ANNUAL REPORT 09'

BEIJING ENTERPRISES HOLDINGS LIMITED

Stock Code:392

GENERAL INFORMATION:

Registered Office

Room 4301, 43/F., Central Plaza,
18 Harbour Road,
Wanchai, Hong Kong
Tel: (852) 2915 2898
Fax: (852) 2857 5084

Website

http://www.behl.com.hk

Stock Code

392

Company Secretary

Mr. Tam Chun Fai CPA CFA

Share Registrars

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

DIRECTORS:

Executive Directors

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

Independent Non-executive Directors

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

PROFESSIONALS:

Auditors

Ernst & Young

Legal Advisers

as to Hong Kong law:
DLA Piper
Johnson Stokes & Master

as to PRC law:
Haiwen & Partners

as to US law:
Sullivan & Crommell

PRINCIPAL BANKERS:

In Hong Kong

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

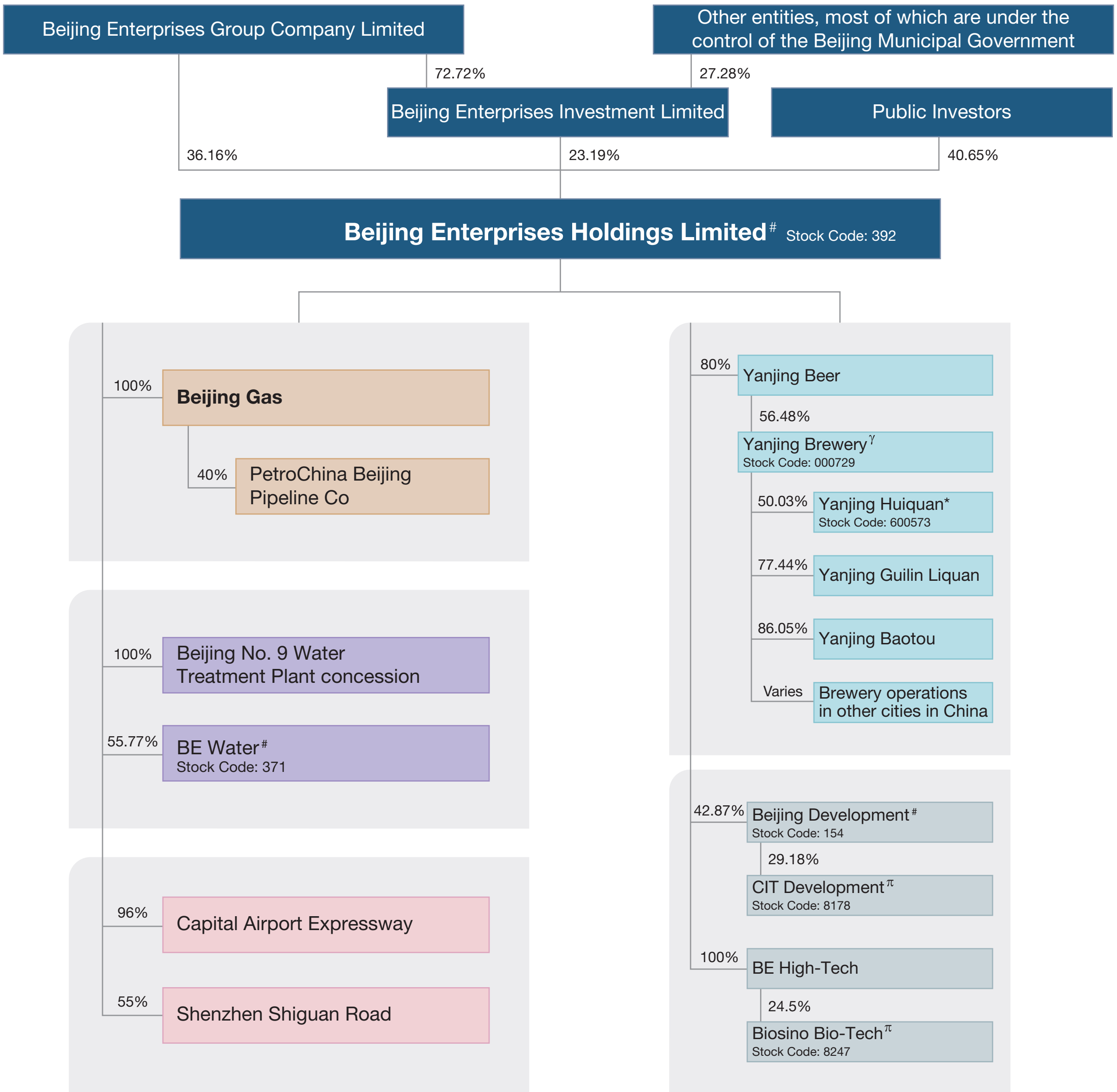
In Mainland China

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

ADR Depository Bank

The Bank of New York

AS AT 31 MARCH 2010



* *Listed on The Shanghai Stock Exchange*

γ *Listed on The Shenzhen Stock Exchange*

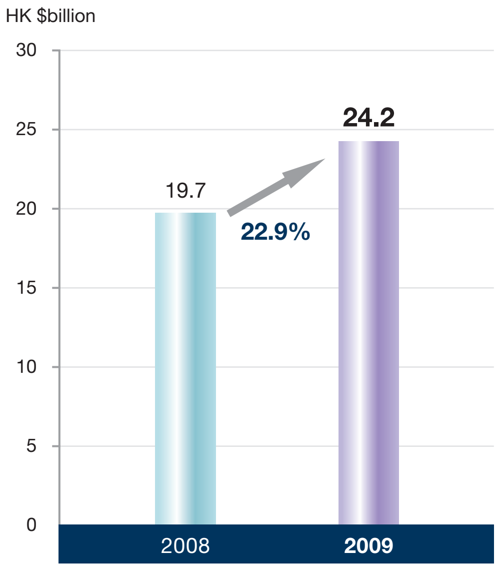
\# *Listed on The Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")*

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

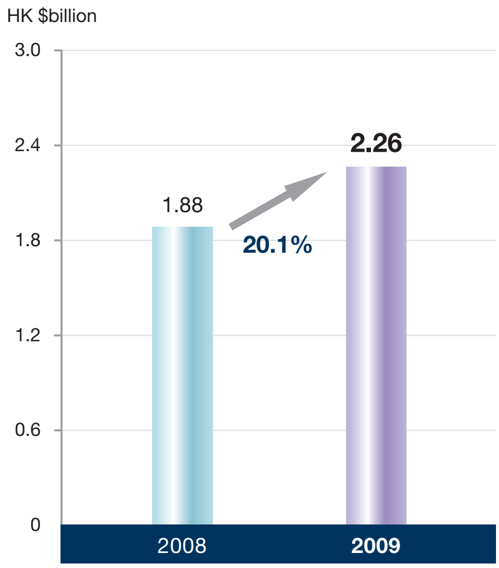
FINANCIAL HIGHLIGHTS (AUDITED)

	2009 (HK$'000)	2008 (HK$'000)	Change
Revenue	24,208,430	19,704,247	+22.9%
Gross Profit	5,818,511	4,504,896	+29.2%
Profit from Operating Activities	2,884,806	2,696,836	+7.0%
Recurring Net Profit Attributable to Shareholders of the Company	2,256,640	1,879,530	+20.1%
Profit Attributable to Shareholders of the Company	2,398,883	2,281,828	+5.1%
Basic Earning Per Share (HK dollar)	2.11	2.01	+5.0%
Annual Dividend (HK cent)	65	65	Unchanged

Revenue



Recurring net profit attributable to shareholders of the Company



Since the beginning of 2009, Beijing Enterprises Holdings Limited ("the Company") has responded positively to global economic uncertainties and the business environment with increasing complexity in capital market with objectives to effectively lessen the pressure on business growth and realize sustainable profit growth.

In accordance with the financial statements prepared under Hong Kong Financial Reporting Standards, operating revenue of the Company for the year of 2009 recorded a year-on-year increase of 23%; recurring operating profit of 2009 attributable to shareholders of the Company recorded a year-on-year increase of 20%; The Board has recommended the payment of a final dividend of HK$45 cents per share, bringing the total dividends to HK$65 cents per share.

