 provides that the environment protection department under the State Council shall establish the national standards for water environment quality. The State implements the pollutant discharge permit system. Any entity that operates facilities for centralized treatment of urban sewage is required to obtain the pollutant discharge permit. Urban sewage shall be subject to central treatment. The entities that operate facilities for central treatment of urban sewage shall, according to relevant regulations, provide paid sewage treatment services, and a sewage treatment fee shall be collected so as to ensure normal operation of the facilities.

Measures on the Administration of Franchise of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) (the "Measures"), promulgated by the former Ministry of Construction of the State Council on March 19, 2004 and which became effective as of May 1, 2004 provides that the Measures apply to the franchising of industries such as urban water supply, gas supply, public transport, sewage treatment and garbage treatment. Anyone bidding for the franchise shall meet the requirements of the Measures. Upon the approval by the government at provincial, city and county levels, competent authorities shall enter into franchise agreement with enterprises granted with such franchise. The term of the franchise shall be decided according to the industry traits, scale and manner of operation and may not exceed 30 years.

Water supply

The Urban Water Supply Regulations《城市供水條例》, which was promulgated by the State Council in July 1994 and became effective as of October 1, 1994, provides that urban water suppliers and enterprises using self-built facilities to supply water shall be examined and verified in terms of its capacities and be registered with the Industrial and Commercial Administration before starting its operation.

Decision of the State Council on the Enactment of Administrative Licensing for the Confessedly Reserved Items Subject to Administrative Examination and Approval (《國務院對確需保留的行政審批項目設定行政許可的決定》) issued by the State Council on June 29, 2004 and amended on January 29, 2009, provides that water supply enterprises should obtain Hygiene Permits (衛生許可證) from the hygiene authorities at or above the county level.

Foreign investment

Foreign Investment Industrial Guidance Catalogue (《外商投資產業指導目錄》) promulgated by the NDRC and Ministry of Commerce in 2004, as amended on December 1, 2007 and further amended on December 29, 2011 effective on January 30, 2012, provides that the industries in this catalogue are divided into encouraged, restricted or prohibited categories, other industries not covered in this catalogue are permitted. According to the catalogue, brewery is a permitted industry, construction and operation of sewage and garbage treatment and other environmental pollution prevention and treatment facilities are encouraged industries; construction and operation of pipeline networks for fuel gas, heat, and water supply in cities with populations over 500,000 are restricted industries.

Notice of the Ministry of Commerce on Issues Related to Authorization of Authorities at Lower Levels on Examination and Approval of Foreign Investment (《商務部關於下放外商投資審批許可權限有關問題的通知》) promulgated on June 10, 2010 by the Ministry of Commerce, provides that the incorporation and changes of foreign-invested enterprises categorized as "encouraged" or "permitted" in the Foreign Investment Industrial Guidance Catalogue with a total investment below US$300 million and categorized as "restricted" with a total investment below US$50 million (the "investment limit") shall be subject to the examination and approval by the provincial commercial authorities and authorities of national-level economic and technological development zones (the "local authorities"). Individual capital increases below the investment limit shall be subject to the examination and approval by local authorities. The incorporation of and changes to foreign-invested enterprises categorized as "encouraged" with investments above the established investment limit, which do not require national balancing, shall be subject to the examination and approval by local authorities.

Notice of the Ministry of Commerce on Issues Concerning the Administration of Foreign Investment (《商務部關於外商投資管理工作有關問題的通知》) promulgated on February 25, 2011, provides that acquisition by foreign investors and foreign-invested enterprises of a domestic company where the transaction amount is below the established transaction limit shall be subject to the examination and approval by provincial commercial authorities except for those transactions required to be examined and approved by the Ministry of Commerce in accordance with the Regulations on Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》).

The Notice on Further Strengthening and Regulating the Administration of Foreign Investment Projects (《關於進一步加強和規範外商投資項目管理的通知》) promulgated by the NDRC on July 8, 2008 and the Notice of the National Development and Reform Commission on Authorization of Authorities at Lower Levels on Approval of Foreign Investment Projects (《國家發展改革委關於做好外商投資項目下放核准權限工作的通知》) promulgated on May 4, 2010, provide that NDRC shall verify and approve any projects in the encouraged and permitted categories with a total investment (including capital increase) of US$300 million or above and projects in the restricted category with a total investment of US$50 million or above. Investments made by foreign-invested enterprises are also subject to verification and approval by NDRC or its local branches.

Certain Opinions of the State Council on Further Facilitating the Utilization of Foreign Capital (《關於進一步做好利用外資工作的若干意見》) which was promulgated by the State Council and became effective on April 6, 2010, provides that projects with a total investment (including increase of capital) of no more than US$300 million in encouraged or permitted categories are to be approved by the competent local governmental agencies, except such projects as required by the Catalogue of Investment Projects Subject to Government Approval (《政府核准的投資項目目錄》) to be approved by the competent agency of the State Council.

THE ISSUER

The Issuer, incorporated in the British Virgin Islands, is our wholly-owned subsidiary. The Issuer was established to raise financing for us. As of the date of this offering memorandum, the Issuer has no subsidiaries.

Since the date of its incorporation, no financial statements of the Issuer have been published. The Issuer is not required by BVI law to carry out annual audits, appoint auditors or publish financial statements.

As of the date of this offering memorandum, the directors of the Issuer are Zhang Honghai, E Meng and Tam Chun Fai.

Equity and Liabilities

As of the date of this offering memorandum, the Issuer is authorized to issue a maximum of 50,000 shares of one class with a par value of US$1.00 each, and the Issuer has currently in issue one fully paid share of US$1.00.

The following table sets forth the unaudited unconsolidated equity and liabilities of the Issuer as of incorporation and as adjusted for the proposed issue of the Notes:

	Actual	As adjusted
	(US$) (Unaudited)	
Equity		
Issued capital	1	1
Reserves	—	—
Total Equity	1	1
Non-current liabilities		
Notes	—	800,000,000
Total Equity and Liabilities	1	800,000,001

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness from various banks. As of December 31, 2011, our total bank and other borrowings amounted to HK$9,775.1 million (US$1,256.4 million). We set forth below a summary of the material terms and conditions of certain of our material loans and other indebtedness.

Guaranteed Senior Notes due 2021 and 2041

In May 2011, Mega Advance Investments Limited, a BVI limited liability company and our wholly-owned subsidiary, issued the 2021 Notes and the 2041 Notes through an international institutional placement. The 2021 Notes bear interest at an annual rate of 5.00% and the 2041 Notes bear interest at an annual rate of 6.375%. We have unconditionally and irrevocably guaranteed the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under the 2021 Notes and the 2041 Notes.

The 2021 Notes and the 2041 Notes constitute direct, unconditional, unsecured and unsubordinated obligations of Mega Advance Investments Limited and rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of Mega Advance Investments Limited and senior in priority of payment and in all other respects to all other obligations of Mega Advance Investments Limited that are designated as subordinate or junior in right of payment to the 2021 Notes and 2041 Notes. The guarantee obligations of the Guarantor under the 2021 and the 2041 Notes constitute direct, unconditional, unsecured and unsubordinated obligations of the Guarantor and rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Guarantor and senior in priority of payment and in all other respects to all other obligations of the Guarantor that are designated as subordinate or junior in right of payment to the 2021 Notes and 2041 Notes.

2011 Yanjing Brewery Term Loans

On May 17, 2011, Yanjing Brewery entered into a RMB100.0 million term loan facility agreement with Industrial and Commercial Bank of China Ltd. ("ICBC"). On June 9, 2011, Yanjing Brewery entered into a second RMB100.0 million term loan facility agreement with ICBC and a third RMB100.0 million term loan facility agreement with ICBC on September 9, 2011 (collectively, the "ICBC Facilities"). The ICBC Facilities each have a term of one year, commencing from May 17, June 9 and September 9, 2011, respectively, and each bear interest at a rate of 1.0% per annum plus applicable HIBOR. The terms and conditions of the ICBC Facilities include certain limitations on our ability to receive dividends from Yanjing Brewery, thereby restricting Yanjing Brewery's ability to declare and pay dividends to us for repayment of principal and interest related to the Notes or for any purpose. We expect the ICBC Facilities to be fully repaid and terminated on or prior to the date of the first interest payment due under the Notes.

Yanjing Brewery Convertible Bonds

On October 15, 2010, Yanjing Brewery, an indirect subsidiary, issued convertible bonds with an aggregate principal amount of RMB1.13 billion (the "Yanjing Brewery Convertible Bonds").

The Yanjing Brewery Convertible Bonds are convertible at an initial conversion price of RMB21.86. The Yanjing Brewery Convertible Bonds bear interest at 0.5%, 0.7%, 0.9%, 1.1% and 1.4% per annum, respectively, in each year of the annual convertible period.

On February 10, 2012, Yanjing Brewery announced that it had completed a buy-back of 2.6 million shares of the Yanjing Brewery Convertible Bonds for approximately RMB 268.0 million. The buy-back was triggered by Yanjing Brewery's share price falling below 70.0% of the conversion price of RMB 21.66 per share to RMB 15.16 per share for thirty consecutive trading days.

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 our financial statements.

2010 Syndicated Loan

On August 2, 2010, we entered into a HK$3 billion term loan facility agreement with Mizuho Corporate Bank, Ltd., Hong Kong Branch ("Mizuho") acting as agent and several banks and financial institutions as lenders (the "2010 Syndicated Loan"). The Loan Facility is for a term of five years commencing from August 2, 2010. The 2010 Syndicated Loan bears interest at 0.9% per annum plus applicable HIBOR. As of December 31, 2011, HK$3.0 billion in principal amount was outstanding under this facility.

The 2010 Syndicated Loan contains certain financial covenants, including:

- our consolidated tangible net worth shall not be less than HK$16 billion (or its equivalent in any other currency or currencies);
- the ratio of the consolidated total liabilities to the consolidated tangible net worth, expressed as a percentage, shall not be more than 150%; and
- the ratio of the consolidated secured indebtedness to the consolidated financial indebtedness, expressed as a percentage, shall not be more than 25%.

In addition, we have agreed not to, and to ensure that no other member of the Group will, create or permit to subsist any security over any of our assets. We have also made certain other agreements limiting our ability to sell or dispose of assets, transfer receivables on a recourse basis and certain other limitations.

BEHL Convertible Bonds

On June 2, 2009, Power Regal Group Limited, one of our wholly-owned subsidiaries, issued convertible bonds with an aggregate principal amount of HK$2.175 billion (the "BEHL Convertible Bonds") to certain institutional investors, pursuant to a convertible bond subscription agreement dated April 25, 2009. The BEHL Convertible Bonds are guaranteed by BEHL, bear interest at a rate of 2.25% per annum and are convertible into ordinary shares of BEHL at an initial conversion price of HK$43.50. The outstanding principal amount of the BEHL Convertible Bonds, if not converted, must be repaid on the maturity date of June 2, 2014 at 100% of the outstanding amount.

Holders of the BEHL Convertible Bonds may exercise conversion rights at any time on or after July 13, 2009 up to the close of business (at the place where the certificate evidencing such bond is deposited for conversion) on May 26, 2014, or if such bond shall have been called for redemption before the maturity date, then up to the close of business on the seventh business day prior to the date of redemption or if notice requiring redemption has been given by the holder of such bond, then up to the close of business on the business day prior to the giving of such notice. The initial conversion price is HK$43.50. The conversion price is subject to adjustment upon the occurrence of certain prescribed events, among other things, consolidation or subdivision of shares, capitalization of profits or reserves, extraordinary distributions, rights issues of shares or options over BEHL's shares, rights issues of other securities, and issues at less than current market price.

In addition, we have agreed not to, and to ensure that no other member of the Group will, create or permit to subsist any security upon any of our assets so long as any BEHL Convertible Bond remains outstanding or any amount is due under or in respect of any BEHL Convertible Bond unless certain conditions are satisfied.

2007 Syndicated Loan

On June 20, 2007, we signed a HK$2.1 billion term loan facility agreement with Bank of China (Hong Kong) Limited acting as agent and several banks and financial institutions as lenders (the "2007 Syndicated Loan"). The loan facility is for a term of five years commencing from June 20, 2007. The 2007 Syndicated Loan bears interest at 0.3% per annum plus applicable HIBOR. As of December 31, 2011, HK$2.1 billion in principal amount was outstanding under this facility.

The 2007 Syndicated Loan contains certain financial covenants, including:

- our consolidated tangible net worth shall not be less than HK$9 billion (or its equivalent in any other currency or currencies);
- the ratio of the consolidated total liabilities to the consolidated tangible net worth, expressed as a percentage, shall not be more than 140%; and
- the consolidated secured indebtedness shall not exceed 25% of the consolidated financial indebtedness.

In addition, we have agreed not to, and to ensure that no other member of the Group will, create or permit to subsist any security over any of our assets. We have also made certain other agreements limiting our ability to sell or dispose of assets, transfer receivables on a recourse basis and certain other limitations.

DESCRIPTION OF THE NOTES AND GUARANTEE

The Notes will be issued pursuant to an indenture (the "Indenture") to be dated as of April 25, 2012 (the "Closing Date") among the Issuer, the Guarantor and HSBC Bank USA, National Association as trustee (the "Trustee"). A copy of the Indenture will be available for inspection at the corporate trust office of the Trustee located in New York City. The following summaries of certain provisions of the Notes and the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the detailed provisions of the Notes and the Indenture. Capitalized terms used in this section and not otherwise defined shall have the meanings given to such terms in the Notes and the Indenture.

General

The Notes will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, subject as described in the Indenture.

The Notes will be issued in registered form. The Notes will be issued in an initial aggregate principal amount of US$800,000,000 and will mature on April 25, 2022 unless redeemed prior to their maturity pursuant to the terms thereof and of the Indenture. The Notes will bear interest at the rate of 4.50% per annum. The Notes will bear interest from April 25, 2012 or from the most recent Interest Payment Date (as defined below) to which interest has been paid or provided for payable semi-annually in arrears on April 25 and October 25 in each year (each, an "Interest Payment Date"), commencing on October 25, 2012, to the persons in whose names the Notes are registered at the close of business on the preceding April 10 and October 10, respectively (each an "Interest Record Date"). At maturity, the Notes are payable at their principal amount plus accrued interest thereon. In any case where the payment of principal of or interest on the Notes is due on a date that is not a Business Day, then payment of principal of or interest on the Notes shall be made on the next succeeding Business Day and no interest shall accrue with respect to such payment for the period from and after such date that is not a Business Day to such next succeeding Business Day. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Notes will not be entitled to the benefit of any sinking fund. The Notes shall be denominated in minimum principal amounts of US$200,000 and in integral multiples of US$1,000 above that amount.

The Notes are unconditionally guaranteed as to the payment of the principal and interest in respect thereof and all other amounts payable under the Notes by the Issuer as evidenced by the guarantee set forth in the Indenture and noted on the Notes (the "Guarantee"). The Guarantee will constitute direct, unconditional, unsecured and unsubordinated obligations of the Guarantor and will rank at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Guarantor, subject as described in the Indenture.

The principal of, interest on, and all other amounts payable under the Notes will be payable, and the Notes may be exchanged or transferred, at the office or agency of the Issuer in the City of New York (which initially will be the corporate trust office of the Trustee at 452 Fifth Avenue, New York, New York 10018). The principal of and interest on the Notes will be payable in U.S. dollars (or in such other coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts) in immediately available funds. Payments of interest and principal with respect to interests in the global notes will be credited to the respective accounts of the holders of such interests with DTC, Euroclear or Clearstream, as the case may be. See "Form, Denomination and Transfer."

Guarantee

Under the Indenture, the Guarantor will irrevocably and unconditionally guarantee the due and punctual payment of the principal of and interest on, and all other amounts payable under (including any Additional Amounts payable in respect thereof), the Notes when and as the same shall become due and payable, whether on the Stated Maturity (as defined below), upon acceleration, by call for redemption or otherwise. The Guarantor has (i) agreed that its obligations under the Guarantee will be as if it were principal obligor and not merely surety, and will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (ii) waived its right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Issuer prior to exercising its rights under the Guarantee. The Guarantee will not be discharged with respect to any Note except by payment in full of the principal thereof, interest thereon and all other amounts payable thereunder (including any Additional Amounts payable in respect thereof). Moreover, if at any time any amount paid under a Note is rescinded or must otherwise be restored, the rights of the holders of the Notes under the Guarantee will be reinstated with respect to such payments as though such payments had not been made.

Further Issues

The Issuer and the Guarantor may, from time to time, without the consent of the holders of the Notes, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, the issue price, the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) ("Additional Notes"). Additional Notes issued in this manner will be consolidated with the previously outstanding Notes. The Issuer and Guarantor shall not issue any Additional Notes with the same CUSIP number as the Notes issued hereunder unless the Issuer receives an opinion of counsel that such issuance would constitute a "qualified reopening" as defined for U.S. federal income tax purposes.