Based on each principal business:

As a pillar profit contributor, Beijing Gas Group Company Limited ("Beijing Gas") continued to maintain a solid growth momentum in 2009. Focusing on sub-urban districts and counties in Beijing, Beijing Gas further accelerated the construction of gas trunk lines. At the end of the year, Beijing Gas ranked first place in the PRC in terms of sales volume, pipeline network size and number of customers. At the same time, Beijing Gas made new progress in external investments. Apart from investment in Shandong Natural Gas Pipeline Network Company (山東省天然氣管網公司) and development of Jinzhou gas market, Beijing Gas also committed to the project exploration with Kunlun Gas Company (昆侖燃氣公司) in Shandong, North Eastern and Hebei regions and reached an agreement in respects of CNG project cooperation. Through increasing capital contribution to PetroChina Beijing Natural Gas Pipeline Company Limited (中石油北京天然氣管道有限公司) ("PetroChina Beijing Pipeline Co."), Beijing Gas participated in the strategic investments such as construction of No. 3 Shaanxi-Beijing gas transmission project and the underground gas storages project in Northern China for improving the gas transmission capability. During the year, the transmission compression project for No. 1 and No. 2 Shaanxi-Beijing Pipeline and Yong Tang Qin pipeline were completed and commenced operation, which increased the integrated gas transmission capacity to over 20 billion cubic meters per annum.

During the year, Yanjing Beer performed remarkably by carrying out three adjusted strategies and realized a significant results growth. Firstly, Yanjing Beer adjusted product mix to strengthen its major brand "Yanjing", it boosted the continuous growth of the three brands of "Liquan (漓泉)", "Huiquan (惠泉)" and "Xuelu (雪鹿)". Secondly, Yanjing Beer focused to foster the emerging markets, such as Guangdong and Hunan, by making them the new market highlight. During the year, the newly entered Shanxi and Sichuan market progressed smoothly. Thirdly, Yanjing Beer improved the ratio of its medium to high end beer products in order to establish a premium product image. With further implementation of the said three adjusted strategies, the profitability of Yanjing Beer was greatly enhanced and its leading market position was further strengthened.

Beijing Enterprises Water Group Limited ("BE Water") has become an new area of profit growth. During the year, BE Water materialised a total of 22 new additional projects in regions of Beijing, Anhui, Guangdong, Guangxi, Guizhou, Sichuan, Hainan and North Eastern region and hit a new record in "*Additional water treatment scale of single enterprise during the single year*" in the PRC water industry. Meanwhile, BE Water also attempted aggressively in overseas market exploration and entered into a memorandum of sewage treatment service cooperation with the Malaysian government, which relates to the investment, construction and operation of approximately 20 sewage plants and ancillary pipeline network in Malaysia. At present, the project is under planning stage and will be further finalized. With a rapid rise in the market share, BE Water was enlisted among the "*Top Ten Influential Enterprises In 2009*" in the selection of the PRC water network and ranked the second place.

Looking forward to Year 2010, developing low-carbon economy and ecological economy with low energy consumption, low pollution and low emission has become a new economic development model jointly promoted by various governments. Beijing is implementing the "Green Beijing" campaign with "Actively developing the green, low-carbon and recycling economy, increasing the proportion of clean energy and improving energy supply systems" as its main content. As an integrated public utility enterprise with Beijing municipal governmental background, we have intensive responsibilities, but also with valuable opportunities. In the future, we will follow the "Green Beijing Enterprises" as our norm, strive to capture the precious opportunities arising from the Capital's energy structure optimization and build a brand new principal business pattern with the green economy industry as the core:

Firstly, Beijing Gas will continue to focus on developing suburban districts and counties around Beijing and strive to construct and improve the gas pipeline network in Beijing area. It is expected that the construction of municipal gas trunk pipeline network covering all the suburban districts and counties around Beijing will be basically completed at the end of the year. As for the gas transmission & distribution and supply support, construction of No. 3 Shaanxi-Beijing Pipeline, participated and invested by Beijing Gas, will be partially completed by end of the year. At that moment, the transmission system to Beijing will comprise three main pipelines and will greatly improve the gas transmission capacity during peak season. During the year, in addition to focus on Beijing and actively follow up the market expansion progress in other cities, we will also grasp the opportunities to participate in resources development, develop in-depth gas application and strive to implement the strategic objective of the value chain optimisation.

Secondly, we will continue to develop high quality water business projects. At present, BE Water controls a number of relatively mature project resources in various regions, and will further capture the merger and acquisition opportunities within the industry as well as pursue rapid expansion. Recently, under the situation of intensifying supply and demand conflict of water resources and increasing urgency to utilize new technology in developing new and comsumerable water resources in Beijing, BE Water actively explores and participates in the feasibility study of the development of sea water desalination markets in China and the establishment of sea water desalination plant in order to provide solutions and strategic protection for alleviating the water shortage problem in Beijing.

Thirdly, we will capture opportunities arising from the growth in the domestic consumer products market and accelerating consolidation within the brewery industry. By further implementing the three structurally adjusted strategies on Yangjing Beer, we foster the emerging market to expand the market share throughout the country. This year, Yangjing Beer plans to open offer convertible bonds to raise RMB1.2 billion for expanding production in five bases covering Beijing, Guangdong and Guangxi. After completion of the above expansion projects, it is expected that the annual production capacity will be increased by approximately 600,000 tonnes.

Fourthly, by leveraging the development network focusing on low-carbon economy, we will participate in the development of renewable energy. At present, renewable energy is highly recognized among international society and solar power has become the global spotlight for its unique advantages. There are extensive solar power resources in China with huge development and utilization potential. In July 2009, Chinese government officially launched "Golden Sun Demonstration Project" to accelerate the progress of commercialization and attainment of scale in solar photovoltaic power through financial subsidy, technological support and market driving approach. The solar photovoltaic power market has been active in China, and it will foster an enormous development opportunity in the foreseeable future.

In order to capture the market opportunity in advance, the Company has an intention to enter the solar photovoltaic power field. Therefore, the Company contributed capital to establish Beijing Enterprises Green Technology Industry Company Limited in Beijing, planned to complete further feasibility study for achieving commercialization, gradually commence demonstration project, establish production bases, research and development base in Beijing as well as developing the market intensively throughout the country. Nevertheless, the project is still at feasibility study stage and preliminary market research stage.

In general, while the Company will continue to observe, evaluate and keep abreast of the overall economic environment, manage and solve operational risks effectively, develop and enhance its core business competitiveness. Meanwhile, the Company will further capture business opportunities, focus its resources pinpointing the green economy and low-carbon industry as main areas; capture the business opportunities of acquisition, merger and capital investment within the principal business, extend its principal business towards low-carbon industry, promote the rapid growth of its core business.

Chairman

Hong Kong
31 March 2010

I. BUSINESS REVIEW

Natural Gas Distribution Business

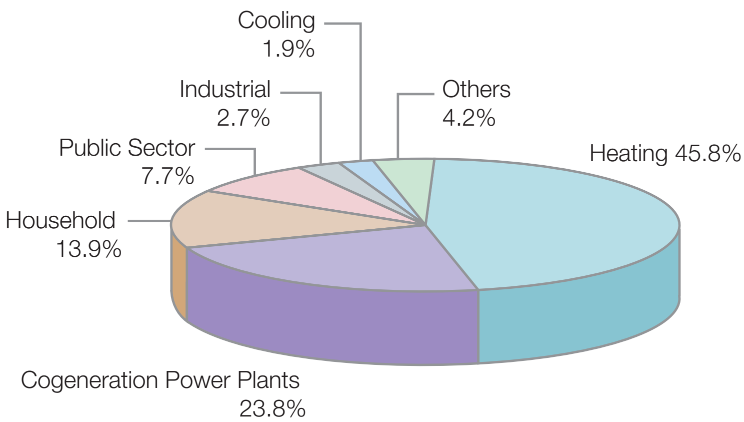
Beijing Gas Group Company Limited ("Beijing Gas") recorded a gas sales volume of 5.69 billion cubic meters in 2009, representing a year-on-year growth of 16.4%. The revenue amounted to HK$11.94 billion, representing a year-on-year growth of 17.6%. Profit after taxation from gas distribution business was HK$734 million, representing a year-on-year growth of 29.3%. The continuing stable growth and development in gas distribution business in Beijing was due to the optimal long-term planning and capital investment. In 2009, there were approximately 242,563 new subscribers, of which 239,630 were household subscribers and 2,500 were public sector subscribers. Our fuel gas equipment capacity was 2,653 t/h steam. The growth in different types of subscribers had exceeded our target. During the year, we completed two municipal government dedicated projects including the connection of gas pipes in old buildings for 100,000 subscribers and Phase II of 6th Ring Road Gas Project. During the year, Beijing Gas optimised its organization structure and further strengthened its fundamental management. During the year, Beijing Gas completed the infrastructure investment of HK$659 million, the newly built 175.4 kilometers pipelines, and the technological improvement overhaul project investment of HK$265 million, thus ensuring the safe operation of pipeline network.

The sales volume analysis of Beijing Gas during the year are as follows:–

	For the twelve months ended 31 December 2009	
	Sales Volume *Thousand cubic meters*	Ratio
Heating	2,603,160	45.8%
Cogeneration Power Plants	1,352,460	23.8%
Household	793,580	13.9%
Public Sector	440,090	7.7%
Industrial	153,150	2.7%
Cooling	108,900	1.9%
Others	238,480	4.2%
Total	5,689,820	100%

I. BUSINESS REVIEW (continued)

Natural Gas Distribution Business (continued)



In respect of market development, we intensified our efforts in developing the Beijing suburban market. Following the registration of Beijing Gas Ping Gu Company Limited on 20 August 2009, Beijing Gas had signed the co-operation framework agreement with the governments in Miyun county and Huairou district one after another and carried out the acquisitions of the existing gas pipeline assets at Fangshan district, and established a solid development momentum in the sub-urban market.

For regional expansion, we strengthened our strategic presence in Shangdong gas market during the year and invested HK$226 million in Shandong Natural Gas Pipeline Network Investment Company Limited (山東省天然氣管網投資有限公司). Beijing Gas Group Shandong Company Limited (北京燃氣集團山東有限公司), a jointly controlled entity of Beijing Gas had commenced the construction of long distance gas pipelines in Rushan, Wendeng and Rongcheng. Moreover, the Company carried out multi-level strategic co-operation with PetroChina Company Limited ("PetroChina"), developed the Jinzhou gas market together with Liaohe Oil Field and explored the project co-operation with Kunlun Gas Company (昆侖燃氣公司) in Shandong, North Eastern and Hebei regions.

Gas Upstream Business

PetroChina Beijing Natural Gas Pipeline Company Limited (中石油北京天然氣管道有限公司) ("PetroChina Beijing Pipeline Co."), a company in which Beijing Gas holds 40% of its interests, achieved a gas transmission volume of 14.39 billion cubic meters in 2009, a year-on-year increase of 18%. Profit after taxation attributable to the Company amounted to HK$1.092 billion, a year-on-year increase of 19.6%. The moderate increase was mainly attributable to the increase in amortisation after the completion of compression project for Shaanxi-Beijing Gas Pipelines. During the year, Beijing Gas increased its investment in PetroChina Beijing Pipeline Co. by HK$520 million, the fund was used for the strategic investments such as construction of No. 3 Shaanxi-Beijing gas transmission project and the underground gas storages project in Central Northern China for improving the gas transmission capability. In October 2009, the comprehensive compression project for No. 2 Shaanxi-Beijing Pipeline was duly completed, and the integrated transmission capacity was expanded to 20 billion cubic meters per annum, with total investments exceeding HK$5 billion. Besides, the Datang coal-based natural gas project in Keshiketengqi had commenced its construction.

I. BUSINESS REVIEW (continued)

Beer Business

Beijing Yanjing Brewery Co., Ltd.（北京燕京啤酒有限公司）("Yanjing Beer") achieved excellent results in 2009, with sales volume of beer reached 4.67 million thousand-litres, representing a year-on-year increase of 11.45% and above the industry average growth rate of 7%. Sales revenue amounted to HK$9.758 billion, marking an increase of 15.2% from last year. Profit attributable to shareholders of the Company was approximately HK$341 million, marking an increase of 62% from last year, and continued to maintain a positive growth momentum in terms of faster sales revenue increase over its sale volume growth and faster profit increase over its sales revenue growth.

Yanjing Beer maintained its 85% market share in Beijing market, with both its production and sales volume hitting historic high. The sales volume increase was significant outside Beijing with sales volume of beer products reaching 3.45 million thousand-litres, representing a year-on-year increase of 11%. Sales growth in major regional markets like Guangxi, Inner Mongolia and Fujian remained stable. After its certain restructing exercise, sales in Guangdong market had reached 0.31 million thousand-litres, representing a year-on-year increase of 55%. In terms of brand strategy, Yanjing Beer continues to promote the strategy of "1+3", where "Yanjing" brand keeps on strengthening as a national major brand, the strengths of three regional brands, Liquan（漓泉）, Huiquan（惠泉）and Xuelu（雪鹿）, continued to grow, thereby enhancing significantly the integrating efforts of the "Yanjing" beer brand. Among which, sales volume under "Yanjing" brand beer was 2.68 million thousand-litres, representing nearly 60% of the Group's total sales volume; sales volume of beer of "1+3" brand was 4.14 million thousand-litres, representing approximately 90% of the Group's total sales volume.

For the product structure, based on the unique features in different regions and the on-going changes in the demand structure of places of consumption and consumers, Yanjing Beer strived to develop new products with high technology and high added value and improved the ratio of its medium to high end beer products in order to establish a premium product image. The sales ratio of high end products like Yanjing Wuchun（燕京無醇）and Yanjing Chunsheng（燕京純生）had increased steadily. New products like Bingchun（冰純）and Party beer packaged in aluminium cans were well received among young consumers.

During the reporting period, Yanjing Beer obtained the "High-tech Enterprise Certification"（高新技術企業証書）successfully, and its income tax rate was reduced from 25% to 15%. It's key subsidiaries are also applying for the high-tech certifications. The above is beneficial to the results of Yanjing Beer where the brand name and influence of the Company can be enhanced.

I. BUSINESS REVIEW (continued)

Sewage and Water Treatment Operation

The sewage treatment business of the Group is mainly carried out through our 57.35% owned subsidiary Beijing Enterprises Water Group Limited ("BE Water") (stock code: 371). The business of BE Water continued to develop rapidly in 2009, and by end of the year, BE Water had already participated 47 sewage treatment projects in total. Its planned daily sewage treatment capacity is 3.14 million tons, a growth of 1.66 million tons over last year. The daily treatment capacity of BE Water in operation in late 2009 was 1.62 million tons. The total actual treatment volume of the year was 384 million tons, or an daily weighted average treatment volume of approximately 1.16 million tons, with weighted average utilization rate of approximately 72%. Revenue from operation of BE water in 2009 was HK$1.73 billion, representing a 4.3 times growth over last year. Profit attributable to shareholders of the Company was approximately HK$114 million, representing a 2 times growth over last year.

As for water purification business, net profit of water concession of Beijing No. 9 Water Treatment Plant attributable to the Group was HK$154 million (2008: HK$148 million, as restated).

Toll Roads Business

The toll charging traffic volume of the Airport Expressway in 2009 was down by 2.25 million vehicles, with a total 37.56 million. This was due to the implementation of a one-way payment system for return trip of vehicles leaving Beijing at Tianzhu Terminal of Capital Airport Expressway and charges reduced by 50% at Yang Lin（楊林）Terminal since October 2009. The toll revenue in 2009 amounted to HK$332 million, representing a year-on-year decrease of 14.5%. Profit attributable to shareholders of the Company was HK$109 million, posting a year-on-year decline of 32.2%. In 2009, the traffic volume of Shenzhen Shiguan Road was 8.35 million vehicles, down by 11% from 2008. Operating profit amounted to HK$3.13 million, decreased by 83.1% from last year.

II PROSPECTS

Natural Gas Distribution Business

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

On the other hand, the National Development and Reform Commission is studying the proposal of transforming the three fire-electrical power plants into natural gas plants in early 2010 and that will further enhance the long-term demand of natural gas. The ratio of natural gas consumption for power generation purpose will continue to increase. As Beijing is pushing very hard to develop clean energy resources, the re-structuring of Oven Room and the facilitation of Tri-generation System will increase the demand for gas.