Payment of Additional Amounts

All payments of principal, premium and interest made by the Issuer in respect of the Notes and all payments made by the Guarantor pursuant to the Guarantee, shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or within the British Virgin Islands, Hong Kong or the PRC or any political subdivision or any authority therein or thereof having power to tax (the "Relevant Jurisdiction"), unless such withholding or deduction of such Taxes is required by law. Where such withholding or deduction is made by the Issuer or, as the case may be, the Guarantor by or within the PRC at the rate of up to and including 10%, the Issuer or, as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amount received by Holders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer or, as the case may be, the Guarantor is required to make a withholding or deduction (which, in the case of any withholding or deduction imposed by or within the PRC, is in excess of 10% as referrenced in the preceeding sentence), the Issuer or the Guarantor, as applicable, shall pay such additional amounts ("Additional Amounts") as will result in receipt by the holders of the Notes of such amounts as would have been payable to such holders had no such withholding or deduction of such Taxes been required, except that no such Additional Amounts shall be payable:

(i) in respect of any such Taxes that would not have been imposed, deducted or withheld but for the existence of any connection between the holder or beneficial owner of a Note or the Guarantee, as the case may be, and the Relevant Jurisdiction other than merely holding such Note or the Guarantee or receiving principal or interest in respect thereof; or

(ii) in respect of any Note or the Guarantee presented for payment (where presentation is required) more than 30 days after the relevant date, except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such 30-day period. For this purpose, the "relevant date" in relation to any Note or the Guarantee means (a) the due date for payment thereof or (b) if the full amount payable on such due date has not been received in The City of New York by the Trustee on or prior to such due date, the first date on which such full amount has been so received and notice to that effect has been given to the holders of the Notes; or

(iii) in respect of any such Taxes withheld or deducted from any payment under or with respect to any Note or the Guarantee where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In the event that any withholding or deduction for or on account of any taxes is required, at least 10 days prior to each date of payment of principal of or interest on the Notes, the Issuer will furnish to the Trustee and the Paying Agents, if other than the Trustee, an Officers' Certificate (as defined in the Indenture) specifying the amount required to be withheld or deducted on such payments to such holders, certifying that the Issuer shall pay such amounts required to be withheld to the appropriate governmental authority and certifying to the fact that the Additional Amounts will be payable and the amounts so payable to each holder, and that the Issuer will pay to the Trustee or such Paying Agent the Additional Amounts required to be paid; *provided* that no such Officers' Certificate will be required prior to any date of payment of principal of or interest on such Notes if there has been no change with respect to the matters set forth in a prior Officers' Certificate. The Trustee and each Paying Agent may rely on the fact that any Officers' Certificate contemplated by this paragraph has not been furnished as evidence of the fact that no withholding or deduction for or on account of any taxes is required. The Issuer covenants to indemnify the Trustee and any Paying Agent for and to hold them harmless against any loss, liability or expense reasonably incurred without gross negligence or willful misconduct on their part arising out of or in connection with actions taken or omitted by any of them in reliance on any such Officers' Certificate furnished pursuant to this paragraph or on the fact that any Officers' Certificate contemplated by this paragraph has not been furnished.

Whenever there is mentioned, in any context, the payment of principal, premium or interest in respect of any Note or the Guarantee, such mention shall be deemed to include the payment of Additional Amounts provided for in the Indenture, to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the Indenture.

The foregoing provisions shall apply in the same manner with respect to the jurisdiction in which any successor Person to the Issuer or the Guarantor is organized or resident for tax purposes or any authority therein or thereof having the power to tax (a "Successor Jurisdiction"), substituting such Successor Jurisdiction for the Relevant Jurisdiction.

Final Redemption

Unless previously redeemed, or purchased and cancelled in the limited circumstances set forth below, the Issuer will pay the Notes at their principal amount on April 25, 2022. Except as set forth below, the Notes are not redeemable at the option of the Issuer.

Optional Redemption for Taxation Reasons

The Notes may be redeemed at any time, at the option of the Issuer, as a whole but not in part, upon notice as described below, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest to the date fixed for redemption, if any, if (i) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction, (or, in the case of Additional Amounts payable by a successor Person to the Issuer or the Guarantor, the applicable Successor Jurisdiction), or any change in, or amendment to, the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after April 25, 2012 (or, in the case of Additional Amounts payable by a successor Person to the Issuer or the Guarantor, the date on which such successor Person to the Issuer or the Guarantor, as the case may be, became such pursuant to the applicable provisions of the Indenture), the Issuer, the Guarantor or any such successor Person to the Issuer or the Guarantor, as the case may be, is, or would be, obligated to pay Additional Amounts upon the next payment of principal or interest in respect of such Notes or the Guarantee and (ii) such obligation cannot be avoided by the Issuer, the Guarantor or any such successor Person to the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it. Prior to the giving of any notice of redemption of the Notes pursuant to the foregoing, the Issuer or any such successor Person to the Issuer shall deliver to the Trustee a notice of such redemption election, an opinion of independent legal counsel of recognized standing to the effect that the Issuer, the Guarantor or any such successor Person to the Issuer or the Guarantor, as the case may be, is, or would become, obligated to pay such Additional Amounts as described in clause (i) as the result of such change or amendment, and an Officers' Certificate (as defined in the Indenture) of the Issuer, the Guarantor or any such successor Person to the Issuer or the Guarantor, as the case may be, stating that such amendment or change has occurred, describing the facts leading thereto and stating that such requirement cannot be avoided by the Issuer, the Guarantor or any such successor Person to the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it.

Notice of redemption of the Notes as provided above shall be given not less than 30 nor more than 60 days prior to the date fixed for redemption; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer, the Guarantor or any such successor Person to the Issuer or the Guarantor, as the case may be, would be required to pay Additional Amounts if a payment in respect of such Notes was then due. Notice having been given, the Notes shall become due and payable on the date fixed for redemption and will be paid at the redemption price, together with accrued interest to, but excluding, the date fixed for redemption, at the place or places of payment and in the manner specified in the Notes. From and after the redemption date, if moneys for the redemption of the Notes shall have been made available as provided in the Indenture for redemption on the redemption date, the Notes shall cease to bear interest, and the only right of the holders of the Notes shall be to receive payment of the redemption price and interest accrued to the date of redemption.

Optional Redemption

The Issuer may, at any time upon giving not less than 30 nor more than 60 days' notice to holders of the Notes (which notice shall be irrevocable), redeem the Notes, in whole but not in part, at a redemption amount equal to (x) the principal amount of the Notes plus any accrued but unpaid interest or, if higher, (y) the Make Whole Amount (the "Early Redemption Amount").

Redemption for Change of Control Triggering Event

At any time following the occurrence of a Change of Control Triggering Event, the holder of each Note will have the right, at such holder's option, to require the Issuer to redeem all, or some only, of such holder's Notes on the Put Date in respect of the Notes at 101% of their principal amount, together with accrued interest up to, but excluding, the Put Date. To exercise such right, the holder of the relevant Note must deposit at the corporate trust office of the Trustee a duly completed and signed notice of redemption, in the form provided for in the Indenture obtainable from the corporate trust office of the Trustee (a "Put Exercise Notice"), together with the Notes in definitive, certificated form or evidence (if any) satisfactory to the Trustee that the certificate for such Notes will, following the delivery of the Put Exercise Notice, be held to its order or under its control, by not later than 30 days following a Change of Control Triggering Event, or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer. The "Put Date" shall be the 14th day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes that are the subject of Put Exercise Notices delivered as aforesaid on the Put Date.

The Issuer, failing whom the Guarantor, shall give notice to Noteholders and the Trustee by not later than the 14th day after the first day on which it becomes aware of the occurrence of a Change of Control Triggering Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes.

Purchase

The Issuer, the Guarantor and any of the Guarantor's other Subsidiaries may, in accordance with all applicable laws and regulations, at any time purchase the Notes in the open market or otherwise at any price. All Notes the Issuer, the Guarantor or any of the Guarantor's Subsidiaries repurchases will be cancelled and accordingly may not be held, reissued or resold. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders.

Modification and Waiver

The Indenture contains provisions permitting the Issuer, the Guarantor and the Trustee, without the consent of the holders of Notes, to execute supplemental indentures for certain enumerated purposes and, with the consent of the holders of not less than a majority in aggregate principal amount of the Notes then outstanding under the Indenture, to change or modify in any manner the rights of the holders of the Notes, provided that no such modification or amendment may, without the consent of each holder of the Notes affected thereby, among other things:

(i) change the Stated Maturity of the Notes;

(ii) reduce the principal amount of or payments of interest on any Notes;

(iii) change any obligation of the Issuer or the Guarantor to pay Additional Amounts with respect to Notes;

(iv) change the currency or place of payment of the principal of or interest on the Notes;

(v) impair the right to institute suit for the enforcement of any payment due on or with respect to the Notes;

(vi) reduce the above stated percentage of outstanding Notes necessary to modify or amend the Indenture;

(vii) reduce the percentage of the aggregate principal amount of outstanding Notes necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(viii) change, in any manner adverse to the interest of holders of the Notes, the terms and provisions of the Guarantee in respect of the due and punctual payment of principal of and interest on the Notes; or

(ix) modify the provisions of the Indenture with respect to modification and waiver.

The holders of not less than a majority in principal amount of the Notes then outstanding may, on behalf of holders of all such Notes, waive compliance by the Issuer or the Guarantor with certain provisions of the Indenture with respect to the Notes. The holders of not less than a majority in principal amount of the Notes may on behalf of all holders of such Notes waive any existing or past default or event of default and its consequences under the Indenture with respect to the Notes, except a continuing default or event of default (i) in the payment of principal of, or interest on (or Additional Amount payable in respect of), the Notes then outstanding, in which event the consent of all holders of the Notes is required; or (ii) in respect of a covenant or provision which under the Indenture cannot be modified or amended without the consent of the holder of the Notes then outstanding affected thereby. Any such waivers will be conclusive and binding on all holders of the Notes, whether or not they have given consent to such waivers, and on all future holders of the Notes, whether or not notation of such waivers is made upon the Notes. Any instrument given by or on behalf of any holder of a Note in connection with any consent to any such waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Note.

The Indenture will contain provisions regarding meetings of Noteholders. A meeting of the Noteholders may be called as specified in the Indenture. Notices of meetings must be provided in accordance with the terms of the Indenture. Any modifications to or waivers of the Indenture or the Notes adopted at a meeting will be conclusive and binding on all holders of such Notes, whether or not they have given their consent (unless required under the Indenture) or were present at any duly held meeting.

Substitution

The Indenture contains provisions permitting the Trustee to agree without consent of the holders of the Notes (if to do so would not be materially prejudicial to the interests of the holders of such Notes, as evidenced by the delivery of an opinion of counsel to the Trustee to that effect), to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Indenture and the Notes. Any substitution will be subject to the condition that such substituting entity deliver to the Trustee an opinion of U.S. tax counsel of recognized standing to the effect that the beneficial owners of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the substitution and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would be the case as if the substitution had not occurred.

Limitation on Liens

So long as any Note remains outstanding, the Issuer and the Guarantor will not, and the Guarantor will ensure that none of its Subsidiaries will create, or have outstanding, any Lien, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without (a) at the same time or prior thereto securing the Notes and the Guarantee equally and ratably therewith or (b) providing such other security for the Notes and the Guarantee as shall be approved by an act of the holders holding at least a majority of the principal amount of Notes then outstanding.

Consolidation, Merger and Sale of Assets

The Indenture provides that neither the Guarantor nor the Issuer may consolidate with or merge into any other Person in a transaction in which the Guarantor or the Issuer, as the case may be, is not the surviving entity, or convey, transfer or lease its properties and assets substantially as an entirety to, any Person unless:

(i) any Person formed by such consolidation or into which the Guarantor or the Issuer, as the case may be, is merged or to whom the Guarantor or the Issuer, as the case may be, has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation, partnership, trust or other entity validly existing under the laws of British Virgin Islands or Hong Kong, as the case may be and such Person expressly assumes by an indenture supplemental to the Indenture all the obligations of the Issuer or the Guarantor under the Indenture and the Notes or the Guarantee, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes;

(ii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and

(iii) if, as a result of the transaction, property of the Guarantor or any of its Subsidiaries would become subject to a Lien to secure Relevant Indebtedness that would not be permitted under "— Limitation on Liens" above, the Guarantor, the Issuer or such successor Person takes such steps as shall be necessary to secure the Notes and the Guarantee at least equally and ratably with the Relevant Indebtedness secured by such Lien or by such other Lien as shall have been approved by holders of the Notes pursuant to the Indenture.

An assumption of the Issuer's obligations under the Notes by any Person might be deemed for U.S. federal income tax purposes to be an exchange of the Notes for new Notes by the beneficial owners thereof, resulting in the recognition of gain or loss for such purposes and possibly certain other adverse tax consequences. Investors should consult their own tax advisors regarding the tax consequences of such an assumption.

Limitations on Issuer's Activities

For so long as the Notes are outstanding, the Issuer shall remain a subsidiary wholly owned and controlled by the Guarantor, and the Issuer will conduct no business or any other activities other than the offering, issuance or sale of indebtedness (including Additional Notes, if any) and the lending of the proceeds thereof to the Guarantor and any other activities in connection therewith. Upon any merger of the Issuer into the Guarantor or of the Guarantor into the Issuer, this covenant will no longer apply.

Events of Default

Each of the following shall constitute an Event of Default under the Indenture with respect to the Notes:

(i) failure to pay principal or premium in respect of any such Note by the due date for such payment; or

(ii) failure to pay interest on any such Note within 14 days after the due date for such payment; or

(iii) the Issuer or the Guarantor defaults in the performance of or breaches any covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (i) or (ii) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes; or

(iv) there occurs with respect to any indebtedness of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries having an outstanding principal amount of US$40,000,000 (or the Dollar Equivalent thereof) or more in the aggregate for all such indebtedness of all such Persons, whether such indebtedness now exists or shall hereafter be created, (A) an event of default that has caused the holder thereof to declare such indebtedness to be due and payable prior to its express maturity and/or (B) the failure to make a payment of principal, interest or premium when due; or

(v) one or more final judgments or orders for the payment of money are rendered against the Issuer, the Guarantor or any of the Guarantor's Subsidiaries and are not paid or discharged, and there is a period of 90 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$60,000,000 (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect; or

(vi) the Issuer, the Guarantor or any of the Guarantor's Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts (whether actual or contingent), stops, suspends or threatens to stop or suspend, payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries; or an administrator or liquidator of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries or the whole or any material part of the assets and turnover of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries is appointed (or an application for any such appointment is made); or

(vii) an order is made or an effective resolution passed for (i) the termination, winding-up or dissolution, administration or judicial management of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries or (ii) the winding-up, dissolution, judicial management or administration of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries, or the Issuer, the Guarantor or any of the Guarantor's Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of, and followed by, a reconstruction, amalgamation, reorganization, merger or consolidation on terms approved by a majority of holders of the Notes under the Indenture; or

(viii) a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries, and is not discharged or stayed within 60 days; or

(ix) an encumbrancer takes possession or an administrative or other receiver or an administrator or other similar officer is appointed of the whole or any material part of the property, assets or revenues of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries (as the case may be) and is not discharged within 60 days; or

(x) the Issuer, the Guarantor or any of the Guarantor's Subsidiaries makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors); or

(xi) any step is taken by any Person that will result in the seizure, compulsory acquisition, expropriation or nationalization of all or a material part of the assets of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries such that the Issuer, the Guarantor or any of the Guarantor's Subsidiaries, as applicable, is prevented from exercising normal control over all or a material part of its property, assets or turnover (to the extent that such assets have not already been seized, compulsory acquired, expropriated or nationalized); or

(xii) the Beijing Municipal Government declares a moratorium on the payment of any obligations by the Beijing Municipal Government; or

(xiii) the Issuer ceases to be a subsidiary wholly owned and controlled, directly or indirectly, by the Guarantor; or

(xiv) the Notes, the Guarantee or the Indenture is or becomes unenforceable or invalid; or

(xv) any regulation, decree, consent, approval, license or other authority necessary to enable the Issuer or the Guarantor to perform its obligations under the Notes, the Guarantee or the Indenture or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified; or

(xvi) the occurrence of any event which, under the laws of any relevant jurisdiction, has or may have an analogous effect to any of the events referred to in subparagraphs (v) to (xv) above.

If an Event of Default (other than an Event of Default described in clauses (vi) and (vii) above) with respect to the Notes shall occur and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of such Notes then outstanding by written notice as provided in the Indenture may declare the unpaid principal amount of such Notes and any accrued and unpaid interest thereon (and any Additional Amount payable in respect thereof) to be due and payable immediately upon receipt of such notice. If an Event of Default in clauses (vi) or (vii) above shall occur, the unpaid principal amount of all the Notes then outstanding and any accrued and unpaid interest thereon will automatically, and without any declaration or other action by the Trustee or any holder of Notes, become immediately due and payable. After a declaration of acceleration but before a judgment or decree for payment of the money due has been obtained by the Trustee, the holders of at least a majority in aggregate principal amount of the Notes then outstanding may, under certain circumstances, waive all past defaults and rescind and annul such acceleration if all Events of Default, other than the non-payment of accelerated principal, have been cured or waived as provided in the Indenture. For information as to waiver of defaults, see "— Modification and Waiver."

Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of the trusts or powers vested in it by the Indenture at the request, order or direction of any of the holders of Notes, unless such holders shall have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby. Subject to certain provisions, including those requiring security or indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Notes then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to such Notes. No holder of any Notes will have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or a trustee, or for any other remedy thereunder, unless (i) such holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the Notes, (ii) the holders of at least 25% in aggregate principal amount of the Notes then outstanding have made written request to the Trustee to institute such proceeding, (iii) such holder or holders have offered reasonable indemnity to the Trustee and (iv) the Trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the Notes then outstanding a direction inconsistent with such request, within 60 days after such notice, request and offer. However, such limitations do not apply to a suit instituted by a holder of a Note for the enforcement of the right to receive payment of the principal of or interest on such Note on or after the applicable due date specified in such Note.

Certain Definitions

Set forth below are definitions of certain of the terms used herein. Additional terms are defined elsewhere above or in the Indenture.

"Board of Directors" means the board of directors elected or appointed by the stockholders of the Guarantor to manage the business of the Guarantor or any committee of such board duly authorized to take the action purported to be taken by such committee.

"Board Resolution" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

"Business Day" means a day in The City of New York and Hong Kong other than a Saturday, Sunday or a day on which banking institutions or trust companies in The City of New York or Hong Kong are authorized or obligated by law, regulation or executive order to remain closed.

"Change of Control" occurs when:

(i) the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality does not, directly or indirectly, through Beijing Enterprises Group Company Limited or other companies under its supervision and control, hold at least 50.1% of the Guarantor's issued and outstanding capital stock or does not control the Guarantor;

(ii) any Person or Persons acting together acquires directly or indirectly Control of the Guarantor if such person or persons does not have, and would not be deemed to have, Control of the Guarantor on the Closing Date;

(iii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the Guarantor's assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Guarantor or the successor entity; or

(iv) one or more Persons (other than any Person referred to in sub-paragraph (iii) above) acquires the legal or beneficial ownership of all or substantially all of the Guarantor's issued share capital.

"Change of Control Triggering Event" means a Change of Control, *provided* that, in the event that the Notes are, on the Rating Date, rated Investment Grade by two or more Rating Agencies, a Change of Control Triggering Event shall mean the occurrence of both a Change of Control and a Rating Decline.

"Control" means the ownership or control of more than 50% of the voting rights of the issued share capital of the Guarantor or the right to appoint and/or remove all or the majority of the members of the Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"Holder", "holder" and "Noteholder", in relation to a Note, means the Person in whose name a Note is registered in the Register.

"Investment Grade" means a rating of "AAA", "AA", "A" or "BBB", as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns; a rating of "Aaa", "Aa", "A" or "Baa", as modified by a "1", "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's, or any of its successors or assigns; a rating of "BBB-" or better by Fitch, or any of its successors or assigns; or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Guarantor as having been substituted for S&P, Moody's, or Fitch or any combination thereof, as the case may be.

"Lien" means any mortgage, charge, pledge, lien or other form of encumbrance or security interest.

"Make Whole Amount" means an amount determined on the fifth Business Day (that is a Business Day in The City of New York) before the redemption date by the Calculation Agent (as defined in the Indenture) to be equal to the sum of (i) the present value of the principal amount of the Notes, assuming a scheduled repayment thereof on the date of Stated Maturity, plus (ii) the present value of the remaining scheduled payments of interest to and including the date of Stated Maturity, in each case discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months and, in the case of an incomplete month, the actual number of days elapsed) at the Treasury Yield plus 20 basis points.

"Person" means any individual, corporation, firm, limited liability company, partnership, joint venture, undertaking, association, joint stock company, trust, unincorporated organization, trust, state, government or any agency or political subdivision thereof or any other entity (in each case whether or not being a separate legal entity).

"Rating Agencies" means (1) Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors ("S&P"); (2) Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors ("Moody's"); (3) Fitch Inc., a subsidiary of

Fimalac, S.A., and its successors ("Fitch"); and (4) if one or more of S&P, Moody's or Fitch or shall not make a rating of the Notes publicly available, a United States nationally recognized securities rating agency or agencies, as the case may be, selected by the Guarantor, which shall be substituted for S&P, Moody's or Fitch or any combination thereof, as the case may be.

"Rating Date" means, in connection with a Change of Control Triggering Event, that date which is 60 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Guarantor or any other Person or Persons to effect a Change of Control.

"Rating Decline" means, in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Guarantor or any other person or persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below:

(a) in the event the Notes are (x) on the Rating Date (i) rated by three Ratings Agencies and (ii) rated Investment Grade by each such Rating Agency, and (y) cease to be rated Investment Grade by at least two of such Rating Agencies; or

(b) in the event the Notes are (x) on the Rating Date (i) rated by two but not more Ratings Agencies and (ii) rated Investment Grade by each such Rating Agency, and (y) cease to be rated Investment Grade by both such Rating Agencies.

"Relevant Indebtedness" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are commonly, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

"Stated Maturity" means April 25, 2022.

"Subsidiary" means, in relation to the Issuer or the Guarantor, any company (i) in which the Issuer or as the case may be, the Guarantor holds a majority of the voting rights or (ii) of which the Issuer or, as the case may be, the Guarantor is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer or as the case may be, the Guarantor is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer or as the case may be, the Guarantor.

"Successor Jurisdiction" means the jurisdiction in which any successor Person to the Issuer (including any entity substituted in place of the Issuer, or of any previous substituted company) or the Guarantor is organized or any authority therein or thereof having the power to tax.

"Treasury Yield" means:

(i) the yield, under the heading which represents the average for the week immediately preceding the date on which such yield is calculated, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System, available on the world-wide-website of the Board of Governors Federal Reserve System at http://www.federalreserve.gov/releases/h15/, or any successor site, or, failing which, on Bloomberg pages PX1, PX2 and PX3 and which established a yield for actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities", with a maturity comparable to the time period between the redemption date and the date of Stated Maturity (the "Remaining Maturity"), (if no maturity falls within three months before or after such time period, yields for the two published maturities most closely corresponding to such time period shall be determined and the

Treasury Yield shall be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month); or as such aforesaid yield is displayed on the Moneyline Telerate Page 7051 (or such other page which may replace that page on that service or a successor service); or

(ii) in the event that such yield referred to in paragraph (i) above does not appear in such statistical release or any successor publication, site, page servicer or any successor thereto during the week preceding the date on which the Calculation Agent determines the Early Redemption Amount (which shall be the fifth Business Day (that is a Business Day in The City of New York) before the redemption date), the yield determined by the Calculation Agent as follows:

The Calculation Agent (after consultation with the Issuer) shall select, and the Issuer shall appoint, three or more primary U.S. Government securities dealers in New York City (a "Primary Treasury Dealer") or their respective successors as reference dealer; provided, however, that if any of the foregoing ceases to be a Primary Treasury Dealer, the Issuer shall substitute therefore another Primary Treasury Dealer selected by the Calculation Agent (after consultation with the Issuer). The Calculation Agent (after consultation with the Issuer) shall also select, and the Issuer shall also appoint, one of the reference dealers as the quotation agent. The quotation agent will select a United States Treasury security having a maturity comparable to the Remaining Maturity, which would be used in accordance with customary financial practice to price new issues of corporate debt securities with a maturity comparable to the Remaining Maturity. The reference dealers will provide the Calculation Agent with the bid and asked prices for that comparable United States Treasury security as of 5:00 p.m. (New York City time) on the fifth Business Day (that is a Business Day in The City of New York) before the redemption date. The Calculation Agent will calculate the average of the bid and asked prices provided by each reference dealer to obtain such reference dealer's quotation. The Calculation Agent will eliminate the highest and the lowest quotations and then calculate the average of the remaining quotations; provided, however, that if the Calculation Agent obtains fewer than four quotations, it will calculate the average of all the quotations without eliminating any of them. The average quotation is called the comparable treasury price. The applicable Treasury Yield will be the semi-annual equivalent yield to maturity of a security whose price is equal to the comparable treasury price, in each case expressed as a percentage of its principal amount.

Absent any manifest error, the determination by the Calculation Agent of the Treasury Yield in accordance with the procedures set forth above will be final and binding.

"U.S. Government Obligations" means securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, and shall also include a depositary receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depositary receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depositary receipt.

Defeasance and Discharge

Each of the Issuer and the Guarantor may discharge its obligations under the Notes and the Indenture by irrevocably depositing in trust with the Trustee money in U.S. dollars or U.S. Government Obligations, or both, sufficient to pay principal of and interest on such Notes (and any Additional Amounts in respect thereof) to the Stated Maturity or redemption within one year of such redemption, subject to meeting certain other conditions.

Each of the Issuer and the Guarantor may also elect to:

(1) discharge most of its obligations in respect of the Notes and the Indenture, not including obligations related to the defeasance trust or to the replacement of Notes or the obligations of the Issuer or the Guarantor to the Trustee ("legal defeasance"); or

(2) discharge its obligations under most of the covenants and under clause (iii) of "— Consolidation, Merger and Sale of Assets" (and, upon such discharge, the events listed in clauses (iii), (iv) and (v) under "— Events of Default" will no longer constitute Events of Default) ("covenant defeasance").

by irrevocably depositing in trust with the Trustee money in U.S. dollars or U.S. Government Obligations, or both, sufficient to pay principal of and interest on such Notes (and any Additional Amounts in respect thereof) to maturity or the date fixed for redemption and by meeting certain other conditions, including delivery to the Trustee of (i) either a ruling received by the Issuer or the Guarantor, as the case may be, from the U.S. Internal Revenue Service or an opinion of independent legal counsel of recognized standing with respect to U.S. federal income tax matters to the effect that the beneficial owners of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would otherwise have been the case, which opinion of counsel must, solely in the case of legal defeasance, be based, upon these having been received after the date of initial issuance of the Notes, on a ruling received by the Issuer or the Guarantor, as the case may be, from the U.S. Internal Revenue Service, a published ruling of the U.S. Internal Revenue Service or other changes in applicable U.S. federal income tax law, and (ii) an opinion of legal counsel to the effect that the holders of the Notes (other than persons from a Relevant Jurisdiction, respectively) will not recognize withholding or deduction of Taxes under the laws of the Relevant Jurisdiction or any Successor Jurisdiction thereto as a result of the defeasance.

Concerning the Trustee

Pursuant to the Indenture, the Trustee will be designated by the Issuer as the initial Paying and Transfer Agent and Registrar for the Notes. The corporate trust office of the Trustee is currently located at 452 Fifth Avenue, New York, New York 10018.

The Indenture provides that the Trustee, except during the continuance of an Event of Default, undertakes to perform such duties and only such duties as are specifically set forth in such Indenture. If an Event of Default has occurred and is continuing, the Trustee will exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Indemnification for Judgment Currency Fluctuations

To the fullest extent permitted by law, the obligations of the Guarantor or the Issuer to any holder of Notes under the Indenture or the Notes, as the case may be, shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than U.S. dollars (the "Agreement Currency"), be discharged only to the extent that on the Business Day following receipt by such holder or the Trustee, as the case may be, of any amount in the Judgment Currency, such holder or the Trustee, as the case may be, may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such holder or the Trustee, as the case may be, in the Agreement Currency, the Guarantor and the Issuer agree, as a separate obligation and notwithstanding such judgment, to pay the difference and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such holder, such holder or the Trustee, as the case may be, agrees to pay to or for the account of the Guarantor or the Issuer, as the case may be, such excess, provided that such holder shall not have any obligation to pay any such excess as long as a default by the Guarantor or the Issuer in its obligations under the Indenture or the Notes has occurred and is continuing, in which case such excess may be applied by such holder to such obligations.

Notices

Notices to holders of Notes will be mailed to them (or the first named of joint holders) by first class mail (or, if first class mail is unavailable, by airmail) at their respective addresses in the register.

Governing Law and Consent to Jurisdiction

The Notes, the Guarantee and the Indenture are governed by and will be construed in accordance with the laws of the State of New York. The Guarantor and the Issuer have each agreed that any action arising out of or based upon the Indenture, the Guarantee or the Notes may be instituted in any U.S. federal or New York State court located in the Borough of Manhattan, The City of New York, and have irrevocably submitted to the non-exclusive jurisdiction of any such court in any such action. The Guarantor and the Issuer have each irrevocably appointed National Registered Agents, Inc. as their respective agent upon which process may be served in any such action.

Each of the Issuer and the Guarantor has agreed that, to the extent that it is or becomes entitled to any sovereign or other immunity, it will waive such immunity in respect of its obligations under the Indenture.

Certain Information Requirements

So long as the Notes and the Guarantee remain outstanding and are "**restricted securities**" within the meaning of Rule 144(a)(3) of the Securities Act, the Guarantor will furnish, upon the request of any holder of a beneficial interest in a Note, such information as is specified in paragraph (d)(4) of Rule 144A, to such holder or beneficial owner or to a prospective purchaser of the Note or interest therein who is a qualified institutional buyer within the meaning of Rule 144A, in order to permit compliance by such holder or beneficial owner with Rule 144A in connection with the resale of the Note or beneficial interest therein in reliance on Rule 144A unless, at the time of such request, the Guarantor is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is exempt from the registration requirements of Section 12(g) of the Exchange Act pursuant to Rule 12g3-2(b) under the Exchange Act.

In addition, for the convenience of the holders of the Notes, for so long as such information is not otherwise publicly available, the Guarantor will furnish to the Trustee and make available to holders of the Notes, in English, the annual audited consolidated financial statements of the Guarantor for its most recent calendar year (or, at its option, most recent fiscal year), commencing with the year ended December 31, 2012, as soon as practicable after the issue or publication thereof, and its interim unaudited consolidated financial statements for the first six months of such calendar or fiscal year, commencing with the six month period ended June 30, 2012, as soon as practicable after the issue or publication thereof. Such annual audited consolidated financial statements or interim unaudited consolidated financial statements, as the case may be, shall include a period-to-period comparison to the relevant period of the prior year.

FORM, DENOMINATION AND TRANSFER

The statements set forth herein include summaries of certain rules and operating procedures of DTC, Euroclear and Clearstream which will affect transfers of interests in the Global Notes.

The Notes sold in offshore transactions in reliance on Regulation S will be initially in the form of one or more Regulation S Global Notes, fully registered without interest coupons, which will be deposited with HSBC Bank USA, National Association (in such capacity, the "Custodian") for DTC and registered in the name of Cede & Co., as nominee of DTC, for the accounts of Euroclear and Clearstream.

The Notes sold to qualified institutional buyers ("QIBs") in reliance on Rule 144A will be issued initially in the form of one or more Rule 144A Global Notes and, together with the Regulation S Global Notes, the "Global Notes", fully registered without interest coupons, which will be deposited with the Custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Global Notes may be exchanged for individual certificated notes in fully registered form in the circumstances described under "— Individual Notes" below.

Notes issued under Regulation S or Rule 144A will be issued in minimum denominations of US$200,000 and in integral multiples of US$1,000 above that amount.

The Notes (including beneficial interests in the Global Notes) will be subject to certain restrictions on transfer set forth therein and in the Indenture, the Rule 144A Global Notes and the Regulation S Global Notes and will bear a legend regarding such restrictions as set forth under "Transfer Restrictions." Under certain circumstances, transfers may be made only upon receipt by the Trustee of a written certification (in the form(s) provided in the Indenture).

A beneficial interest in a Regulation S Global Note may be transferred within the United States to a person who takes delivery in the form of an interest in the related Rule 144A Global Note pursuant to the procedures of DTC and as set forth further in the Indenture.

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note without any written certification from the transferor or the transferee. Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the Trustee of written certifications (in the form(s) provided in the Indenture) from the transferor to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 under the Securities Act (if available).

Any individual notes issued in exchange for an interest in a Rule 144A Global Note under the circumstances described under "Individual Notes" below may be transferred (a) to a person who takes delivery in the form of an interest in a Rule 144A Global Note only upon receipt by the Trustee of written certifications (in the form(s) provided in the Indenture) from the transferor that the transfer is being made in accordance with the requirements of Rule 144A or (b) to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the Trustee of written certifications (in the form(s) provided in the Indenture) from the transferor that the transfer has been made in compliance with Rule 903 or Rule 904 of Regulation S under the Securities Act.

Any beneficial interest in one of the Global Notes that is transferred to an entity who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such an interest.

Investors may hold their interests in the Global Notes directly through DTC, Clearstream or Euroclear, as the case may be, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Clearstream and Euroclear will hold interests in the Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which are participants in DTC.

Transfers between participants in DTC (the "Participants") will be effected in the ordinary way in accordance with DTC rules. Transfers between participants in Clearstream and Euroclear (Clearstream Participants and Euroclear Participants, respectively) will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between DTC, on the one hand, and Clearstream or Euroclear Participants, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be. Such cross-market transactions, however, will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to DTC to take action to effect final settlement on its behalf by delivering or receiving payment in accordance with DTC's system.

Persons who are not Participants may beneficially own interests in the Global Notes held by DTC only through Participants or Indirect Participants (as defined below) (including Euroclear and Clearstream). So long as Cede & Co., as the nominee of DTC, is the registered owner of the Global Notes, Cede & Co. for all purposes will be considered the sole holder of such Notes.

Payment of interest and principal on the Global Notes will be made to Cede & Co., the nominee for DTC, as the registered owner of the Global Notes by wire transfer of immediately available funds. Neither the Issuer, the Guarantor nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

The Issuer has been informed by DTC that, upon receipt of any payment of interest on or the redemption price of the Global Notes, DTC will credit Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the Global Notes as shown on the records of DTC. Payments of interest on and principal of the Notes held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as the case may be, in accordance with the relevant system's rules and procedures. Payments by Participants to owners of beneficial interests in the Global Notes held through such Participants will be the responsibility of such Participants, as is the case with securities held by broker-dealers, either directly or through nominees, for the accounts of customers and registered in "street name."

Because DTC can only act on behalf of Participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in the Global Notes to pledge such interest to persons or entities that do not participate in the DTC system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate. The laws of some jurisdiction require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such person may be limited. In addition, owners of beneficial interests through DTC will receive distributions attributable to the Rule 144A Global Notes only through Participants.

So long as the Notes are represented by Global Notes and such Global Notes are held on behalf of DTC or any other clearing system, such clearing system or its nominee will be considered the sole holder of the Notes represented by the applicable Global Notes for all purposes under the Indenture, including, without limitation, obtaining consents and waivers thereunder, and neither the Trustee, the

Issuer nor the Guarantor shall be affected by any notice to the contrary. Neither the Trustee, the Issuer nor the Guarantor shall have any responsibility or obligation with respect to the accuracy of any records maintained by any clearing system or any Participant of such clearing system. The clearing systems will take actions on behalf of their Participants (and any such Participants will take actions on behalf of any Indirect Participants) in accordance with their standard procedures. To the extent that any clearing system acts upon the direction of the holders of the beneficial interests in the applicable Global Note and such beneficial holders give conflicting instructions, the applicable clearing system may take conflicting actions in accordance with such instructions.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for exchange) only at the direction of one or more Participants and only in respect of the principal amount of the Notes represented by the Global Note as to which such Participant or Participants has or have given such direction.