Gas Upstream Business

PetroChina Beijing Pipeline Co. had completed the construction of the important gas storage facility projects like the No. 2 Shaanxi-Beijing Pipeline compression project, Yong Tang Qin extension line and Beijing No. 58 Project. The annual comprehensive gas transmission capacity of No. 1 and 2 Shaanxi-Beijing Pipeline had already exceeded 20 billion cubic meters and is able to meet the growing demand in next two years.

The construction works of No. 3 Shaanxi-Beijing gas transmission project are progressing smoothly and part of the gas transmission facilities are expected to commence its commercial operation by end of 2010.

Beer Business

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

II PROSPECTS (continued)

Sewage and Water Treatment Operation

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

Toll Roads Business

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

III FINANCIAL REVIEW

Revenue

The revenue of the Group's continuing operations in 2009 was approximately HK$24.21 billion, increased by 22.9% compared with the revenue of HK$19.704 billion in 2008. This was mainly driven by the stable growth of Beijing Gas' revenue and Yanjing Beer's revenue. Other business contributed an aggregate of not more than 11 % of the total revenue.

Cost of Sales

Cost of sales increased by 21.7% to HK$18.502 billion. The cost of sales for gas distribution business included purchase cost of natural gas as well as depreciation of piped line network. Cost of sales of beer operations includes raw materials, wage expenses and absorption of certain indirect overhead.

Gross Profit Margin

Overall gross profit margin was 23.9% compared to 22.9% in 2008. The increase in gross profit margin was mainly due to increase in the average selling price of Yanjing Beer and decrease in cost of raw materials. Natural gas distribution business had average gross profit margin of approximately 15.1% which is lower than the higher margin brewery business, toll road and water business due to different direct cost structure. The improvement in gross profit margin of natural gas distribution business of Beijing Gas compared with that of last year was mainly due to the slight increase in unit gas selling price to electricity plant and heating subscribers who accounted for significant percentage of sales volume.

Other Income

Other income mainly comprised of total interest income amounted to HK$90 million; gain on disposal of 26.55% interests in Beijing Peking University WBL Biotech Co., Ltd. amounted to HK$63.11 million; government grants and other gains in aggregate amounted to HK$246 million.

III FINANCIAL REVIEW (continued)

Selling and Distribution Costs

Selling and distribution costs of the Group in 2009 increased by 19% to HK$1.36 billion and was mainly due to introduction of more new products of Yanjing Beer during the year and rapid increase in marketing expenses.

Administration Expenses

Administration expenses of the Group in 2009 was HK$1.79 billion, increased by 23.1% comparing to last year. The increase in administration expenses was mainly due to the continuing expansion of the scale of Yanjing Beer business and sewage treatment operation and increase in related wages and fixed costs.

Finance Costs

Finance costs of the Group in 2009 was HK$364 million, decreased by 10.7% comparing to HK$407 million in 2008, which was mainly due to decrease in the borrowings of Yanjing Beer, a subsidiary of the Group.

Share of Profits and Losses of Jointly-Controlled Entities

This mainly represents the 40% share of the profit after taxation of PetroChina Beijing Pipeline Co. PetroChina Beijing Pipeline Co. is 40% owned by Beijing Gas and 60% owned by PetroChina. The primary business of PetroChina Beijing Pipeline Co. is natural gas transmission which supplies natural gas to city gas operators along the two long piped lines with an approximate total length of 2,200 kilometers owned by PetroChina Beijing Pipeline Co. The slight decrease in gross profit margin of PetroChina Beijing Pipeline Co. was mainly due to the increase in the proportion of transmission to nearby city and amortization of capital expenditures of compression project.

Share of Results of Associate Companies

The Group's share of net losses of a major associate company, Beijing Development (Hong Kong) Limited, amounted to HK$33.52 million in 2009.

Tax

After deducting the non-taxable other income of more than HK$371 million, the effective income tax rate is approximately 17.3%. The decrease in effective income tax rate in 2009 was mainly due to the decrease from 25% to 15% in income tax rate of Yanjing Beer by reason of obtaining the Certificate of High-Tech Enterprise in that company.

Profit Attributable to Shareholders

The profit attributable to the shareholders of the Company for the year ended 31 December 2009 was HK$2.399 billion (2008: HK$2.282 billion).

IV FINANCIAL POSITION OF THE GROUP

Cash and Bank Borrowings

As at 31 December 2009, cash and bank deposits held by the Group amounted to HK$9.486 billion. At the end of the reporting period, the Group had a strong net working capital of HK$5.292 billion. The Group will maintain sufficient banking facilities for its working capital requirement and has sufficient cash resources to finance its capital expenditures in the foreseeable future.

The Group's bank and other borrowings amounted to HK$11.02 billion as at 31 December 2009, which mainly comprised of five year syndicated loans amounting to HK$2.1 billion with the rest working capital loans of HK$6.2 billion denominated in Renminbi and Hong Kong dollars. Around 31.3% of the bank loans were denominated in Hong Kong dollars with the rest mainly in Renminbi. The Group was in a net bank and other borrowings position of HK$1.186 billion as at 31 December 2009.

Liquidity and Capital Resources

The downstream gas distribution business and brewery business has been constantly contributing to the operating cash flow of the Group and significantly increased its liquidity. During the year under review, there was no significant movement in the issued capital of the Company. As at the end of 2009, the issued capital of the Company amounted to 1,137,371,000 shares and the shareholders' equity grew to HK$31.305 billion. Total equity was HK$39.017 billion comparing to HK$36.31 billion as at the end of 2008.

Given the primarily cash nature business of gas distribution, toll roads, brewery and water concession, the Group is benefiting from very strong recurring cash flow and is well positioned to capture investment opportunities in the future. The Group will continue its stable dividend distribution policy and at least 30% of its recurring earnings per share will be used for dividend distribution.

EXECUTIVE DIRECTORS

Mr. YI Xiqun, aged 62, was previously the Chairman of the Company and Beijing Enterprises Group Company Limited. Mr. Yi also serves as the Independent Non-executive Director of China Merchants Bank Co., Ltd. (stock code: 3968) and SOHO China Limited (stock code: 410). He graduated from Beijing Chemical Institute in 1975 and later obtained a postgraduate degree in economics and management engineering from Tsinghua University. From 1986 to 1987, Mr. Yi was in charge of the Beijing Municipal Government Economic Structure Reform Committee and from 1987 to 1991, he served as the Chief Executive Officer of Xicheng District of Beijing. In 1991, Mr. Yi became an assistant to the Mayor of Beijing as well as Director of the Economic and Foreign Trade Commission of Beijing Municipality and the Management Committee of the Beijing Economic and Technology Development Zone. Mr. Yi has in-depth knowledge and a wealth of experience in macroeconomic and microeconomic management. Mr. Yi joined the Group in December 1999 and retired in August 2009.

Mr. WANG Dong, aged 44, is the Chairman of the Company and Beijing Enterprises Group Company Limited. Mr. Wang graduated from Mining Mechanical Engineering Faculty of Beijing Institute of Iron and Steel in 1986, holds a mater degree in Public Administration from People's University of China and the title of Senior Engineer. Mr. Wang has held various senior positions in many sizeable and medium size state-owned enterprises. From 2001 to 2008, Mr. Wang served as the Deputy General Manager, subsequently the Executive Deputy General Manager and finally the Chairman of BBMG Group Company Limited. From 2008 to 2009, he served as Head of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Wang has extensive experience in management, finance and state-owned assets supervision. Mr. Wang joined the Group in August 2009.