Clearstream or Euroclear, as the case may be, will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for exchange) on behalf of a Clearstream Participant or a Euroclear Participant only in accordance with its relevant rules and procedures and subject to its ability to effect such actions through DTC.

DTC has advised the Issuer as follows:

DTC is a limited purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for the physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly ("Indirect Participants").

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer, the Guarantor nor the Trustee will have any responsibility for the performance by DTC, Clearstream and Euroclear, or their respective Participants or Indirect Participants, of their respective obligations under the rules and procedures governing their operations.

Individual Notes

If DTC is at any time unwilling or unable to continue as depository and a successor depository is not appointed by the Issuer within 90 days or if there shall have occurred and be continuing an Event of Default (as described above) with respect to the Notes, the Issuer will issue individual Notes in certificated, fully registered form in exchange for the Global Notes.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, there will be a Paying and Transfer Agent in Singapore. The Issuer will give to the Trustee written notice of the location of any such office or agency and of any change of location thereof.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note is exchanged for individual Notes in certificated form. In addition, in the event that a Global Note is exchanged for individual

Notes in certificated form, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the individual Notes in certificated form, including details of the paying agent in Singapore.

Subject to the transfer restrictions set forth on the individual Notes in certificated form, the holder of such individual Notes in certificated form may transfer or exchange such Notes (whether received directly from the Issuer or in exchange for beneficial interests in the Global Notes) by surrendering them at the corporate trust office of the Trustee or at the office of the paying agent in Hong Kong. Prior to any proposed transfer of individual Notes in certificated form (other than pursuant to an effective registration statement), the holder may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation to the Trustee as provided in the Indenture. Upon the transfer, exchange or replacement of individual Notes in certificated form not bearing the legend referred to under "Transfer Restrictions," the Trustee will deliver individual Notes in certificated form that do not bear the legend. Upon the transfer, exchange or replacement of individual Notes in certificated form bearing the legend, or upon specific request for removal of the legend on an individual Note in certificated form, the Trustee will deliver only individual Notes in certificated form that bear such legend or shall refuse to remove such legend, as the case may be, unless there is delivered to the Issuer or the Guarantor such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer or the Guarantor that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Same-day settlement in respect of Global Notes

So long as any Notes are represented by Global Notes registered in the name of DTC or its nominee, such Notes will trade in DTC's same-day funds settlement system, and secondary market trading activity in such Notes will therefore be required by DTC to settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity in the Notes.

PLAN OF DISTRIBUTION

Subject to the terms and conditions of a purchase agreement dated April 18, 2012 (the "Purchase Agreement") entered into among Merrill Lynch International, The Hongkong and Shanghai Banking Corporation Limited, Morgan Stanley & Co. International plc, DBS Bank Ltd., ICBC International Securities Limited and Standard Chartered Bank (the "Initial Purchasers") and the Issuer and the Guarantor, the Issuer and the Guarantor have agreed to sell to the Initial Purchasers and the Initial Purchasers have severally and not jointly agreed with the Issuer and the Guarantor to purchase the principal amount of Notes set forth opposite their names in the following table.

Initial Purchasers	Principal Amount of the Notes
Merrill Lynch International	US$192,000,000
The Hongkong and Shanghai Banking Corporation Limited	US$192,000,000
Morgan Stanley & Co. International plc	US$192,000,000
DBS Bank Ltd.	US$74,720,000
ICBC International Securities Limited	US$74,640,000
Standard Chartered Bank	US$74,640,000
Total	US$800,000,000

The Issuer and the Guarantor have agreed to indemnify the Initial Purchasers against certain liabilities, including, *inter alia*, liabilities under the Securities Act, and to make contributions in respect thereof.

The Initial Purchasers are offering the Notes in accordance with the terms of the Purchase Agreement and subject to certain conditions contained in the Purchase Agreement, including, *inter alia*, the receipt by the Initial Purchasers of documentation related to the issuance and sale of the Notes, officer's certificates and legal opinions. The Purchase Agreement may be terminated by the Initial Purchasers in certain circumstances prior to payment of the Notes.

The Issuer and the Guarantor will pay the Initial Purchasers' customary fees and commissions in connection with the offering and will reimburse the Initial Purchasers for certain expenses incurred in connection with the offering.

The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S.

New Issue of the Notes

The Notes are a new issuance of securities with no established trading market. Approval in-principle has been obtained for the listing of the Notes on the SGX-ST. However, no assurance can be given as to the liquidity of any trading market for the Notes. A liquid or active public trading market for the Notes may not develop. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the performance of the Issuer and the Guarantor and other factors.

Price Stabilization and Short Positions

In connection with the offering, The Hongkong and Shanghai Banking Corporation Limited as the Stabilizing Manager or any person acting on its behalf may, to the extent permitted by applicable laws and directives, engage in transactions that stabilize or otherwise affect the market price of the Notes. These transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Notes. If the Stabilizing Manager or its agent create a short position in the Notes in connection with the offering (i.e. if the Stabilizing Manager or its agent sells more Notes than are set forth on the cover page of this offering memorandum), the Stabilizing Manager or its agent may reduce that short position by purchasing Notes in the open market. In general, purchases of a Note for the purpose of stabilization or to reduce a short position could cause the price of the Notes to be higher than it might be in the absence of such purchases. There is no assurance, however, that the Stabilizing Manager or its agent will undertake stabilization action. Any stabilization action may begin on or after the date adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of allotment of the Notes.

Neither the Issuer nor the Stabilizing Manager makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither the Issuer nor the Stabilizing Manager makes any representation that the Stabilizing Manager or its agent will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Other Relationships

Each of the Initial Purchasers or its affiliates may purchase the Notes for its or their own account and enter into transactions, including, without limitation, credit derivatives, including asset swaps, repackaging and credit default swap relating to the Notes or the Guarantor's securities at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this offering memorandum relates (notwithstanding that such selected counterparties may also be purchaser of the Notes).

The Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Guarantor or its subsidiaries, jointly-controlled entities or associates from time to time. They have received customary fees and commissions for these transactions. In addition to the transactions noted above, the Initial Purchasers and their affiliates may, from time to time, engage in other transactions with, and perform services for, the Guarantor or its subsidiaries, jointly-controlled entities or associates in the ordinary course of their business. In addition, the Initial Purchasers and certain of their respective subsidiaries and affiliates may hold shares or other securities in the Guarantor as beneficial owners, on behalf of clients or in the capacity of investment advisors.

Delivery of the Notes

The Issuer expects that the Notes will be delivered against payment in immediately available funds, on or about April 25, 2012, which the Issuer expects will be more than three business days following the date of this offering memorandum. Under Rule 15c6-1 promulgated under the Exchange Act, investors are generally required to settle trades in the secondary market in three business days, unless investors and the other parties to any such trade expressly agree otherwise. Accordingly, if investors wish to trade the Notes on the date of this offering memorandum or on the next succeeding business day, because the Notes will initially settle in T+5, investors may be required to specify an alternate settlement cycle at the time of investor's trade to prevent a failed settlement.

Selling Restrictions to the Offering

The PRC

No securities shall be offered or sold in the PRC (excluding Hong Kong, Macau and Taiwan) directly or indirectly, except in compliance with applicable laws and regulations. This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC to any person to whom it is unlawful to make the offer or solicitation in the PRC.

The Issuer or the Guarantor do not represent that this offering memorandum may be lawfully distributed, or that any securities may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Guarantor which would permit a public offering of any securities or distribution of this offering memorandum in the PRC. Accordingly, no securities may be offered or sold, directly or indirectly, and neither this offering memorandum nor any advertisement or other offering material may be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes and the Guarantee are being offered and sold outside of the United States in reliance on Regulation S. The Purchase Agreement provides that the Initial Purchasers may, directly or through their respective U.S. broker-dealer affiliates, arrange for the offer and resales of Notes and the Guarantee within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes and the Guarantee, an offer or sale of Notes or the Guarantee within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

No invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by any Initial Purchaser in connection with the issue or sale of any Notes may be or may cause to be communicated, other than such invitation in circumstances in which section 21(1) of the FSMA does not apply to the Issuer and the Guarantor. All applicable provisions of the FSMA with respect to anything by the Initial Purchasers in relation to the Notes in, from or otherwise involving the United Kingdom have been or will be complied with.

Hong Kong

The Notes have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors", as defined in The Securities and Futures Ordinance (Cap. 571) (the "SFO") and any rules made under the SFO or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong (the "Companies Ordinance") or which do not constitute an offer to the public within the meaning of the Companies Ordinance.

It is also prohibited to issue or hold in possession for the purpose of the issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to any Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

British Virgin Islands

The Notes have not been offered or sold, and will not be offered or sold, to the public in the British Virgin Islands.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act"). Accordingly, the Notes have not been offered or sold, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Act (Law No. 228 of 1949, as amended)) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws and regulations and ministerial guidelines of Japan.

Korea

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act, and have not been offered, sold or delivered, directly or indirectly, in Korea or to, any Korean resident (as such term is defined in the Foreign Exchange Transaction Law of Korea) for a period of one year from the date of issuance of the Notes, except as otherwise permitted by applicable Korean laws and regulations.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold or made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor;

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor (under Section 274 of the SFA), or to a relevant person (as defined in Section 275(2) of the SFA) and in accordance with the conditions specified in Section 275 of the SFA;

(ii) (in the case of a corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of a trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

(iii) where no consideration is or will be given for the transfer;

(iv) where the transfer is by operation of law; or

(v) pursuant to Section 276(1) of the SFA.

Switzerland

Neither this Offering Memorandum nor any documents related to the Notes constitute a prospectus within the meaning of Articles 652a and 1156 of the Swiss Code of Obligations. The notes will not be listed on the SIX Swiss Exchange or any other regulated securities market in Switzerland and, consequently, the information presented in this Offering Memorandum does not necessarily comply with the information standards set out in the listing rules of SIX Swiss Exchange. Accordingly, the Notes have not been and may not be publicly offered or sold in Switzerland, as such term is defined or interpreted under the Swiss Code of Obligations. In addition, the Notes do not constitute a participation in a collective investment scheme in the meaning of the Swiss Collective Investment Schemes Act and they are subject to neither approval nor supervision by the Swiss Financial Market Supervisory Authority. Therefore, investors in the Notes do not benefit from protection under the Swiss Collective Investment Schemes Act or supervision by the Swiss Financial Market Supervisory Authority or any other regulatory authority in Switzerland.

General

The distribution of this offering memorandum and the offering and sales of the Notes in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or the Initial Purchasers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this offering memorandum or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this offering memorandum comes are required by the Issuer, the Guarantor and the Initial Purchasers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this offering memorandum or any other offering material relating to the Notes, in all cases at their own expense.

TRANSFER RESTRICTIONS

Because the following restrictions will apply to the Notes, investors should consult legal counsel prior to making any offer, resale, pledge or transfer of the Notes.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only:

- to QIBs in compliance with Rule 144A; and
- outside the United States in reliance upon Regulation S.

It is expected that delivery of the Notes will be made against payment therefor on or about the closing date, which will be the fifth business day following the date of pricing of the Notes. Pursuant to Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle five business days following the pricing date (T+5), to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business should consult their own advisor.

Rule 144A Global Notes

Each purchaser of the Notes within the United States pursuant to Rule 144A, by accepting delivery of this offering memorandum, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a QIB within the meaning of Rule 144A, (b) acquiring such Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A;

(2) It understands that such Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States;

(3) It understands that such Notes, unless otherwise agreed between the Guarantor and the Trustee in accordance with applicable law, will bear a legend to the following effect:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE I44A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN

EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE."

(4) The Issuer, the Guarantor, the Registrar, the Initial Purchasers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and, if any such acknowledgments, representations or agreements deemed to have been made by virtue of its purchase of the Notes are no longer accurate, it agrees to promptly notify them. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account; and

(5) It understands that the Notes offered in reliance on Rule 144A will be represented by the Rule 144A Global Notes. Before any interest in the Rule 144A Global Notes may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Notes, it will be required to provide the Registrar with a written certification (in the form provided in the Indenture) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

TAXATION

The following summary is based on tax laws of BVI and the United States as in effect on the date of this offering memorandum, and is subject to changes in BVI law or in the laws of the United States, including changes that could have retroactive effect. The following summary does not take into account or discuss the tax laws of any countries other than BVI or the United States. Prospective purchasers in all jurisdictions are advised to consult their own tax advisors as to BVI law or the laws of the United States or other tax consequences of the acquisition, ownership and disposition of the Notes.

British Virgin Islands Taxation

The Issuer and all dividends, interest, rents, royalties, compensations and other amounts paid by the Issuer to persons who are not persons resident in the British Virgin Islands are exempt from the provisions of the Income Tax Ordinance in the British Virgin Islands, and any capital gains realized by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations, or other securities of the Issuer are exempt from all forms of taxation in the British Virgin Islands.

Under the Payroll Taxes Act, 2004 (as amended), a payroll tax was introduced in the British Virgin Islands as of January 1, 2005. The payroll tax will not apply to the Issuer except to the extent that the Issuer has employees (and deemed employees) rendering services to the Issuer wholly or mainly in the British Virgin Islands (whether or not payment is made in the British Virgin Islands). The Issuer at present has no employees in the British Virgin Islands and no intention of having any employees in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations or other securities of the Issuer.

All instruments relating to transfers of property to or by the Issuer and all instruments relating to transactions in respect of the shares, debt obligations or other securities of the Issuer and all instruments relating to other transactions relating to the business of the Issuer are exempt from the payment of stamp duty in the British Virgin Islands. There are certain exceptions relating to a transfer of an interest in land situate in the British Virgin Islands and transactions in respect of the shares, debt obligations or other securities of a company which has an interest in land situate in the British Virgin Islands. However, the Issuer at present does not have any interest in land situate in the British Virgin Islands and has no intention of acquiring any interest in land in the British Virgin Islands, whether directly or indirectly.

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer or its members. However, Council Directive 2003/48/EC adopted by the Council of the European Union on June 3, 2003, known as the "EU Savings Tax Directive" (the "Directive") on the taxation of savings income in the form of interest payments took effect from July 1, 2005. Although aimed originally only at European Union Member States ("Member States"), the Directive was extended to include also certain overseas territories (including the British Virgin Islands, where the Issuer is incorporated) and a number of non-EU countries. The Directive was implemented in the British Virgin Islands by way of a series of bi-lateral agreements with certain Member States, together with amendments to the Mutual Legal Assistance (Tax Matters) Act, 2003.

Holders who are individuals resident in a Member State of the European Community should be aware that any interest payment on the Notes or any income realized upon the sale, refund or redemption of their Notes, together with any income in the form of dividends or other distributions, may, if certain requirements are met, become subject to the reporting regime or the withholding tax regime imposed by the Directive, if payment of such income is made by a paying agent established either in another Member State, the British Virgin Islands or in certain other jurisdictions which have agreed to introduce an equivalent reporting or withholding tax regime in respect of such payments.

Because these rules are complex and the precise extent of their application has not yet been confirmed by all Member States or other relevant jurisdictions which have agreed to introduce an equivalent reporting or withholding tax regime, application of the regime cannot be excluded in all cases and Noteholders who are individuals should consult their own tax advisers in relation to the purchase of the Notes. At present the Directive does not affect interest paid to companies.

EU Savings Directive

Under EC Council Directive 2003/48/EC (the "Directive") on the taxation of savings income, Member States, including Belgium from January 1, 2010, are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On September 15, 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On November 13, 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on April 24, 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

Certain United States Federal Income Tax Considerations

The following is a general discussion of certain material U.S. federal income tax consequences relevant to investors under present law of the purchase, ownership and disposition of the Notes. This general discussion applies only to investors that acquire their Notes at original "issue price", as defined in section 1273 of the Internal Revenue Code of 1986, as amended (the "Code"), and hold such Notes as capital assets within the meaning of section 1221 of the Code (generally, property held for investment). This discussion is based on current provisions of the Code, existing final, temporary and proposed U.S. Treasury regulations promulgated thereunder (the "Treasury Regulations"), and administrative and judicial interpretations thereof, all as in effect or proposed on the date of this offering memorandum. All of the foregoing authorities are subject to changes, possibly with retroactive effect, or different interpretations, either of which could affect the general discussion below.

This discussion is for general information purposes only and does not address all of the tax consequences that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under U.S. federal income tax laws including but not limited to: banks and certain other financial institutions; life insurance companies; pension funds; securities dealers or traders electing mark-to-market treatment; certain governmental entities; holders subject to the alternative minimum tax; regulated investment companies; real estate investment trusts; partnerships or any entities treated as partnerships for U.S. federal income tax purposes; tax-exempt organizations; persons that hold the notes as a position in a "straddle" or as part of a synthetic security or "hedge", "conversion transaction" or other integrated investment; persons that have a "functional currency" other than the U.S. dollar; and certain United States expatriates.

This discussion does not address the effects of any state, local or non-U.S. tax laws. Moreover, it does not address non-income tax (such as the U.S. federal estate and gift tax) or alternative minimum tax consequences of the acquisition, ownership and disposition of the Notes, or the indirect consequences to holders of equity interests in partnerships (or any other entity treated as a partnership for U.S. federal income tax purposes) that own the Notes.

As used herein, "U.S. Holder" means a beneficial owner of the Notes that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any State or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and in respect of which one or more U.S. persons (as defined in Section 7701(a)(30) of the Code (a "U.S. person")) have the authority to control all substantial decisions or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

If a partnership (or other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner in such partnership generally will depend on the status of the partner and the activities of the partnership holding the Notes. Such a partner or partnership considering the acquisition of the Notes should consult its own tax advisors.

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT (A) ANY DISCUSSION OF U.S. FEDERAL INCOME TAX ISSUES CONTAINED OR REFERRED TO IN THIS OFFERING MEMORANDUM AND RELATED MATERIALS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY PROSPECTIVE INVESTORS, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON A TAXPAYER UNDER THE CODE; (B) ANY SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

U.S. Tax Treatment of U.S. Holders of Notes

Payments of Interest

Interest paid on the Notes will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes, provided that the interest is "qualified stated interest" (as defined below).

Interest income earned by a U.S. Holder with respect to the Notes will constitute foreign source income for U.S. federal income tax purposes, which may be relevant in calculating the U.S. Holder's foreign tax credit limitation. Interest paid on the Notes will be treated as either "passive category income" or "general category income" for U.S. foreign tax credit limitation purposes. Alternatively, subject to applicable limitations, the amount of foreign withholding taxes, if any, may be deducted in computing the U.S. Holder's U.S. taxable income. The rules relating to U.S. foreign tax credits are extremely complex. U.S. Holders should consult their tax advisors regarding the availability of U.S. foreign tax credits in their particular circumstances.

Original Issue Discount

General. The Notes are not expected to be issued with original issue discount ("OID") for U.S. federal income tax purposes in excess of a *de minimis* amount (*i.e.*, less than 1/4 of 1 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity). If the Notes are issued with *de minimis* OID, U.S. Holders of Notes would include such *de minimis* OID in income as capital gain as principal payments are received.

The amount of OID in respect of a Note is equal to the difference between its "stated redemption price at maturity" and its "issue price". The issue price of the Notes generally will be the first price at which a substantial amount of the Notes are sold to the public (which does not include sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) for cash. The stated redemption price at maturity of the Notes generally will equal the sum of all payments required to be made under the Notes other than payments of "qualified stated interest". Qualified stated interest generally is stated interest unconditionally payable (other than in debt instruments of the issuer) at least annually at a single fixed rate.

If the Notes are issued with OID, a U.S. Holder would be required to include in income any OID as it accrues in accordance with a constant yield method based on a compounding of interest, regardless of such U.S. Holder's regular method of accounting and regardless of whether cash attributable to this income is received. The amount of includable OID would be the sum of the "daily portions" of OID with respect to the Note for each day during such taxable year or portion of such taxable year in which the holder held such Note. The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. The accrual period for a Note issued with OID may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period generally is an amount equal to the excess, if any, of (i) the Note's "adjusted issue price" at the beginning of the accrual period multiplied by its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period, over (ii) the aggregate of all qualified stated interest allocable to the accrual period. The adjusted issue price of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period.

Election to Treat All Interest as Original Issue Discount. A U.S. Holder may make an election to include in gross income *all* interest that accrues on any Note (including stated interest, OID and *de minimis* OID) in accordance with the constant yield method (described above under "*Original Issue Discount — General*") based on the compounding of interest. This election generally applies only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. U.S. Holders should consult their tax advisors regarding the propriety and consequences of this election.

Sale, Exchange, Redemption, or Other Taxable Disposition

Upon the sale, exchange, redemption or other taxable disposition of the Notes, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or other taxable disposition of such Notes and the holder's adjusted tax basis in the Notes. A U.S. Holder's adjusted tax basis in the Notes generally will equal the acquisition cost of such Notes increased by the amount of OID included in the holder's gross income and decreased by the amount of any payment received from the Issuer other than a payment of qualified stated interest. Gain or loss, if any, of a U.S. Holder upon the sale, exchange, redemption or other taxable disposition of the Notes generally will be U.S. source income for purposes of computing such U.S. Holder's foreign tax credit limitation. For these purposes, the amount realized does not include any amount attributable to accrued interest on such Notes. Amounts attributable to accrued interest are treated as interest as described above under "— Payments of Interest." Gain or loss realized on the sale, exchange, redemption or other taxable disposition of the Notes generally will be capital gain or loss and will be long-term capital gain or loss if, at the time of sale, exchange, redemption or other taxable disposition, such Notes have been held for more than one year.

Information Reporting and Backup Withholding

Payments of interest and principal on the Notes and proceeds from a sale, exchange, redemption or other taxable disposition of the Notes may be subject to information reporting to the IRS and U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on IRS Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information.

Foreign Financial Asset Reporting

Recently enacted legislation imposes new reporting requirements on the holding of certain foreign financial assets, including debt of foreign entities, if the aggregate value of all of these assets exceeds $50,000. The Notes are expected to constitute foreign financial assets subject to these requirements unless the Notes are held in an account at a financial institution (in which case, the account may be reportable if maintained by a foreign financial institution). U.S. Holders should consult their tax advisors regarding the application of this legislation.

THE ABOVE DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE ACQUISITION, OWNERSHIP OR DISPOSITION OF THE NOTES. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISOR CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATION.

RATINGS

The Notes have been rated "Baa1" by Moody's and "A-" by S&P. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of, and interest on, the Notes. The ratings do not constitute recommendations to purchase, hold or sell the Notes insomuch as such ratings do not comment as to market price or suitability for a particular investor. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if, in their judgment, circumstances so warrant. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of the Issuer or the Guarantor, or on the Issuer or the Guarantor.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for the Issuer and the Guarantor by Mayer Brown LLP as to matters of U.S. federal and New York law, Mayer Brown JSM as to matters of Hong Kong law, Haiwen & Partners as to matters of PRC law and Conyers Dill & Pearman as to matters of British Virgin Islands law. Certain legal matters will be passed upon for the Initial Purchasers by Linklaters as to matters of U.S. federal and New York law and Commerce & Finance as to matters of PRC law.

CERTIFIED PUBLIC ACCOUNTANTS

Our consolidated financial statements as of and for each of the years ended December 31, 2009, 2010 and 2011 included in this offering memorandum have been audited by Ernst & Young, certified public accountants registered in Hong Kong, as stated in their reports included or incorporated by reference in this offering memorandum.

INDEX TO FINANCIAL STATEMENTS

Page references included in the independent auditors' reports and the consolidated financial statements for each of the years ended December 31, 2010 and 2011 set forth below refer to pages in our annual report for the year ended December 31, 2010 and our audited financial statements for the year ended December 31, 2011, respectively. The annual report for the year ended December 31, 2010 is not incorporated by reference herein and does not form part of this offering memorandum.

Independent auditors' report
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 3 to 126, 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.

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

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

Independent auditors' report (continued)
To the shareholders of Beijing Enterprises Holdings Limited
(Incorporated in Hong Kong with limited liability)

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.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
30 March 2012

BEIJING ENTERPRISES HOLDINGS LIMITED

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 OPERTATING 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.

BEIJING ENTERPRISES HOLDINGS LIMITED

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

BEIJING ENTERPRISES HOLDINGS LIMITED

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

continued/…

BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2011

	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

BEIJING ENTERPRISES HOLDINGS LIMITED

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		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

BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

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 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.

BEIJING ENTERPRISES HOLDINGS LIMITE

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

continued/…

BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2011

	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

continued/…

BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
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)
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

continued/…

BEIJING ENTERPRISES HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
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

BEIJING ENTERPRISES HOLDINGS LIMITED

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

continued/…

BEIJING ENTERPRISES HOLDINGS LIMITED

STATEMENT OF FINANCIAL POSITION (continued)

31 December 2011

	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

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.

2.1 BASIS OF PREPARATION (continued)

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.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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.

(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.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(b) (continued)

- 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)
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.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents gas pipelines, sewage and water pipelines, buildings, structures, plant and machinery and other property, plant and equipment under construction or installation, construction materials (which include materials for construction projects and equipment that needs to be installed) and prepayments for large-scale equipment. Construction in progress is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor, are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for "Investments and other financial assets" below.

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

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

Construction or upgrade services

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

Operating services

Revenue 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concessions
Operating concessions represent the rights to operate an expressway and a toll road, sewage and water treatment plants, and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 40 years.

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)
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.

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

(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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Derecognition of financial assets (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)
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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds (continued)

Convertible bonds containing an equity component (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)
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.

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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)
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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Other retirement benefits

Certain employees of the Group can enjoy other retirement benefits after retirement such as supplementary medical reimbursement, allowance and beneficiary benefits pursuant to certain defined benefit plans of the Group. These benefits are unfunded. The costs of providing benefits under these defined benefit plans are determined using the projected unit credit method and are charged to the income statement so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. These obligations are measured at the present value of the estimated future cash outflows using the interest rates of the PRC government bonds which have terms similar to those of related liabilities. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting period 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

The Group's management determines the provision for impairment of receivables under service concession arrangements, trade and bills receivables and other receivables. This estimate is based on the evaluation of collectibility and aged analysis of accounts and on management's estimation in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been changed. The carrying amounts of receivables under service concession arrangements, trade and bills receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

4. OPERATING SEGMENT INFORMATION (continued)

(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.

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

* 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.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information
Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the assets of the Group are located in Mainland China. Accordingly, in the opinion of the directors, the presentation of 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$'000	Group 2010 HK$'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$'000	Group 2010 HK$'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	23,148

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

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

11. INCOME TAX (continued)

Group – 2010

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total 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 HK$'000	2010 HK$'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 HK$'000	2010 HK$'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 HK$'000	2010 HK$'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

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

	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$'000 (note)	Leasehold improve-ments HK$'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$'000 (note)	Leasehold improve-ments HK$'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	
		2011	2010	2011	2010
	Notes	HK$'000	HK$'000	HK$'000	HK$'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

Notes:

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

Group

	Hong Kong	Elsewhere	Total
	HK$'000	HK$'000	HK$'000
Long term leases	18,750	-	18,750
Medium term leases	-	662,346	662,346
	18,750	652,346	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$'000	2010 HK$'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

18. GOODWILL (continued)

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).

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.

18. GOODWILL (continued)

Impairment testing of goodwill (continued)
Key assumptions used in value in use calculations (continued)

- 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$'000	Group 2010 HK$'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.

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

(a) (continued)

(i) (continued)

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.

(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.

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

(b) Details of the Group's sewage and water treatment operations under service concession arrangements are 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.

(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.

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

(c) In respect of the Group's receivables under service concession arrangements, the 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

(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.

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

(d) (continued)

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	Computer software	Total
	HK$'000	HK$'000	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

20. OTHER INTANGIBLE ASSETS

Group (continued)

	Patents HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2011 (continued)			
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
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$'000	Company 2010 HK$'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$'000	Company 2010 HK$'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
廣東燕京啤酒有限公司	PRC/ Mainland China	RMB716,000,000	-	58.89	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
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

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.

22. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Notes: (continued)

(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:

Company name	Place of registration and operations	Nominal value of registered capital	Percentage of Ownership interest attributable to the Group	Percentage of Voting power	Percentage of 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 HK$'000	2010 HK$'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. INVESTMENTS 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 HK$'000	Group 2010 HK$'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:

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Percentage of: Ownership interest attributable to the Group	Percentage of: Voting power	Percentage of: Profit sharing	Principal 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

@ 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.

23. INVESTMENTS IN ASSOCIATES (continued)

Notes: (continued)

(d) (continued)

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 HK$'000	Group 2010 HK$'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 HK$'000	Group 2010 HK$'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

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	
	Notes	2011	2010	2011	2010
		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	-	-

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.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes: (continued)

(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

	Notes	Group 2011 HK$'000	Group 2010 HK$'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 2011 HK$'000	Group 2010 HK$'000	Company 2011 HK$'000	Company 2010 HK$'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

32. CASH AND CASH EQUIVALENTS (continued)

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 HK$'000	2010 HK$'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

33. SHARE CAPITAL (continued)

Shares (continued)

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.

(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.

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.

34. SHARE OPTION SCHEME (continued)

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		Company	
	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'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 Senor 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).

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 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
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.

38. CONVERTIBLE BONDS (continued)

Notes: (continued)

(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.

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 HK$'000	Supplemental post-retirement allowance and beneficiary benefit plans HK$'000	Internal retirement benefit plan HK$'000	Total HK$'000	2010 Total 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

(b) Benefit liabilities

Group	2011				
	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	2010 Total 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

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 HK$'000	Supplemental post-retirement allowance and beneficiary benefit plans HK$'000	Internal retirement benefit plan HK$'000	Total HK$'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

39. DEFINED BENEFIT PLANS (continued)

(d) Principal assumptions

The above obligations were determined based on actuarial valuations performed by an independent actuary, Towers Perrin, using the projected unit credit method. The material actuarial assumptions used in determining the defined benefit obligations for the Group's plans are as follows:

	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%

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

42. DEFERRED TAX (continued)

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

Group

	Notes	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Depreciation allowances in excess of related depreciation HK$'000	Other temporary differences related to property, plant and equipment HK$'000	Transfer of assets from customers HK$'000	Revaluation of investment properties HK$'000	Impairment provision HK$'000	Provision for bonus and defined benefit plans HK$'000	Provision for major overhauls HK$'000	Temporary differences related to service concession arrangements HK$'000	Losses available for offsetting future taxable profits HK$'000 (note (a))	Withholding tax HK$'000 (note (b))	Net deferred tax assets/ (liabilities) HK$'000
		Attributable to											
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

43. TRADE AND BILLS PAYABLES (continued)

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	
	Notes	2011	2010	2011	2010
		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 HK$'000 (note (a))	2010 HK$'000 (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

45. BUSINESS COMBINATIONS (continued)

Notes: (continued)

(a) (continued)

(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.

(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

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

	2011 HK$'000	2010 HK$'000
Cash and cash equivalents deconsolidated and net outflow of cash and cash equivalents in respect of the deconsolidation of subsidiaries	-	(2,063,579)

46. DECONSOLIDATION OF SUBSIDIARIES (continued)

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.

(d) Compensation of key management personnel of the Group

	2011 HK$'000	2010 HK$'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.

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.

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.

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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.

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

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

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 2011 HK$'000	Carrying amount 2010 HK$'000	Fair value 2011 HK$'000	Fair value 2010 HK$'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	-

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value risk (continued)

Notes:

(i) The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 25(a) to the financial statements, 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.

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.

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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. EVENT 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.

INDEPENDENT AUDITORS' REPORT

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

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong
31 March 2011

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2010

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2010

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

		Attributable to shareholders of the Company													
	Notes	Issued capital	Share premium account	Capital redemption reserve	Share option reserve	Capital reserve	Available-for-sale investment revaluation reserve	Property revaluation reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Proposed final dividend	Total	Non-controlling interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(note 34(a) (ii))	*(note 34(a) (iii))*	*(note 34(a) (iv))*				*(note 34(a) (v))*					
At 1 January 2009		113,700	20,727,306	228	2,644	922,543	—	29,893	2,461,646	1,288,269	3,574,069	511,650	29,631,948	6,678,522	36,310,470
Profit for the year		—	—	—	—	—	—	—	—	—	2,398,883	—	2,398,883	647,506	3,046,389
Other comprehensive income for the year:															
Exchange differences on translation of foreign operations		—	—	—	—	—	—	—	14,161	—	—	—	14,161	236	14,397
Total comprehensive income for the year		—	—	—	—	—	—	—	14,161	—	2,398,883	—	2,413,044	647,742	3,060,786
Exercise of share options	33(a)	37	6,089	—	(1,482)	—	—	—	—	—	—	—	4,644	—	4,644
Capital contribution by non-controlling equity holders		—	—	—	—	—	—	—	—	—	—	—	—	309,336	309,336
Acquisition of subsidiaries	43	—	—	—	—	—	—	—	—	—	—	—	—	50,069	50,069
Acquisition of non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	—	(177,999)	(177,999)
Disposal of subsidiaries	44(a)	—	—	—	—	72,265	—	—	(11,075)	(12,052)	(60,213)	—	(11,075)	(3,846)	(14,921)
Deemed disposal of interest in a subsidiary		—	—	—	—	105,426	—	—	—	—	(105,426)	—	—	410,969	410,969
Share of reserves of associates		—	—	—	—	(131,812)	—	—	682	333	136,425	—	5,628	—	5,628
Final 2008 dividends		—	—	—	—	—	—	—	—	—	—	(511,650)	(511,650)	—	(511,650)
Interim 2009 dividend	13	—	—	—	—	—	—	—	—	—	(227,457)	—	(227,457)	—	(227,457)
Proposed final 2009 dividend	13	—	—	—	—	—	—	—	—	—	(511,817)	511,817	—	—	—
Dividends paid to non-controlling equity holders		—	—	—	—	—	—	—	—	—	—	—	—	(202,874)	(202,874)
Transfer to reserves		—	—	—	—	—	—	—	—	926,284	(926,284)	—	—	—	—
At 31 December 2009 and 1 January 2010		113,737	20,733,395*	228*	1,162*	968,422*	—*	29,893*	2,465,414*	2,202,834*	4,278,180*	511,817	31,305,082	7,711,919	39,017,001
Profit for the year		—	—	—	—	—	—	—	—	—	2,639,278	—	2,639,278	470,438	3,109,716
Other comprehensive income for the year:															
Changes in fair value of available-for-sale investments		—	—	—	—	—	6,372	—	—	—	—	—	6,372	—	6,372
Exchange differences on translation of foreign operations		—	—	—	—	—	—	—	1,084,685	—	—	—	1,084,685	234,224	1,318,909
Total comprehensive income for the year		—	—	—	—	—	6,372	—	1,084,685	—	2,639,278	—	3,730,335	704,662	4,434,997
Deemed contribution from the ultimate holding company	34(b)	—	—	—	—	13,220	—	—	—	—	—	—	13,220	—	13,220
Capital contribution by non-controlling equity holders		—	—	—	—	—	—	—	—	—	—	—	—	582,797	582,797
Acquisition of subsidiaries	43	—	—	—	—	—	—	—	—	—	—	—	—	159,572	159,572
Acquisition of non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	—	(23,006)	(23,006)
Deconsolidation of subsidiaries	44(b)	—	—	—	—	—	—	—	—	—	—	—	—	(2,721,783)	(2,721,783)
Deemed disposal of interest in a subsidiary		—	—	—	—	—	—	—	—	—	—	—	—	720,716	720,716
Share of reserves of a jointly-controlled entity		—	—	—	—	14,691	—	—	—	—	—	—	14,691	—	14,691
Share of reserves of associates		—	—	—	—	741	—	—	—	—	—	—	741	—	741
Final 2009 dividend		—	—	—	—	—	—	—	—	—	—	(511,817)	(511,817)	—	(511,817)
Interim 2010 dividend	13	—	—	—	—	—	—	—	—	—	(284,343)	—	(284,343)	—	(284,343)
Proposed final 2010 dividend	13	—	—	—	—	—	—	—	—	—	(511,817)	511,817	—	—	—
Dividends paid to non-controlling equity holders		—	—	—	—	—	—	—	—	—	—	—	—	(466,525)	(466,525)
Transfer to reserves		—	—	—	—	198	—	—	—	607,369	(607,567)	—	—	—	—
At 31 December 2010		113,737	20,733,395*	228*	1,162*	997,272*	6,372*	29,893*	3,550,099*	2,810,203*	5,513,731*	511,817	34,267,909	6,668,352	40,936,261