Mr. ZHANG Honghai, aged 57, is the Vice Chairman and Chief Executive Officer of the Company. Mr. Zhang also serves as a Director of Beijing Enterprises Group Company Limited, an Executive Director of Beijing Development (Hong Kong) Limited (stock code: 154), the Chairman and Non-executive Director of China Information Technology Development Limited (stock code: 8178) and the Chairman and Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. Zhang graduated from Peking University in 1982 and subsequently completed a postgraduate programme at the International Business School of Hunan University and was awarded a master degree and the title of Senior Economist. Mr. Zhang also obtained an EMBA degree from Guanghua School of Management, Peking University. Mr. Zhang has worked for the Beijing Municipal Government for many years. Prior to joining the Company, Mr. Zhang was the director of the Foreign Affairs Office of the People's Government of Beijing Municipality and Hong Kong and Macao Affairs Office of the People's Government of Beijing Municipality. Mr. Zhang currently is the Vice President of the Beijing Chinese Overseas Friendship Association. Mr. Zhang initially worked as Deputy General Manager and was then promoted to Vice Chairman and General Manager of Beijing International Trust Investment Limited during the period from 1990 to 1998, and has accumulated extensive experience in corporate management. Mr. Zhang joined the Group in December 2003.

Mr. LI Fucheng, aged 55, is the Vice Chairman of the Company. He has held various positions with Yanjing Beer Factory since 1983, including the Deputy Secretary, Deputy Director and Director, etc and is currently the Chairman and General Manager of the Yanjing Group. Mr. Li has many years of experience in the brewery industry. Mr. Li joined the Group in April 1997.

EXECUTIVE DIRECTORS (continued)

Mr. BAI Jinrong, aged 59, is the Vice Chairman of the Company. He is also the Vice Board Chairman and General Manager of Beijing Enterprises Group Company Limited. Mr. Bai graduated from Beijing Normal University in 1985 and had worked as the Deputy Director and Director of the Policy Research Office of Beijing Chemical Industry Group, the Deputy Director of the Beijing Economic Structure Reforms Committee, the Executive Director and Executive Vice President of the Company, the Deputy Director of Beijing State-owned Assets Supervision and Administration Commission. Mr. Bai has many years of experience in economics, finance and enterprise management. Mr. Bai rejoined the Group in June 2005.

Mr. ZHOU Si, aged 53, is the Vice Chairman of the Company. He is also the Director of Beijing Enterprises Group Company Limited and the Chairman of Beijing Gas Group Co., Ltd. Mr. Zhou received a bachelor's degree in science (physics) from Capital Normal University in 1978 and an MBA degree from School of Economics and Management, Tsinghua University in 1998. From 1984 to 2003, he was the Chief Officer of the General Planning Division and subsequently Deputy Division Head, Division Head, Deputy Director and Senior Economist of the Planning Division of Beijing Municipal Management Commission. He has extensive experience in economics, finance and enterprise management. Mr. Zhou joined the Group in June 2005.

Mr. E Meng, aged 51, is the Executive Director and Executive Vice President of the Company. Mr. E also serves as the Chief Financial Officer of Beijing Enterprises Group Company Limited, the Chairman and Executive Director of Beijing Development (Hong Kong) Limited (stock code: 154), the Executive Director of Beijing Enterprises Water Group Limited (stock code: 371), and an Independent Non-executive Director of JLF Investment Company Limited (stock code: 472). Mr. E graduated from China Science and Technology University with a master's degree in engineering. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the Deputy Director of Beijing New Technology Development Zone and concurrently acting as the Director of the Department of Financial Auditing, the General Manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the Deputy Director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E has extensive experience in economics, finance and enterprise management. Mr. E joined the Group in November 1997.

Mr. LIU Kai, aged 56, is the Executive Director and Vice President of the Company. Mr. Liu also serves as an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). He graduated from the mechanical engineering faculty of Tsinghua University in 1979, and later obtained postgraduate qualification in domestic economics, management and legal professional studies from the State Administration Institute. In 2007, Mr. Liu graduated from the EMBA program of Tsinghua University. Prior to joining the Company, Mr. Liu served as a Senior Executive of the Beijing Transportation Bureau and the Beijing Transportation Corporation. Mr. Liu has many years of experience in economics and management. Mr. Liu joined the Group in January 2001.

EXECUTIVE DIRECTORS (continued)

Mr. GUO Pujin, aged 56, is the Executive Director of the Company. He graduated from the political education faculty of Capital Normal University in 1976 and later finished his postgraduate studies at Capital Trade and Economics University. Mr. Guo was previously the Chief Executive Officer of Da Xing District of Beijing and is currently the Chairman of Beijing Capital Expressway Development Co., Ltd.. Mr. Guo has many years of experience in government affairs and corporate management in China. Mr. Guo joined the Group in April 2004.

Mr. LEI Zhengang, aged 56, a PRC senior accountant, is the Executive Director of the Company, the Director and Vice General Manager of Beijing Enterprises Group Company Limited and the Chairman and Executive Director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Lei obtained a postgraduate qualification from the Capital University of Economics and Business and has extensive experience of corporate finance and management. Mr. Lei joined the Group in June 2006.

Mr. JIANG Xinhao, aged 45, is the Executive Director and Vice President of the Company. Mr. Jiang also serves as the Chief Operational Officer of Beijing Enterprises Group Company Limited and an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). 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. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Vice President of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a Manager of the investment development department of Beijing Holdings Limited and a General Manager of Beijing BHL Investment Center between May 2000 and February 2005. He served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. Mr. Jiang has many years of experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

Mr. TAM Chun Fai, Jimmy, aged 47, is the Executive Director, Chief Financial Officer and Company Secretary of the Company. Mr. Tam also serves as the Independent Non-executive Director of Hi Sun Technology (China) Limited (stock code: 818) and KWG Property Holding Limited (stock code: 1813). Mr. Tam graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy and is a regular member of Chartered Financial Analyst and a member of Hong Kong Institute of Certified Public Accountants. Mr. Tam has extensive experience in auditing and corporate advisory services with major international accounting firms. He was involved in floatation and audit work of a wide variety of businesses, including electronics, electrical appliances, athletic shoes manufacturing, banking, insurance, securities and property development. Mr. Tam joined the Group in April 1997.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WU Jiesi, aged 58, holds a doctorate degree in Economics. Mr. Wu also serves as Non-executive Director and Vice Chairman of China Aoyuan Property Group Limited (stock code: 3883), Independent Non-executive Director of China Taiping Insurance Holdings Company Limited (stock code: 966) and China Merchants Bank Co., Ltd. (stock code: 3968), and Non-executive Director of China Water Affairs Group Limited (stock code: 855), Shenzhen Investment Limited (stock code: 604) and Silver Base Group Holdings Limited (stock code: 886). He conducted post-doctoral research work in theoretical economics at the Nankai University in the PRC and was conferred the professorship qualification by the Nankai University in 2001. During the period from 1984 to 1995, Mr. Wu worked at the Industrial and Commercial Bank of China in a number of positions, including as the President of Shenzhen Branch. From 1995 to 1998, Mr. Wu was Vice Mayor of Shenzhen Municipal Government and from 1998 to 2000 he was the assistant to the Governor of Guangdong province. He was the Chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, the Honorary President of Guangdong Investment Limited and Guangdong Tannery Limited, and the managing director and chief executive officer of Hopson Development Holdings Limited. He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

Mr. Robert A. THELEEN, aged 64, is the Chairman, founder and Co-Chief Executive Officer of China Vest, Ltd., a Shanghai-based Merchant Bank. Mr. Theleen was a pioneer in the private equity investment industry in China where, in 1982, he launched one of the first venture capital funds investing in China. Mr. Theleen is also a Trustee of the Asia Foundation and an active member of the business community in Shanghai where he resides. He was educated at Duquesne University and at the American School of Management in the United States where he obtained his master's degree in business administration in 1970. He is also a member of the Advisory Board of the Hopkins-Nanjing Center in Nanjing, China. Mr. Theleen joined the Group in July 2004.

Mr. LAM Hoi Ham, *JP*, aged 71,was graduated from the faculty of economics of The University of Hong Kong, is the founder of the accounting firm H H Lam & Co., and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam was granted Medal of Honour by The Hong Kong Government in 1994 and was appointed a Justice of the Peace in 1997. Mr. Lam serves as a Standing Committee member of the 10th and 11th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China of Beijing City, the vice chairman of Beijing Overseas Friendship Association and a committee member of Beijing Health Department Overseas Friendship Association, etc. Mr. Lam joined the Group in March 2008.