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

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2010

	Notes	2010	2009
		HK$'000	HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,794,566	3,605,386
Adjustments for:			
Interest income	5	(92,368)	(90,070)
Transfer of assets from customers	5	(62,599)	—
Gain on disposal of subsidiaries, net	5	—	(60,830)
Gain on deemed disposal of interest in a subsidiary		(170,911)	(105,426)
Fair value gain on investment properties	5	(5,616)	(5,603)
Gain on deemed disposal of partial interest in an associate	5	(36,928)	—
Gain on disposal of available-for-sale investments carried at cost, net	5	(244)	(7,021)
Gain on disposal of financial assets at fair value through profit or loss, net	5	—	(363)
Depreciation	7	1,383,427	1,305,884
Amortisation of operating concessions	7	100,570	105,139
Amortisation of patents	7	15	56
Amortisation of computer software	7	4,659	3,780
Impairment of items of property, plant and equipment	7	40,980	76,820
Impairment of other intangible assets	7	75,637	—
Impairment of an available-for-sale investment carried at cost	7	—	11,358
Loss on disposal of items of property, plant and equipment, net	7	14,433	18,381
Fair value loss on derivative component of convertible bonds		214,184	—
Provision against inventories, net	7	30,560	21,005
Impairment of receivables under service concession arrangements, net	7	—	61,841
Impairment of trade and bills receivables, net	7	90,651	49,644
Net impairment/(reversal of impairment) of other receivables, net	7	(75,874)	22,019
Finance costs	8	374,458	363,574
Share of profits and losses of jointly-controlled entities and associates		(1,365,107)	(1,084,154)
Operating profit before working capital changes		4,314,493	4,291,420
Increase in prepaid land premiums		(49,735)	(58,484)
Decrease/(increase) in inventories		(606,330)	55,733
Increase in amounts due from contract customers		(1,514,838)	(1,026,581)
Increase in receivables under service concession arrangements		(645,658)	(744,039)

	Notes	2010	2009
		HK$'000	HK$'000
Increase in trade and bills receivables		(326,909)	(139,164)
Decrease/(increase) in prepayments, deposits and other receivables		317,933	(552,100)
Increase in other taxes recoverable		(218,765)	(12,268)
Increase in trade and bills payables		3,574,088	177,188
Increase/(decrease) in amounts due to contract customers		11,067	(59,489)
Increase in other payables and accruals		881,056	579,347
Increase/(decrease) in other taxes payable		(67,463)	70,587
Increase in defined benefit plans		45,776	34,329
Increase in provision for major overhauls		58,050	59,472
Decrease in other non-current liabilities		(29,269)	(24,650)
Cash generated from operations		5,743,496	2,651,301
Dividends received from jointly-controlled entities and associates		1,779,830	883,557
Mainland China income tax paid		(581,218)	(441,368)
Net cash flows from operating activities		6,942,108	3,093,490
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(3,797,469)	(2,250,169)
Proceeds from disposal of items of property, plant and equipment		22,279	62,585
Purchases of operating concessions		—	(44,043)
Purchases of other intangible assets		(1,548)	(15,773)
Proceeds from disposal of other intangible assets		—	76
Acquisition of subsidiaries	43	(247,100)	4,140
Acquisition of non-controlling interests		(23,006)	(47,015)
Disposal of subsidiaries	44(a)	—	136,531
Deconsolidation of interest in a subsidiary	44(b)	(2,063,579)	—
Acquisition of and increase in investments in jointly-controlled entities and associates		(1,339,500)	(753,935)
Proceeds from disposal of interests in associates		—	6,925
Decrease/(increase) in amounts due from/to and loans to jointly-controlled entities and associates		605	(123,703)
Purchases of available-for-sale investments		(611,427)	—
Proceeds from disposal of an available-for-sale investment		1,731	7,021
Proceeds from disposal of financial assets at fair value through profit or loss		—	1,929
Increase in time deposits with maturity of more than three months when acquired		(218,593)	(1,248,305)
Increase in pledged deposits		(649,906)	(53,832)
Interest received		92,336	89,634
Net cash flows used in investing activities		(8,835,177)	(4,227,934)

	Notes	2010	2009
		HK$'000	HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options	32	—	4,644
Deemed contribution from the ultimate holding company	34(b)	13,220	—
Capital contributions by non-controlling equity holders		513,953	613,064
Issue of convertible bonds		558,127	2,369,537
New loans		11,510,266	6,951,653
Repayment of loans		(4,783,408)	(5,980,743)
Interest paid		(332,286)	(311,201)
Dividends paid		(796,160)	(739,107)
Dividends paid to non-controlling equity holders		(466,525)	(202,874)
Net cash flows from financing activities		6,217,187	2,704,973
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,324,118	1,570,529
Cash and cash equivalents at beginning of year		7,827,362	6,256,581
Effect of foreign exchange rate changes, net		354,981	252
CASH AND CASH EQUIVALENTS AT END OF YEAR		12,506,461	7,827,362
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	31	12,158,352	5,714,023
Time deposits	31	2,412,225	3,810,872
Cash equivalents	31	2,155	79,376
Less: Restricted cash and pledged deposits	31	(125,932)	(118,245)
Cash and cash equivalents as stated in the consolidated statement of financial position		14,446,800	9,486,026
Less: Time deposits with maturity of more than three months when acquired		(1,940,339)	(1,658,664)
Cash and cash equivalents as stated in the consolidated statement of cash flows		12,506,461	7,827,362

STATEMENT OF FINANCIAL POSITION
31 December 2010

	Notes	31 December 2010	31 December 2009	1 January 2009
		HK$'000	HK$'000 (Restated)	HK$'000 (Restated)
ASSETS				
Non-current assets:				
Property, plant and equipment	15	2,637	4,039	5,540
Investment properties	16	41,765	38,617	36,650
Investments in subsidiaries	21	29,053,029	26,576,142	25,851,490
Investments in jointly-controlled entities	22	2,588	2,584	2,598
Investments in associates	23	92,439	93,044	92,982
Available-for-sale investments	24	229,617	132,572	132,494
Total non-current assets		29,422,075	26,846,998	26,121,754
Current assets:				
Trade and bills receivables	27	1,035	999	999
Prepayments, deposits and other receivables	28	137,267	125,631	119,303
Financial assets at fair value through profit or loss		—	—	1,566
Cash and cash equivalents	31	1,344,840	1,205,903	210,664
Total current assets		1,483,142	1,332,533	332,532
TOTAL ASSETS		30,905,217	28,179,531	26,454,286
EQUITY AND LIABILITIES				
Equity:				
Issued capital	32	113,737	113,737	113,700
Reserves	34(b)	20,830,139	20,760,287	20,814,133
Proposed final dividend	13	511,817	511,817	511,650
TOTAL EQUITY		21,455,693	21,385,841	21,439,483
Non-current liabilities:				
Bank and other borrowings	35	5,567,937	2,607,202	2,095,267
Due to subsidiaries	21	3,642,488	4,059,812	2,512,458
Total non-current liabilities		9,210,425	6,667,014	4,607,725
Current liabilities:				
Other payables and accruals	42	152,063	116,697	100,799
Other taxes payable		10,036	9,979	9,979
Bank and other borrowings	35	77,000	—	296,300
Total current liabilities		239,099	126,676	407,078
TOTAL LIABILITIES		9,449,524	6,793,690	5,014,803
TOTAL EQUITY AND LIABILITIES		30,905,217	28,179,531	26,454,286

1. CORPORATE INFORMATION

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

During the year, the Company and its subsidiaries (collectively the "Group") were involved in the following principal activities:

- the distribution and sale of piped natural gas, the provision of gas technology consultation and development services, surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repair and maintenance services in Beijing, the People's Republic of China (the "PRC")
- the production, distribution and sale of beer in Beijing and other provinces in the PRC
- the construction of sewage and water treatment plants and other infrastructural facilities, sewage treatment, water treatment and distribution, the provision of consultancy services and the licensing of technical know-how that are related to sewage treatment in the PRC
- investment in transportation infrastructure, including the Capital Airport Expressway, which connects the Capital Airport and the city centre of Beijing, and the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain available-for-sale investments and the derivative component of convertible bonds which have been measured at fair value, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

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

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

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

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

Basis of consolidation prior to 1 January 2010

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

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

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

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS *7 Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

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

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

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

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

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

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

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards - Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[6]

HKFRS 12 Amendments	Amendments to HKFRS 12 *Income Taxes - Deferred Tax: Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation - Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

1 Effective for annual periods beginning on or after 1 February 2010

2 Effective for annual periods beginning on or after 1 July 2010

3 Effective for annual periods beginning on or after 1 January 2011

4 Effective for annual periods beginning on or after 1 July 2011

5 Effective for annual periods beginning on or after 1 January 2012

6 Effective for annual periods beginning on or after 1 January 2013

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

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

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

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

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

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

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

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

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

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

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

- HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

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

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

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

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

Related parties

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

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

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

(c) the party is an associate;

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

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

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

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

Business combinations and goodwill

Business combinations from 1 January 2010

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

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

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

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

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

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

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

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

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

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

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

Goodwill previously eliminated against the consolidated capital reserve

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Buildings	10 to 50 years
Leasehold improvements	Over the lease terms or 5 to 10 years, whichever is shorter
Gas pipelines	25 years

Gas metres	8 years
Other plant and machinery	5 to 20 years
Furniture, fixtures and office equipment	5 to 12 years
Motor vehicles	5 to 15 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents gas pipelines, sewage and water pipelines, buildings, structures, plant and machinery and other property, plant and equipment under construction or installation, construction materials (which include materials for construction projects and equipment that needs to be installed) and prepayments for large-scale equipment. Construction in progress is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

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

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

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

When a property occupied by the Group as an owner-occupied property becomes an investment property, any difference between the carrying amount and the fair value of the property at the date of change in use is accounted for as follows:

(a) any resulting decrease in the carrying amount of the property is recognised in the income statement in the period the change in use takes place.

(b) any resulting increase in the carrying amount is credited to the income statement, to the extent that the increase reverses a previous impairment loss for that property, or restores the carrying amount of the property to an amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the property in prior periods; and any remaining part of the increase in the carrying amount is credited directly to equity in the property revaluation reserve. On subsequent disposal of the property, the relevant portion of the property revaluation reserve realised is transferred to retained profits as a movement in reserves.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor, are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service;

and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for "Investments and other financial assets" below.

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

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

Construction or upgrade services

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

Operating services

Revenue and costs relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below.

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the infrastructures it operates to a specified level of serviceability and/or (b) to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the infrastructures, except for any upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

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

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

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

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concessions

Operating concessions represent the rights to operate an expressway and a toll road, sewage and water treatment plants, and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 40 years.

Patents

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

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset arising from the projects so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

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

Computer software

Computer software are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 2 to 10 years.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, goodwill, deferred tax assets, financial assets, inventories and amounts due from contract customers), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of a non-financial asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Investments and other financial assets

Initial recognition and measurement

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

Subsequent measurement

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

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

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

(b) *Loans and receivables*

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

(c) *Available-for-sale investments*

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Available-for-sale investments carried at fair value

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

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

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

Available-for-sale investments carried at cost

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

Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

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

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

(b) *Loans and borrowings*

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

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

Financial guarantee contracts

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

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.

Convertible bonds containing a derivative component

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis or weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

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

Revenue from BT contracts and fixed price construction contracts is recognised on the percentage-of- completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

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

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

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

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

Contracts for services

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

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

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

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

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

Cash and cash equivalents

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

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

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

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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.

Revenue recognition

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

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

(b) toll revenue, on an accrual basis;

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

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

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

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

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

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

Share-based payment transactions

The Company operates a share option scheme for the granting of non-transferable options, for the purpose of providing incentives and rewards, to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity- settled transactions").

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

The cost of equity-settled transactions is recognised in the income statement, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

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

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

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

Options which are cancelled prior to their exercise date or lapse are deleted from the register of outstanding options. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits as a movement in reserves.

Other employee benefits

Pension schemes

The Group has joined a number of defined contribution pension schemes organised by certain PRC provincial or municipal governments for certain of its employees, the assets of which are held separately from those of the Group. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable, in accordance with the rules of the pension schemes. The employer contributions vest fully once made.

For those employees that have not yet joined a pension scheme, the Group has accrued for the estimated future pension costs based on a percentage of their salaries. The related assets for the purpose of discharging such liabilities are not separately held from those of the Group.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Other retirement benefits

Certain employees of the Group can enjoy other retirement benefits after retirement such as supplementary medical reimbursement, allowance and beneficiary benefits pursuant to certain defined benefit plans of the Group. These benefits are unfunded. The costs of providing benefits under these defined benefit plans are determined using the projected unit credit method and are charged to the income statement so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. These obligations are measured at the present value of the estimated future cash outflows using the interest rates of the PRC government bonds which have terms similar to those of related liabilities. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the value of defined benefit obligations and the fair value of plan assets, if any, at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

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

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

Borrowing costs

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

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

Foreign currencies

These financial statements are presented in Hong Kong dollar, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

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

Dividends

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Estimate of gas and water consumption

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

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

The actual consumption could deviate from those estimates.

Classification between operating concessions and receivables under service concession arrangements

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

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, expected future sewage treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2010 were HK$1,255,902,000 (2009: HK$1,697,362,000), and HK$2,599,755,000 (2009: HK$4,074,407,000), respectively, details of which are set out in note 19 to the financial statements.

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

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

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

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

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

Percentage of completion of construction work and service contracts

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

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

The Group has contractual obligations which it must fulfil as a condition of its licence and that is (a) to maintain the infrastructures it operates to a specified level of serviceability and/or (b) to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructures, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The estimation of the expenditure requires the Group to estimate the expected future cash outlays on major overhauls of the infrastructures over the service concession periods and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the provision for major overhauls carried as a liability in the consolidated statement of financial position as at 31 December 2010 was HK$140,192,000 (2009: HK$184,499,000), further details of which are set out in note 38 to the financial statements.

Useful lives and residual values of property, plant and equipment

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as assets in the consolidated statement of financial position as at 31 December 2010 was HK$7,588,439,000 (2009: HK$8,704,690,000) in aggregate, details of which are set out in notes 18 and 23 to the financial statements.

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

The carrying amounts of items of property, plant and equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2010 were HK$22,244,006,000 (2009: HK$19,045,485,000), and HK$1,270,110,000 (2009: HK$1,724,273,000), respectively, details of which are set out in notes 15, 19 and 20 to the financial statements.

Impairment of available-for-sale investments

The Group follows the guidance of HKAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and the extent to which the estimated value of an investment is less than its cost; and the financial health of and the short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows. The carrying amount of available-for-sale investments carried as assets in the consolidated statement of financial position as at 31 December 2010 was HK$1,005,154,000 (2009: HK$290,000,000), details of which are set out in note 24 to the finanical 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 2010 were HK$2,599,755,000 (2009: HK$4,074,407,000), HK$1,347,008,000 (2009: HK$1,149,366,000) and HK$1,147,756,000 (2009: HK$1,840,444,000), respectively, details of which are set out in notes 19, 27 and 28 to the financial statements.

Provision against obsolete and slow-moving inventories

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

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories carried as assets in the consolidated statement of financial position as at 31 December 2010 was HK$3,726,623,000 (2009: HK$2,995,039,000), details of which are set out in note 25 to the financial statements.

Defined benefit plans

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

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas. The Group carefully evaluates tax implications of transactions in accordance with the prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of income tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2010 was HK$626,774,000 (2009: HK$522,316,000).

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

4. OPERATING SEGMENT INFORMATION

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

(a) the piped gas operation segment engages in the distribution and sale of piped natural gas, the provision of gas technology consultation and development services, the surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repair and maintenance services;

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

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

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

(e) the corporate and others segment comprises the construction of broadband infrastructure, the sale of software, the provision of Internet services and IT technical support and consultation services, property investment and corporate income and expense items.

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

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

Group

Year ended 31 December 2010

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

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

Year ended 31 December 2009

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

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

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

Geographical information

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

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS, NET

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

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

	2010	2009
	HK$'000	HK$'000
Revenue		
Piped gas operation	14,119,396	11,942,601
Brewery operation	10,544,813	9,758,104
Sewage and water treatment operations[δ]	2,405,268	1,875,270
Expressway and toll road operations	391,833	410,035
Corporate and others	151,468	222,420
	27,612,778	24,208,430
Other income		
Bank interest income	92,336	89,634
Imputed interest income on interest-free other receivables	32	436
Rental income[#]	18,503	22,173
Service income	23,198	20,392
Government grants*	141,585	142,197
Transfer of assets from customers *(note 15)*	62,599	—
Sludge treatment income	2,854	12,791
Others	38,056	79,343
	379,163	366,966
Gains, net		
Fair value gain on investment properties *(note 16)*	5,616	5,603
Gain on disposal of subsidiaries, net *(note 44(a))*[†]	—	60,830
Gain on deemed disposal of partial interest in an associate[@]	36,928	—
Gain on disposal of available-for-sale investments carried at cost, net	244	7,021
Gain on disposal of financial assets at fair value through profit or loss, net	—	363
	42,788	73,817
Other income and gains, net	421,951	440,783

δ Imputed interest income on receivables under service concession arrangements of HK$284,144,000 (2009: HK$411,763,000) is included in the revenue derived from "Sewage and water treatment operations" disclosed above.

The Group leased certain areas of buildings, which form part of the operating assets transferred to the Group by the grantors in respect of the Group's sewage and water treatment operations, to third parties under operating lease arrangements and accordingly, earned rental income therefrom for the year.

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

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

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

6. GAIN ON DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

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

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2010	2009
		HK$'000	HK$'000
Cost of inventories sold		18,909,095	16,577,373
Cost of services provided		2,203,873	1,707,351
Depreciation	15	1,383,427	1,305,884
Amortisation of prepaid land premiums	17	27,517	29,092
Amortisation of operating concessions*	19	100,570	105,139
Amortisation of patents*	20	15	56
Amortisation of computer software**	20	4,659	3,780
Research and development expenditure		21,481	8,268
Loss on disposal of items of property, plant and equipment, net		14,433	18,381
Minimum lease payments under operating leases:			
Land and buildings		158,831	116,051
Plant and machinery		4,086	601
		162,917	116,652
Auditors' remuneration		8,000	8,400
Employee benefit expense (including directors' remuneration *(note 9)*):			
Salaries, allowances and benefits in kind		2,493,854	2,067,461
Net pension scheme contributions		280,195	219,883
Cost of defined benefit plans**	37(a)	35,957	35,106
		2,810,006	2,322,450
Provision for major overhauls	38	52,393	59,472
Impairment of items of property, plant and equipment, net***	15	40,980	76,820
Impairment of other intangible assets***	20	75,637	—
Impairment of receivables under service concession arrangements, net	19(d)	—	61,841
Impairment of an available-for-sale investment carried at cost		—	11,358
Provision against inventories, net		30,560	21,005
Impairment of trade and bills receivables, net	27(c)	90,651	49,644
Net impairment/(reversal of impairment) of other receivables due from:	28(b)		
Related parties		—	23,619
Others		(75,874)	(1,600)
		(75,874)	22,019
Write-off of an other receivable		8,614	—
Net rental income on investment properties less direct operating expenses of HK$1,305,000 (2009: HK$1,291,000)		(15,327)	(18,217)
Foreign exchange differences, net		16,460	6,749

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

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

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

8. FINANCE COSTS

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

9. DIRECTORS' REMUNERATION

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

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

(a) **Independent non-executive directors**

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

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

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

(b) **Executive directors**

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

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

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

10. FIVE HIGHEST PAID EMPLOYEES

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

11. INCOME TAX

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

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

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

Group - 2010

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

Group - 2009

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

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

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2010 includes a loss of HK$53,277,000 (2009: HK$22,608,000) which has been dealt with in the financial statements of the Company.

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

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

13. DIVIDENDS

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

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

14. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

The calculation of diluted earnings per share for the year is based on the profit for the year attributable to shareholders of the Company, adjusted to reflect the effect of the deemed conversion of all dilutive convertible bonds of the Group at the beginning of the year and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options of the Company and the deemed conversion of those convertible bonds of the Group which are convertible into ordinary shares of the Company at the beginning of the year.

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

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

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

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Buildings	Leasehold improvements	Gas pipelines	Gas metres and other plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
		HK$'000 (notes (a) and (b))	HK$'000	HK$'000	HK$'000 (note (b))	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2010									
At 31 December 2009 and 1 January 2010:									
Cost		6,054,583	15,619	7,996,367	9,469,163	568,971	476,801	1,943,109	26,524,613
Accumulated depreciation and impairment		(1,177,196)	(11,936)	(951,540)	(4,683,105)	(323,344)	(202,345)	(129,662)	(7,479,128)
Net carrying amount		4,877,387	3,683	7,044,827	4,786,058	245,627	274,456	1,813,447	19,045,485
Net carrying amount:									
At 1 January 2010		4,877,387	3,683	7,044,827	4,786,058	245,627	274,456	1,813,447	19,045,485
Acquisition of subsidiaries	43	85,854	5,288	—	179,193	16,876	8,877	13,544	309,632
Additions		80,094	1,570	24,722	195,025	93,223	59,822	3,342,015	3,796,471
Transfer of assets from customers	5	—	—	23,341	39,258	—	—	—	62,599
Transfer from construction in progress		779,058	—	888,999	601,590	30,279	2,077	(2,302,003)	—
Transfer to operating concessions	19	(132,475)	—	(5,033)	(683)	(71,339)	(1,012)	—	(210,542)
Depreciation provided during the year		(178,126)	(2,979)	(371,328)	(727,865)	(54,329)	(48,800)	—	(1,383,427)
Reversal of impairment/(impairment) during the year recognised in the income statement, net		—	—	—	(46,465)	—	—	5,485	(40,980)
Disposals		(7,529)	(10)	—	(22,675)	(3,316)	(3,182)	—	(36,712)
Deconsolidation of subsidiaries	44(b)	(11,584)	(228)	—	(647)	(9,417)	(17,029)	—	(38,905)
Reclassification		5,774	1,035	—	25,089	(31,898)	—	—	—
Exchange realignment		187,781	437	265,754	177,774	7,556	9,793	91,290	740,385
At 31 December 2010		5,686,234	8,796	7,871,282	5,205,652	223,262	285,002	2,963,778	22,244,006
At 31 December 2010:									
Cost		7,060,544	27,814	9,237,111	10,801,302	581,805	527,027	3,092,457	31,328,060
Accumulated depreciation and impairment		(1,374,310)	(19,018)	(1,365,829)	(5,595,650)	(358,543)	(242,025)	(128,679)	(9,084,054)
Net carrying amount		5,686,234	8,796	7,871,282	5,205,652	223,262	285,002	2,963,778	22,244,006
Year ended 31 December 2009									
At 1 January 2009:									
Cost		5,263,210	15,555	7,575,650	8,874,119	451,717	443,065	1,583,297	24,206,613
Accumulated depreciation and impairment		(994,323)	(9,734)	(594,519)	(4,074,799)	(264,139)	(212,476)	(68,407)	(6,218,397)
Net carrying amount		4,268,887	5,821	6,981,131	4,799,320	187,578	230,589	1,514,890	17,988,216
Net carrying amount:									
At 1 January 2009		4,268,887	5,821	6,981,131	4,799,320	187,578	230,589	1,514,890	17,988,216
Acquisition of subsidiaries	43	39,331	—	—	115,618	14,979	1,640	—	171,568
Additions		153,394	63	24,499	73,265	108,473	80,674	1,817,103	2,257,471
Transfer from construction in progress		597,612	—	432,209	467,524	8,027	4,004	(1,509,376)	—
Transfer from prepaid land premiums	17	—	—	—	—	—	—	90,968	90,968
Depreciation provided during the year		(171,011)	(2,201)	(347,551)	(695,330)	(56,702)	(33,089)	—	(1,305,884)
Impairment during the year recognised in the income statement		(18)	—	(13,719)	(1,831)	—	—	(61,252)	(76,820)
Disposals		(4,397)	—	—	(26,422)	(1,092)	(10,107)	(38,948)	(80,966)
Reclassification		(6,618)	—	(32,033)	53,577	(15,661)	735	—	—
Exchange realignment		207	—	291	337	25	10	62	932
At 31 December 2009		4,877,387	3,683	7,044,827	4,786,058	245,627	274,456	1,813,447	19,045,485

Company

	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2010				
At 31 December 2009 and 1 January 2010:				
Cost	8,427	5,577	2,276	16,280
Accumulated depreciation	(5,430)	(5,577)	(1,234)	(12,241)
Net carrying amount	2,997	—	1,042	4,039
Net carrying amount:				
At 1 January 2010	2,997	—	1,042	4,039
Depreciation provided during the year	(1,035)	—	(367)	(1,402)
At 31 December 2010	1,962	—	675	2,637
At 31 December 2010:				
Cost	8,427	5,577	2,276	16,280
Accumulated depreciation	(6,465)	(5,577)	(1,601)	(13,643)
Net carrying amount	1,962	—	675	2,637
Year ended 31 December 2009				
At 1 January 2009:				
Cost	8,427	5,577	2,276	16,280
Accumulated depreciation	(4,360)	(5,457)	(923)	(10,740)
Net carrying amount	4,067	120	1,353	5,540
Net carrying amount:				
At 1 January 2009	4,067	120	1,353	5,540
Depreciation provided during the year	(1,070)	(120)	(311)	(1,501)
At 31 December 2009	2,997	—	1,042	4,039

Notes:

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

Group

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

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

16. INVESTMENT PROPERTIES

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

Notes:

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

Group

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

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

(b) At 31 December 2010, the investment properties were revalued by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on an open market value basis using the direct comparison approach or the depreciated replacement cost approach.

17. PREPAID LAND PREMIUMS

Group

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

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

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

18. GOODWILL

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

Group

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

Notes:

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

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

(b) Impairment testing of goodwill

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

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

(i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by CB Richard Ellis Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial forecast approved by senior management covering a period of ten years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections for the first ten-year period is 11% (2009: 10.5%), which is determined by reference to the average rates for similar industry and the business risk of the relevant business unit. A growth rate of 3% (2009: 3%) is used for the perpetual period.

(ii) The recoverable amount of the brewery operation has been determined on the fair value less costs to sell basis by reference to the market value of the shares of Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), the underlying cash-generating unit to which the goodwill relates, held by the Group as at 31 December 2010.

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

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

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

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

* *Budgeted turnover*

The budgeted turnover is based on the following assumptions:

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

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

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

* *Budgeted gross margins*

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

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

— the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements.

* *Discount rates*

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

* *Business environment*

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

— As the gas supply network has already been set up in most urban areas in Beijing, where the Group's piped gas operation is located, and due to the high degree of idiosyncratic features of the gas supply business, the high construction and fixed costs in establishing another gas supply network in these urban districts in Beijing are too huge for other operators to enter these regions. Therefore, in the opinion of the directors, the Group's piped gas operation can generate income perpetually.

— Under the service concession agreements, the Group has been granted with priority for renewal of operating rights of sewage and water treatment plants. Given its historical performance record and its long-established relationship with the grantor, the Group has key advantages over other operators. In addition, the high investment cost has also created an entry barrier for new competitors. Therefore, in the opinion of the directors, the operating rights of sewage and water treatment plants shall be renewed at expiry, and therefore the size of the sewage treatment and water distribution operations are expected to remain constant perpetually which enable the Group to generate income perpetually.

19. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China on a BOT or a Transfer-Operate-Transfer ("TOT") basis in respect of its expressway and toll road operations and sewage and water treatment operations. These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; (iii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 40 years (the "service concession periods"), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to, where appropriate, use all the property, plant and equipment of the infrastructures, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the infrastructures, and retain the beneficial entitlement to any residual interest in the infrastructures at the end of the term of the service concession periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the infrastructures to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes. The accounting policies in respect of the classification of the service concession arrangements between intangible assets (operating concessions) and financial assets (receivables under service concession arrangements) are set out under the heading of "Service concession arrangements" in note 2.4 to the financial statements.

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

Operating concessions

Group

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

	Expressway and toll road operations	Sewage and water treatment operations	Total
	HK$'000	**HK$'000**	**HK$'000**
	(note (a))	**(note (b))**	
Year ended 31 December 2009			
At 1 January 2009:			
Cost	2,327,426	483,337	2,810,763
Accumulated amortisation	(943,521)	(53,748)	(997,269)
Net carrying amount	1,383,905	429,589	1,813,494
Net carrying amount:			
At 1 January 2009	1,383,905	429,589	1,813,494
Additions	—	44,043	44,043
Amortisation provided during the year	(85,713)	(19,426)	(105,139)
Reclassification to receivables under service concession arrangements	—	(55,099)	(55,099)
Exchange realignment	38	25	63
At 31 December 2009	1,298,230	399,132	1,697,362

Receivables under service concession arrangements

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

Notes:

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

(i) In connection with a group reorganisation undertaken by the Group prior to the listing of the Company's shares on the Main Board of the Stock Exchange in 1997, Beijing Capital Expressway Development Co., Ltd. ("Capital Expressway Company"), a 96% indirectly-owned subsidiary of the Company, was established in Mainland China with an initial term of 30 years commencing on 13 March 1997. Pursuant to the approval documents issued by the Beijing Municipal Government in March and April 1997, the right to operate the Capital Airport Expressway and the right to use the land on which the Capital Airport Expressway is adhered for a period of 30 years commencing on 1 January 1997 were injected into Capital Expressway Company as part of the capital contributions from one of its equity holders.

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

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

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

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

(i) BE Water and its subsidiaries (collectively the "BE Water Group") have entered into a number of service concession arrangements with certain governmental authorities in Mainland China on BOT or TOT bases in respect of their sewage treatment, and water treatment and distribution businesses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The above receivables were mainly due from government authorities in Mainland China as grantors in respect of the Group's sewage and water treatment businesses. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

20. OTHER INTANGIBLE ASSETS

Group

	Patents	**Computer software**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Year ended 31 December 2010			
At 31 December 2009 and 1 January 2010:			
Cost	7,348	51,744	59,092
Accumulated amortisation	(505)	(31,676)	(32,181)
Net carrying amount	6,843	20,068	26,911
Net carrying amount:			
At 1 January 2010	6,843	20,068	26,911
Additions	68,844	1,548	70,392
Amortisation provided during the year	(15)	(4,659)	(4,674)
Impairment during the year recognised in the income statement	(75,637)	—	(75,637)
Deconsolidation of subsidiaries *(note 44(b))*	(35)	(3,327)	(3,362)
Exchange realignment	—	578	578
At 31 December 2010	—	14,208	14,208

	Patents	Computer software	Total
	HK$'000	HK$'000	HK$'000
At 31 December 2010:			
Cost	75,637	51,225	126,862
Accumulated amortisation and impairment	(75,637)	(37,017)	(112,654)
Net carrying amount	—	14,208	14,208
Year ended 31 December 2009			
At 1 January 2009:			
Cost	555	42,759	43,314
Accumulated amortisation	(449)	(27,896)	(28,345)
Net carrying amount	106	14,863	14,969
Net carrying amount:			
At 1 January 2009	106	14,863	14,969
Acquisition of subsidiaries (note 43)	—	81	81
Additions	6,793	8,980	15,773
Amortisation provided during the year	(56)	(3,780)	(3,836)
Disposals	—	(76)	(76)
At 31 December 2009	6,843	20,068	26,911

21. INTERESTS IN SUBSIDIARIES

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

Notes:

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

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

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

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

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

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

Company name	**Place of incorporation/ registration and operations**	**Nominal value of issued and paid-up capital/ registered capital**	**Percentage of attributable equity interest held by**		**Principal activities**
			Company	**Group**	
北京市燃氣集團有限責任公司 ("Beijing Gas")	PRC/ Mainland China	RMB1,983,630,000	—	100	Distribution and sale of piped gas
Beijing Yanjing Brewery Company Limited*	PRC/ Mainland China	RMB1,210,266,963	—	45.18†	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan") #	PRC/ Mainland China	RMB250,000,000	—	22.60†	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司	PRC/ Mainland China	RMB297,631,824	—	38.88†	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司	PRC/ Mainland China	RMB268,736,900	—	33.88†	Production and sale of beer
燕京啤酒(桂林玉林)股份有限公司	PRC/ Mainland China	RMB430,000,000	—	34.33†	Production and sale of beer
燕京啤酒(赤峰)有限責任公司	PRC/ Mainland China	RMB367,110,200	—	41.11†	Production and sale of beer
燕京啤酒(新疆)有限責任公司	PRC/ Mainland China	RMB230,000,000	—	45.18†	Production and sale of beer
燕京啤酒(衡陽)有限公司	PRC/ Mainland China	RMB310,660,000	—	43.54†	Production and sale of beer
燕京啤酒(萊州)有限公司	PRC/ Mainland China	RMB187,053,800	—	69.00	Production and sale of beer

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
燕京啤酒(仙桃)有限公司........	PRC/ Mainland China	RMB292,353,000	—	45.08†	Production and sale of beer
燕京啤酒 (曲阜三孔)有限責任公司	PRC/ Mainland China	RMB260,817,189	—	58.90	Production and sale of beer
燕京啤酒(四川)有限公司........	PRC/ Mainland China	RMB200,000,000	—	45.18†	Production and sale of beer
燕京啤酒(晉中)有限公司........	PRC/ Mainland China	RMB250,000,000	—	45.18†	Production and sale of beer
燕京啤酒(昆明)有限公司........	PRC/ Mainland China	RMB360,000,000	—	45.18†	Production and sale of beer
廣東燕京啤酒有限公司	PRC/ Mainland China	RMB716,000,000	—	58.89	Production and sale of beer
新疆燕京農產品開發有限公司..	PRC/ Mainland China	RMB230,000,000	—	45.18†	Production and sale of raw materials
Beijing Bei Kong Water Production Co., Ltd.Ω..........	PRC/ Mainland China	US$85,000,000	100	100	Water treatment
Beijing Capital Expressway Development Co., Ltd.	PRC/ Mainland China	US$64,053,700	—	96	Operations of an expressway
Shenzhen Guanshun Road & Bridge Co., Ltd.	PRC/ Mainland China	RMB217,500,000	—	53.08	Operations of a toll road
Beijing Enterprises Holdings High- Tech Development Co., Ltd.	PRC/ Mainland China	US$30,000,000	97.99	100	Investment holding

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

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

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

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

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

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

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

22. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

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

Notes:

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

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

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

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

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Percentage of Ownership interest attributable to the Group	Percentage of Voting power	Percentage of Profit sharing	Principal activity
中石油北京天然氣管道有限公司 ("PetroChina Beijing Gas")	PRC/Mainland China	RMB10,240,000,000	40	40	40	Provision of natural gas transmission services

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

23. INVESTMENTS IN ASSOCIATES

		Group		Company	
		2010	2009	2010	2009
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Unlisted shares, at cost		—	—	46,168	46,168
Shares listed in Hong Kong, at cost		—	—	46,814	46,814
Share of net assets	(a)	2,767,735	844,094	—	—
Due from associates	(b)	—	62	—	62
Due to associates	(b)	(543)	—	(543)	—
Goodwill on acquisition	(c)	342,666	55,622	—	—
		3,109,858	899,778	92,439	93,044

Notes:

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

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

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

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

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

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

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

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

			Percentage of			
Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activities
Beijing Enterprises Water Group Limited$^{\pi}$	Bermuda/ Hong Kong	HK$456,675,646	43.72	43.72	43.72	Investment holding
Beijing Development (Hong Kong) Limited$^{\Omega}$	Hong Kong	HK$677,460,150	42.86	42.86	42.86	Investment holding
北京機電院高技術 股有限公司*	PRC/ Mainland China	RMB135,872,209	38.27	38.27	38.27	Production and sale of mechanical and electrical equipment, and property investment

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

Ω 2.17% and 40.69% equity interests of Beijing Development are directly held by the Company and indirectly held by a wholly-owned subsidiary, respectively. Shares of Beijing Development are listed on the Main Board of the Stock Exchange. The market value of the shares of Beijing Development held by the Group as at 31 December 2010, based on its then published price quotation, amounted to approximately HK$406,503,000.