Mr. FU Tingmei, aged 43, has extensive experiences 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. Between 1992 and 2003, Mr. Fu executed corporate finance transactions at investment banking firms based in Hong Kong,including serving as a director with Peregrine Capital Limited, and a deputy managing director and subsequently a managing director with BNP Paribas Peregrine Capital Limited. Mr. Fu is currently engaged in investment and operation of private businesses. Mr. Fu is also a part-time member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region, a member of the People's Political Consultative Conference of Jiangxi province and an adviser to AID Partners Capital Limited, a private equity firm based in Hong Kong. Mr. Fu joined the Group in July 2008.

SENIOR MANAGEMENT

Mr. LI Yongcheng, aged 48, is a Vice President of the Company. Mr. Li is a senior engineer, graduated at Wuhan University of Science and Technology with a master's degree in environmental engineering. He obtained a master's degree (EMBA) at Guanghua School of Management of Peking University. He also studied the purification technology of gas in Germany. Mr. Li is currently the vice chairman of the board and general manager of Beijing Gas Group Co., Ltd. He has extensive management experience in piped gas business. Mr. Li joined the Group in August 2007.

Mr. XIAO Xifa, aged 46, is a Vice President of the Company. Mr. Xiao is a senior engineer and a P.R.C. Registered Consulting (Investment) Engineer. Mr. Xiao holds a mater degree in engineering from University of Science and Technology Beijing and a MBA from Tsinghua University. Mr. Xiao was the dean and managing director of Beijing Gas and Heating Engineering Design Institute (Limited Company), the managing director of Beijing United Gas Engineering & Technology Co., Ltd., the manager of asset management department of Beijing Gas Group Company Limited, and the manager of strategic development department of Beijing Enterprises Group Company Limited. Mr. Xiao has many years of experience in project investment consulting, planning, merger and acquisition as well as business management in the industry of gas and heat supply. Mr. Xiao joined the Group in February 2006.

The directors present their report and the audited financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 21 to the financial statements. There was no significant change in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 179.

An interim dividend of HK20 cents per ordinary share was paid on 28 October 2009. The directors recommend the payment of a final dividend of HK45 cents per ordinary share in respect of the year to shareholders on the register of members on 10 June 2010. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the final dividend will be paid on or around 18 June 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 4 June 2010 to Thursday, 10 June 2010 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final dividend and for attending the forthcoming annual general meeting of the Company to be held on Thursday, 10 June 2010, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Share Registrar, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 3 June 2010.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, and assets, liabilities and equity of the Group for the last five financial years as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2008 is set out on page 180. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 15 and 16 to the financial statements, respectively.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the share capital and share options of the Company and the Group's convertible bonds during the year, together with the reasons therefor, are set out in notes 33, 34 and 37 to the financial statements, respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK$519,758,000, of which HK$511,817,000 has been proposed as final dividend for the year. In addition, the Company's share premium account, in the amount of HK$20,733,395,000, may be distributed in the form of fully paid bonus shares.

DONATIONS

The Group's charitable and other donations during the year amounted to HK$1,557,000.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Yi Xiqun *(Chairman)* *(resigned on 18 August 2009)*
Mr. Wang Dong *(Chairman)* *(appointed on 18 August 2009)*
Mr. Zhang Honghai *(Vice Chairman and Chief Executive Officer)*
Mr. Li Fucheng *(Vice Chairman)*
Mr. Bai Jinrong *(Vice Chairman)*
Mr. Zhou Si *(Vice Chairman)*
Mr. E Meng *(Executive Vice President)*
Mr. Liu Kai *(Vice President)*
Mr. Guo Pujin
Mr. Lei Zhengang
Mr. Jiang Xinhao *(Vice President)*
Mr. Tam Chun Fai *(Chief Financial Officer and Company Secretary)*

DIRECTORS (continued)

Independent non-executive directors:

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

In accordance with articles 96 and 105(A) of the Company's articles of association and the recommendation of the board of directors, Messrs. Wang Dong, Lei Zhengang, Jiang Xinhao, Tam Chun Fai, Wu Jiesi and Lam Hoi Ham will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

BOARD CHANGES AND CHANGES IN DIRECTORS' INFORMATION

Information required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") is set out as follows:

Board Changes

There are no board changes since the date of the 2009 Interim Report.

Changes in Directors' Information

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

	Appointment (effective)	Cessation of Office (effective)
Mr. Wu Jiesi		
– China Aoyuan Property Group Limited (stock code: 3883)		
executive director	–	24 December 2009
non-executive director	24 December 2009	–
Mr. Fu Tingmei		
– CPMC Holdings Limited (stock code: 906)*		
independent non-executive director	23 June 2008	–

*Note**: CPMC Holdings Limited was listed on The Main Board of The Stock Exchange of Hong Kong Limited on 16 November 2009

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 17 to 21 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Zhang Honghai, E Meng and Liu Kai has a service contract with the Company for a term of three years commencing on 3 December 2009, 17 June 2008 and 16 January 2007, respectively, with respective unexpired periods of approximately 35 months, 18 months and 1 Months as at 31 December 2009.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee.

Further details of the Company's remuneration committee are set out in the corporate governance report on pages 32 to 35 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

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

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

At 31 December 2009, the interests and short positions of the directors and the chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

(a) Long positions in ordinary shares of the Company

Director	Number of ordinary shares	Percentage of the Company's issued share capital
Mr. Li Fucheng	12,000#	0.001%
Mr. Bai Jinrong	10,000#	0.001%
Mr. E Meng	30,000#	0.003%
Mr. Jiang Xinhao	13,000#	0.001%

All interests disclosed are directly beneficially owned by the director.

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

(b) Long positions in underlying shares of the Company

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

(c) Long positions in ordinary shares of associated corporations

Director	Associated corporation	Number of ordinary shares	Percentage of the associated corporation's issued share capital
Mr. Zhang Honghai	Beijing Development (Hong Kong) Limited@ ("Beijing Development")	4,000,000#	0.590%
Mr. Li Fucheng	Beijing Yanjing Brewery Company Limited@	38,898#	0.003%
Mr. E Meng	Beijing Development@	601,000#	0.089%
Mr. Tam Chun Fai	Beijing Development@	40,000#	0.006%

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

All interests disclosed are directly beneficially owned by the director.

(d) Long positions in underlying shares of associated corporations

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

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

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

Notes:

(i) These share options were granted on 30 October 2007 at an exercise price of HK$4.03* per ordinary share of Beijing Development. The closing price of Beijing Development's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$4.07. The share options may be exercised in two equal portions. The first portion is exercisable at any time commencing on 1 May 2008, and the other portion is exercisable from 1 May 2009 and, if not otherwise exercised, will lapse on 17 June 2011. The vesting periods of each of the portion is from the date of grant to the respective commencement dates of the exercise periods. Subject to the approval of the remuneration committee of Beijing Development, directors of Beijing Development are entitled to exercise all the share options within three months from the date of termination of their employment with Beijing Development.

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

(iii) These share options were granted on 9 July 2008 at an exercise price of HK$2.07* per ordinary share of Beijing Development. The closing price of Beijing Development's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$2.06. The share options may be exercised at any time commencing on 11 August 2008, and if not otherwise exercised, will lapse on 17 June 2011. The vesting period is from the date of grant to the commencement date of the exercise period.

(iv) These share options were granted on 11 February 2008 at an exercise price of HK$0.53* per ordinary share of CIT Development. The share options may be exercised at any time commencing on 11 August 2008 and, if not exercised, will lapse on 10 February 2013. The exercise of the share option is subject to an annual cap of 25% of the share options granted. Subject to the approval of the share option committee and the remuneration committee of CIT Development, Mr. Zhang Honghai is entitled to exercise all the share options within three months from the date of termination of his employment with CIT Development.

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

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

Save as disclosed above, as at 31 December 2009, none of the directors or the chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which became effective on 17 October 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The purpose of the Scheme is to attract and retain the best quality personnel of the Group for the development of the Group's operations; to provide additional incentives to employees, officers and directors of the Group; and to promote the long term financial success of the Company by aligning the interests of option holders to those of shareholders. Further details of the Scheme are disclosed in note 34 to the financial statements.