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

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

24. AVAILABLE-FOR-SALE INVESTMENTS

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

Notes:

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

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

25. INVENTORIES

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

26. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

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

27. TRADE AND BILLS RECEIVABLES

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

Notes:

(a) Included in the Group's trade and bills receivables as at 31 December 2010 was an aggregate amount of HK$54,516,000 (2009: HK$55,495,000) due from certain fellow subsidiaries of the Group arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the Group to its major customers.

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

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

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

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

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

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

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

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

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

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

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

Notes:

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

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

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

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

(i) an aggregate amount of HK$5,812,000 paid in advance to related companies arising from purchases of raw materials in the ordinary course of business of the Group. The balances with the related companies were unsecured and interest-free.

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

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

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

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

(v) cash advances of RMB11,092,000 (equivalent to HK$12,599,000) in aggregate made to a contract customer of the Group in connection with a contract of service entered into between the two parties in 2008, pursuant to which the Group had provided (i) construction management services to the customer regarding the construction of a sewage treatment plant in Mainland China by the customer; and (ii) funding at the maximum amount of RMB60 million (equivalent to HK$68 million) to the customer to finance the construction of the sewage treatment plant. The balance was classified as current asset.

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

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

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

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

The amounts due from/to holding companies, fellow subsidiaries and related parties are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$88,235,000 (2009: HK$288,118,000) due to 北京燕京啤酒集團公司 ("Yanjing Beer Group", a joint venture partner of a subsidiary), which bears interest at the prevailing PRC one year bank loan rate published by the People's Bank of China. Interest expense of HK$5,126,000 (2009: HK$7,042,000) was recognised in the consolidated income statement during the year ended 31 December 2010.

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

30. RESTRICTED CASH AND PLEDGED DEPOSITS

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

Notes:

(a) The restricted cash represented the proceeds of a government surcharge collected by Beijing Gas, a wholly-owned subsidiary indirectly held the Company, from piped gas customers on behalf of 北京市發展和改革委員會 (the Beijing Municipal Commission of Development and Reform) (the "BMCDR") prior to 2003. The proceeds held on behalf of the BMCDR, which are deposited in a specific bank account of the Group, together with any interest earned therefrom, are repayable to the BMCDR *(note 42)*.

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

31. CASH AND CASH EQUIVALENTS

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

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

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

32. SHARE CAPITAL

Shares

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

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

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

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

Share options

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

33. SHARE OPTION SCHEME

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

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

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

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

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

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

		2010		**2009**	
	Notes	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**	**Number of share options**
		(HK$ per share)		**(HK$ per share)**	
At 1 January	(a)	12.55	300,000	12.55	670,000
Exercised during the year	(b)	—	—	12.55	(370,000)
At 31 December	(a), (c)	12.55	300,000	12.55	300,000

Notes:

(a) The outstanding share options were granted on 19 July 2006 at an exercise price of HK$12.55 per ordinary share of the Company. All the share options, if not otherwise excised, will lapse on 19 July 2011.

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

(c) At 31 December 2010, the Company had 300,000 share options outstanding under the Scheme, which represented approximately 0.03% of the ordinary shares of the Company in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 300,000 additional ordinary shares of the Company and additional share capital of HK$30,000 and share premium of HK$3,735,000 (before any issuance expenses and without taking into account of any transfer of share option reserve to the share premium account).

34. RESERVES

(a) Group

(i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

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

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

(iv) Certain amounts of goodwill arising on the acquisition of subsidiaries and associates in prior years remain eliminated against the consolidated capital reserve as further explained in notes 18(a) and 23(c) to the financial statements, respectively.

(v) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries, jointly-controlled entities and associates. None of the Group's PRC reserve funds as at 31 December 2010 were distributable in the form of cash dividends.

(b) Company

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

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

35. BANK AND OTHER BORROWINGS

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

Notes:

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

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

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

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

(ii) certain bank and other loans, with an aggregate carrying amount of HK$528,764,000 (2009: HK$572,236,000), that were utilising the proceeds from certain loans granted by three overseas governments and the Asian Development Bank to the PRC government and a number of loans from 北京市財政局 (the Finance Bureau of Beijing) to finance certain of the Group's pipeline construction projects. Except for an interest-free loan of HK$11,692,000 (2009: HK$11,548,000), these loans bear interest at rates ranging from 2% to 6.3%;

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

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

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

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

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

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

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

(iii) guarantees given by certain former subsidiaries; and

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

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

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

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

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

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

36. CONVERTIBLE BONDS

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

Group

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

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

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

Group

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

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

Notes:

(a) Tranche 1 Bond and Tranche 2 Bond were issued to Pioneer Wealth Limited, a former shareholder of BE Water, pursuant to a convertible bond subscription agreement dated 12 April 2007 for the purpose of financing future investments in water treatment businesses in the PRC (as amended) and providing additional working capital (as amended) to BE Water. Further details of these convertible bonds are set out in BE Water's circular dated 3 May 2007 and BE Water's announcements dated 27 July 2007, 31 March 2008 and 12 June 2008. These convertible bonds were fully converted during the year ended 31 December 2009.

(b) The ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 were issued to Besto Holdings Limited ("Besto"), Tenson Investment Limited ("Tenson") and Newton Finance Holdings Limited ("Newton") (collectively the "BE-ZKC Vendors") as part of the consideration payable by the Group for the acquisition of the 100% equity interest in Gainstar Limited, which held indirectly an 88.43% equity interest in Beijing Enterprises Z.K.C Environmental Co., Ltd. ("BE-ZKC"), pursuant to a sale and purchase agreement entered into between, among others, BE Water and the BE-ZKC Vendors on 3 June 2008.

Besto, Tenson and Newton became related companies of the Group immediately following the completion of the acquisition of Gainstar Limited by BE Water. Further details of the ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 are set out in BE Water's circular dated 30 June 2008.

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

(c) On 2 June 2009, Power Regal Group Limited ("Power Regal", a wholly-owned subsidiary of the Company), issued convertible bonds with an aggregate principal amount of HK$2.175 billion (the "Guaranteed Convertible Bonds") to certain institutional investors, pursuant to a convertible bond subscription agreement dated 25 April 2009. The convertible bonds are guaranteed by the Company, bear interest at a rate of 2.25% per annum and are convertible into ordinary shares of the Company at an initial conversion price of HK$43.5 per share of the Company, subject to adjustments in certain events. The outstanding principal amount of the convertible bonds, if not converted, will be repaid on the maturity date of 2 June 2014 at 100% of the outstanding amount. Further details of the Guaranteed Convertible Bonds are set out in the Company's announcement dated 27 April 2009.

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

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

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

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

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

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

37. DEFINED BENEFIT PLANS

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

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

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

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

(b) **Benefit liabilities**

Group

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

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

Group

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

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

Group

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

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

(d) **Principal assumptions**

The above obligations were determined based on actuarial valuations performed by an independent actuary, Towers Perrin, using the projected unit credit method. The material actuarial assumptions used in determining the defined benefit obligations for the Group's plans are as follows:

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

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

Group

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

38. PROVISION FOR MAJOR OVERHAULS

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

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

Group

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

39. OTHER NON-CURRENT LIABILITIES

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

Note: Deferred income of the Group as at 31 December 2010 mainly represented subsidies received from third parties and government authorities in respect of certain projects for the construction of the Group's gas pipelines in Beijing for the delivery of natural gas. The subsidies are interest-free and not required to be repaid, and are recognised in the consolidated income statement on the straight-line basis over the expected useful life of the relevant assets.

40. DEFERRED TAX

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

Group

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

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

Group

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

Notes:

(a) At 31 December 2010, deferred tax assets have not been recognised in respect of unused tax losses of HK$981,567,000 (2009: HK$1,004,215,000) as they have been arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, unrecognised tax losses of HK$961,859,000 (2009: HK$834,704,000) will expire in one to five years.

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%, depending on the jurisdiction of the respective investment enterprises. The Group is therefore liable to withholding taxes on dividends declared by those subsidiaries, jointly-controlled entities and associates established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries, jointly-controlled entities and associates in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$5,513,915,000 (2009: HK$1,396,724,000) as at 31 December 2010.

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

41. TRADE AND BILLS PAYABLES

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

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

Included in the Group's trade and bills payables as at 31 December 2010 are amounts of HK$11,609,000 (2009: HK$7,882,000) and HK$28,211,000 (2009: HK$22,756,000) due to related companies and a jointly-controlled entity, respectively, arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related companies and the jointly-controlled entity to their major customers.

Certain of the Group's bills payables as at 31 December 2010 are secured by a pledge over certain of the Group's bank balances with an aggregate amount of HK$96,420,000 (2009: HK$60,800,000) *(note 30(b))*.

42. OTHER PAYABLES AND ACCRUALS

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

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

(i) an amount of HK$28,191,000 (2009: HK$27,217,000) payable to the BMCDR in respect of a government surcharge collected on its behalf by the Group, further details of which are set out in note 30(a) to the financial statements.

(ii) construction project costs of HK$72,960,000 (2009: HK$62,058,000) payable to certain fellow subsidiaries of the Group. The balances with the fellow subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

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

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

(i) outstanding considerations in the amounts of RMB3,680,000 (equivalent to HK$4,180,000) and RMB41,159,000 (equivalent to HK$46,750,000), payable to the Mianyang Government for the transfer and construction of sewage treatment facilities under a TOT agreement and a BOT arrangement, respectively. The outstanding considerations were repayable in two annual instalments of RMB15,000,000 and the last instalment of RMB14,839,000 being due for repayment in 2012.

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

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

43. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year as at their respective dates of acquisition have no significant differences from their then respective carrying amounts, and are set out as follows:

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

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

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

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

Notes:

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

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

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

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

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

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

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

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

44. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES

(a) Disposal of subsidiaries

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

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

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

Notes:

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

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

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

(b) **Deconsolidation of subsidiaries**

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

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

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

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

45. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

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

46. CONTINGENT LIABILITIES

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

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

47. OPERATING LEASE ARRANGEMENTS

(a) **As lessor**

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

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

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

At 31 December 2010, the Company did not have any non-cancellable operating lease arrangements as lessor (2009: Nil).

(b) **As lessee**

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

At 31 December 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

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

48. COMMITMENTS

(a) **Capital commitments**

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

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

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

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

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

(b) **Other commitments**

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

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

49. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transaction	Notes	2010	2009
			HK$'000	HK$'000
Joint venture partners of subsidiaries and their associates				
Yanjing Beer Group and its associates	Purchase of bottle labels	(i)	133,207	119,619
	Purchase of bottle caps	(i)	85,191	83,696
	Import of raw materials	(ii)	—	378,285
	Sale of beer	(iii)	—	11,250
	Canning service fees paid	(iv)	34,208	30,257
	Comprehensive support service fees paid	(v)	17,847	17,657
	Land rent expenses	(vi)	2,123	2,100
	Trademark licensing fees paid	(vii)	72,386	42,779
	Less: Refund for advertising subsidies	(vii)	(6,670)	(6,172)
Fellow subsidiaries				
北京北燃實業有限公司 (Beijing Beiran Enterprise Company Limited) and its subsidiaries	Sale of piped natural gas	(viii)	191,064	211,631
	Service contract income	(ix)	13,081	29,989
	Purchase of raw materials	(xi)	55,997	138,103
	Building rental expenses	(xi)	71,059	65,940
	Construction contract fee expenses	(x)	35,847	43,191
	Sale of raw materials	(xii)	67,202	23,339
	Repair and maintenance expenses	(xii)	12,011	2,598
北京京泰國際貿易有限公司	Purchase of construction materials	(xi)	551	17,807
Jointly-controlled entity				
PetroChina Beijing Gas	Natural gas transmission fee expenses	(viii)	3,273,032	3,194,742

Notes:

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

(ii) The import of certain raw materials for the Group's brewery operation was procured by Yanjing Beer Group from overseas suppliers on behalf of Yanjing Brewery and its subsidiaries as the Group's brewery operation does not have the licence to import commodities from overseas suppliers. The purchase prices for the raw materials were charged at rates equal to the costs incurred by Yanjing Beer Group.

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

(iv) The canning service fees were charged at a rate equal to the costs of the canning services incurred by Yanjing Beer Group plus a mutually-agreed profit margin.

(v) The comprehensive support service fees paid included the following:

— fees for security and canteen services which were determined based on the annual cost of labour,depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and

— rental expenses, related to the premises occupied and used by Yanjing Brewery as its office, canteen and staff dormitories, which were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.

(vi) The land rent expenses were charged at a mutually-agreed amount of RMB1,744,000 (2009: RMB1,744,000) per annum.

(vii) The trademark licensing fees paid were for the use of the "Yanjing" trademark and were determined based on 1% of the annual sales of beer and mineral water products made by Yanjing Brewery and RMB0.008 per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Brewery Group would refund 20% of the trademark licensing fees received from Yanjing Brewery for the use by Yanjing Brewery to develop and promote the "Yanjing" trademark.

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

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

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

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

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

(b) **Outstanding balances with related parties**

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

(ii) Details of the balances with jointly-controlled entities, associates, holding companies, fellow subsidiaries and related parties are disclosed in notes 22, 23 and 29 to the financial statements, respectively.

(iii) Details of the guarantees given by related parties in respect of the Group's bank and other borrowings are disclosed in note 35 to the financial statements.

(iv) Details of the guarantee given by the Group for banking facilities granted to a jointly-controlled entity are disclosed in note 46 to the financial statements.

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

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

(d) **Compensation of key management personnel of the Group**

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

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

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

Banks loans, convertible bonds, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the income statement as earned/incurred.

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

At 31 December 2010

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

At 31 December 2009

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

At 31 December 2010, it is estimated that a general decrease/increase of 100 basis points in interest rate of average balances of bank and other loans and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK$30,008,000 (2009: HK$3,063,000).

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

Foreign currency risk

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in RMB/HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in profit before tax	Increase/(decrease) in equity
	HK$'000	HK$'000
2010		
If Hong Kong dollar weakens against RMB by 5%	194,861	1,695,781
If Hong Kong dollar strengthens against RMB by 5%	(194,861)	(1,695,781)
2009		
If Hong Kong dollar weakens against RMB by 5%	183,976	1,582,871
If Hong Kong dollar strengthens against RMB by 5%	(183,976)	(1,582,871)

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

Credit risk

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

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

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables under service concession arrangements and trade and bills receivables are set out in notes 19 and 27 to the financial statements, respectively.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from jointly-controlled entities and associates, deposits and other receivables and amounts due from holding companies, fellow subsidiaries and related parties, arises from default at the counterparty, with a maximum exposure to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of a financial guarantee, further details of which are disclosed in note 46 to the financial statements.

Liquidity risk

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

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

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

At 31 December 2010

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

At 31 December 2009

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

Fair value risk

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

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

Notes:

(i) The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 24(a) to the financial statements, certain availablefor-sale investments of the Group are not stated at fair value but at cost less any accumulated impairment losses because fair values of which cannot be reasonably assessed and therefore, no disclosure of the fair values of these financial instruments is made.

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

Capital management

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

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

Depending on the market conditions and funding arrangements, if at any time, repurchase of the Company's shares will lead to an enhancement of the net asset value per share and/or earnings per share of the Group, the directors will authorise such transactions.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by the sum of total equity and interest-bearing bank borrowings. The gearing ratio as at the end of the reporting period was as follows:

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

51. FINANCIAL INSTRUMENTS BY CATEGORY

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

52. EVENTS AFTER THE REPORTING PERIOD

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

(a) On 15 March 2011, BE Water, an associate of the Company, completed an open offer (the "Open Offer") of new ordinary shares of BE Water by issuing 2,283,378,231 shares at a price of HK$1.485 per share on the basis of one offer share for every two existing shares held by the shareholders of BE Water. The total gross proceeds of the Open Offer is HK$3,390,817,000. Following the completion of the Open Offer, the Group's equity interest in BE Water increased from 43.72% to 44.49%. As the Open Offer was effected shortly before the date of approval of these financial statements, the Group is not yet in a position to disclose any financial impact of the Open Offer on the Group.

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

53. **COMPARATIVE AMOUNTS**

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

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

54. **APPROVAL OF THE FINANCIAL STATEMENTS**

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

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