The following set out the movements in the share options granted under the Scheme during the year ended 31 December 2009:

	Number of share options held			
Participant	At 1 January 2009	Granted during the year	Exercised during the year	At 31 December 2009
Directors:				
Mr. Zhou Si	300,000	–	–	300,000
Mr. Guo Pujin	60,000	–	(60,000)	–
Mr. Lei Zhengang	150,000	–	(150,000)	–
Mr. Jiang Xinhao	110,000	–	(110,000)	–
	620,000	–	(320,000)	300,000
Other employees:	50,000	–	(50,000)	–
In aggregate	670,000	–	(370,000)	300,000

Notes:

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

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

(b) At 31 December 2009, the Company had 300,000 share options outstanding under the Scheme, which represented approximately 0.03% of the shares of the Company in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 300,000 additional ordinary shares of the Company and additional share capital of HK$30,000 and share premium of HK$3,735,000 (before any issue expenses).

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

At 31 December 2009, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Number of ordinary shares held, capacity and nature of interest: Directly beneficially owned	Others	Total	Percentage of the Company's issued share capital
Modern Orient Limited	100,500,000	–	100,050,000	8.80%
Beijing Enterprises Investments Limited ("BEIL")	163,730,288	100,050,000 [a]	263,780,288	23.19%
Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI")	411,250,000	263,780,288 [b]	675,030,288	59.35%
Beijing Enterprises Group Company Limited ("BE Group")	–	675,030,288 [c]	675,030,288	59.35%
JPMorgan Chase & Co.	2,617,263 [e]	64,360,851 [d][e]	66,978,114 [e]	5.89%

Short position:

Name	Number of ordinary shares directly beneficially owned	Percentage of the Company's issued share capital
JPMorgan Chase & Co.	1,901,855[e]	0.17%

Lending position:

Name	Number of ordinary shares	Percentage of the Company's issued share capital
JPMorgan Chase & Co.	62,391,851[e]	5.49%

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

Lending position: (continued)

Notes:

(a) The interest disclosed includes the shares owned by Modern Orient Limited. Modern Orient Limited is a wholly-owned subsidiary of BEIL. Accordingly, BEIL is deemed to be interested in the shares owned by Modern Orient Limited.

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

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

(d) The interest disclosed includes 1,969,000 shares held as an investment manager and 62,391,851 shares held as a custodian corporation/approved lending agent.

(e) The information was extracted from the Disclosure of Interest Form filed by JPMorgan Chase & Co. in respect of the relevant event happened on 7 January 2010.

Save as disclosed above, as at 31 December 2009, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in notes 29 and 50 to the financial statements.

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 53 to the financial statements.

LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDERS

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of the Company's syndicated loan facility, which contains covenants requiring performance obligations of the Company's holding companies.

In 2007, the Company obtained a five-year HK$2.1 billion syndicated loan facility. The loan agreement includes 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 facility:

1. If the beneficial interest of the Company ceases to be owned or controlled by BE Group; and

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chairman

Hong Kong
31 March 2010

GENERAL

Saved as disclosed below, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2009.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company (the "Directors"). All the members of the board of Directors (the "Board") have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2009. The Model Code also applies to other specified senior management of the Company.

BOARD OF DIRECTORS

Composition and role

The Board comprises of eleven Executive Directors and four Independent Non-executive Directors. The principal focus of the Board is on the overall strategic development of the Group, while the management is principally responsible for the Group's business operations. The Board provides guidance on business plans and monitors the results of such plans implemented by the management; reviews and approves the Company's financial objectives, plans and major financial activities. The Board is also responsible for the establishment of the internal control system and the risk management system of the Company; the Board discusses with the management regularly to ensure that such systems are operating effectively. The Board promotes a culture of integrity at the Company and requires all members of the Board and the management to comply with guidance related to integrity and ethics, including conflicts of interest, related party transactions and the treatment of confidential information.

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

BOARD OF DIRECTORS (continued)

Composition and role (continued)

The individual attendance of board meetings is set out below:

Name		Attendance
Executive Directors		
Mr. Yi Xiqun *(Chairman)*	(resigned on 18 August 2009)	3/3
Mr. Wang Dong *(Chairman)*	(appointed on 18 August 2009)	1/1
Mr. Zhang Honghai		4/4
Mr. Li Fucheng		4/4
Mr. Bai Jinrong		4/4
Mr. Zhou Si		4/4
Mr. E Meng		4/4
Mr. Liu Kai		4/4
Mr. Guo Pujin		2/4
Mr. Lei Zhengang		3/4
Mr. Jiang Xinhao		4/4
Mr. Tam Chun Fai		4/4
Independent Non-executive Directors		
Mr. Wu Jiesi		3/3
Mr. Robert A. Theleen		1/3
Mr. Lam Hoi Ham		3/3
Mr. Fu Tingmei		3/3

Chairman and Chief Executive Officer

During the year, Mr. Wang Dong was appointed as the successor for retiring executive director and chairman of the Board Mr. Yi Xiqun. The chief executive officer of the Company is Mr. Zhang Honghai. The Company has complied with code provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Non-executive Directors

The Non-executive Directors of the Company (all are Independent Non-executive Directors) are not appointed for specific terms, which deviates from the requirement of code provision A.4.1. However, in view of the fact that they are subject to retirement by rotation in accordance with the Company's Articles of Association, the Company considers that there are sufficient measures to ensure that the corporate governance standard of the Company is not less exacting than that of the code provisions.

REMUNERATION COMMITTEE

The current members of the Remuneration Committee are:

Mr. Wu Jiesi – Committee Chairman
Mr. Lam Hoi Ham
Mr. Liu Kai

The majority of the Remuneration Committee members are Independent Non-executive Directors. The Remuneration Committee advises the Board on the Company's overall policy and structure for the remuneration of Directors and senior management of the Company. The Remuneration Committee ensures that no director of the Company or any of his associate is involved in deciding his own remuneration. The Company has adopted the terms of reference of the Remuneration Committee in accordance with code provision B.1.3. A copy of the terms of reference is posted on the Company's website.

In determining the emolument payable to Directors, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, and employment conditions elsewhere in the Group. The Remuneration Committee meets to determine the policy for the remuneration of Directors and assess performance of Executive Directors and certain senior management of the Company. During the year, no Remuneration Committee meeting was held as the salaries of directors remained unchanged.

COMPENSATION POLICY

The objective of the compensation policy of the Company is to provide an equitable and competitive compensation package so as to attract and retain the best employees to serve corporate needs. The compensation package for each employee is structured to include: base salary which is fixed to commensurate with market rate and each individual's experience and ability; share options granted with reference to an individual employee's position, performance and ability to contribute to the overall corporate success (the granting of share options is subject to shareholders' mandates as required and all applicable laws and regulations of relevant jurisdictions); and other customary and/or mandatory benefits to employees, such as retirement fund scheme, insurance and paid holiday, with reference to prevailing practices in relevant jurisdictions.

AUDITORS' REMUNERATION

During the year ended 31 December 2009, fees paid to the Company's external auditors for audit services were approximately HK$8.4 million; the fees paid for non-audit services were approximately HK$3.7 million, which represented an agreed-upon procedures engagement in connection with the Group's interim financial report, tax compliance service, financial and tax due diligence services and internal control review service.

AUDIT COMMITTEE

The current members of the Audit Committee are:

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

All Audit Committee members are Independent Non-executive Directors. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial procedure and internal controls system of the Company. The Company has adopted the written terms of reference which describe the authority and duties of the Audit Committee in accordance with code provision C.3.3. A copy of the terms of reference is posted on the Company's website.

The Audit Committee meets regularly to review the reporting of financial and other information to shareholders, the effectiveness and objectivity of the audit process. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the accounts for the year ended 31 December 2009. During the year ended 31 December 2009, the individual attendance of Audit Committee meetings is set out below:

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

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledged responsibility for reviewing the accounts of the Company prepared by the Executive Board for the year ended 31 December 2009 and ensuring the accounts are prepared in accordance with the Hong Kong Financial Reporting Standards. A statement by the auditors about their reporting responsibilities is contained in the Independent Auditors' Report.

The Board confirmed that it has taken the same view from that of the Audit Committee regarding the appointment of the external auditors.

INTERNAL CONTROL

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

ERNST & YOUNG
安 永

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

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

We have audited the financial statements of Beijing Enterprises Holdings Limited set out on pages 38 to 179, which comprise the consolidated and company statements of financial position as at 31 December 2009, 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 notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
31 March 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	5	24,208,430	19,704,247
Cost of sales		(18,389,919)	(15,199,351)
Gross profit		5,818,511	4,504,896
Gain on deemed disposal of interest in a subsidiary	6	105,426	450,791
Other income and gains, net	5	440,783	534,930
Selling and distribution costs		(1,360,112)	(1,142,871)
Administrative expenses		(1,794,372)	(1,457,685)
Other operating expenses, net		(325,430)	(193,225)
PROFIT FROM OPERATING ACTIVITIES	7	2,884,806	2,696,836
Finance costs	8	(363,574)	(407,068)
Share of profits and losses of:			
Jointly-controlled entities	22(a)	1,092,074	912,628
Associates	23(a)	(7,920)	(146,811)
PROFIT BEFORE TAX		3,605,386	3,055,585
Income tax	11	(558,997)	(359,297)
PROFIT FOR THE YEAR		3,046,389	2,696,288
ATTRIBUTABLE TO:			
Shareholders of the Company	12	2,398,883	2,281,828
Minority interests		647,506	414,460
		3,046,389	2,696,288
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	14		
– Basic		HK$2.11	HK$2.01
– Diluted		HK$2.02	HK$1.90

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

Year ended 31 December 2009

	2009 *HK$'000*	2008 *HK$'000*
PROFIT FOR THE YEAR	3,046,389	2,696,288
OTHER COMPREHENSIVE INCOME		
Fair value gain on revaluation of a building upon transfer to investment properties *(note 15)*	–	17,561
Exchange differences on translation of foreign operations	14,397	1,477,295
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX OF NIL	14,397	1,494,856
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3,060,786	4,191,144
ATTRIBUTABLE TO:		
Shareholders of the Company	2,413,044	3,481,902
Minority interests	647,742	709,242
	3,060,786	4,191,144

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	15	19,045,485	17,988,216
Investment properties	16	204,371	198,759
Prepaid land premiums	17	1,129,884	1,136,358
Goodwill	18	8,649,068	8,537,759
Operating concessions	19	1,697,362	1,813,494
Other intangible assets	20	26,911	14,969
Interests in jointly-controlled entities	22	5,397,326	4,508,590
Interests in associates	23	899,778	802,207
Amounts due from contract customers	26	1,286,205	–
Receivables under service concession arrangements	19	3,414,841	2,821,311
Trade and bills receivables	27	51,710	–
Prepayments, deposits and other receivables	28	270,829	124,270
Available-for-sale investments	24	290,000	309,789
Deferred tax assets	41	564,490	484,772
Total non-current assets		42,928,260	38,740,494
Current assets:			
Prepaid land premiums	17	26,433	24,356
Inventories	25	2,995,039	3,067,436
Amounts due from contract customers	26	55,089	202,512
Receivables under service concession arrangements	19	659,566	380,792
Trade and bills receivables	27	1,097,656	1,056,026
Prepayments, deposits and other receivables	28	1,653,855	1,419,334
Financial assets at fair value through profit or loss	30	–	1,566
Other taxes recoverable		85,141	72,873
Restricted cash and pledged deposits	31	118,245	64,413
Cash and cash equivalents	32	9,486,026	6,666,940
Total current assets		16,177,050	12,956,248
TOTAL ASSETS		59,105,310	51,696,742

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	33	113,737	113,700
Reserves	35(a)(i)	30,679,528	29,006,598
Proposed final dividends	13	511,817	511,650
		31,305,082	29,631,948
Minority interests		7,711,919	6,678,522
TOTAL EQUITY		39,017,001	36,310,470
Non-current liabilities:			
Bank and other borrowings	36	5,264,237	3,895,388
Convertible bonds	37	2,721,488	515,908
Defined benefit plans	38	423,947	389,815
Provision for major overhauls	39	184,499	121,438
Other non-current liabilities	40	196,055	204,442
Deferred tax liabilities	41	413,139	279,859
Total non-current liabilities		9,203,365	5,406,850
Current liabilities:			
Trade and bills payables	42	1,408,103	1,190,222
Amounts due to contract customers	26	48,342	107,831
Other payables and accruals	43	5,436,612	4,689,729
Income tax payable		522,316	457,983
Other taxes payable		431,623	361,021
Bank and other borrowings	36	3,037,948	3,172,636
Total current liabilities		10,884,944	9,979,422
TOTAL LIABILITIES		20,088,309	15,386,272
TOTAL EQUITY AND LIABILITIES		59,105,310	51,696,742

Wang Dong
Director

Zhang Honghai
Director

Year ended 31 December 2009

	Notes	Attributable to shareholders of the Company												
		Issued capital	Share premium account	Capital redemption reserve	Share option reserve	Capital reserve	Property revaluation reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Proposed final dividends	Total	Minority interests	Total equity
		HK$'000	HK$'000	HK$'000 (note 35 (a)(ii))	HK$'000 (note 35 (a)(iii))	HK$'000 (note 35 (a)(v))	HK$'000	HK$'000	HK$'000 (note 35 (a)(iv))	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008		113,894	20,721,710	–	4,007	412,782	12,332	1,298,714	1,006,361	2,863,938	455,576	26,889,314	4,675,076	31,564,390
Total comprehensive income for the year		–	–	–	–	–	17,561	1,182,513	–	2,281,828	–	3,481,902	709,242	4,191,144
Exercise of share options	33(a)	34	5,596	–	(1,363)	–	–	–	–	–	–	4,267	–	4,267
Repurchase and cancellation of shares	33(b)	(228)	–	228	–	–	–	–	–	(56,416)	–	(56,416)	–	(56,416)
Capital contribution by minority shareholders		–	–	–	–	–	–	–	–	–	–	–	722,641	722,641
Acquisition of subsidiaries	44	–	–	–	–	–	–	–	–	–	–	–	262,343	262,343
Acquisition of minority interests		–	–	–	–	–	–	–	–	–	–	–	(15,134)	(15,134)
Disposal of subsidiaries	45	–	–	–	–	19,023	–	(20,197)	(11,762)	(7,261)	–	(20,197)	(84,429)	(104,626)
Deemed disposal of interest in a subsidiary		–	–	–	–	450,791	–	–	–	(450,791)	–	–	580,595	580,595
Deemed disposal of interest in an associate		–	–	–	–	17,112	–	614	969	(18,081)	–	614	–	614
Share of reserves of associates		–	–	–	–	19,749	–	2	90	(4,322)	–	15,519	–	15,519
Final 2007 dividends		–	–	–	–	–	–	–	–	–	(455,576)	(455,576)	–	(455,576)
Interim 2008 dividend	13	–	–	–	–	–	–	–	–	(227,479)	–	(227,479)	–	(227,479)
Proposed final 2008 dividends	13	–	–	–	–	–	–	–	–	(511,650)	511,650	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(171,812)	(171,812)
Transfer to reserves		–	–	–	–	3,086	–	–	292,611	(295,697)	–	–	–	–
At 31 December 2008 and 1 January 2009		113,700	20,727,306*	228*	2,644*	922,543*	29,893*	2,461,646*	1,288,269*	3,574,069*	511,650	29,631,948	6,678,522	36,310,470
Total comprehensive income 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 minority shareholders		–	–	–	–	–	–	–	–	–	–	–	309,336	309,336
Acquisition of subsidiaries	44	–	–	–	–	–	–	–	–	–	–	–	50,069	50,069
Acquisition of minority interests		–	–	–	–	–	–	–	–	–	–	–	(177,999)	(177,999)
Disposal of subsidiaries	45	–	–	–	–	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 minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(202,874)	(202,874)
Transfer to reserves		–	–	–	–	–	–	–	926,284	(926,284)	–	–	–	–
At 31 December 2009		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

* These reserve accounts comprise the consolidated reserves of HK$30,679,528,000 (2008: HK$29,006,598,000) in the consolidated statement of financial position.

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,605,386	3,055,585
Adjustments for:			
Interest income	5	(90,070)	(116,234)
Investment income	5	–	(1,370)
Excess over the cost of acquisition of subsidiaries and minority interests	5	–	(8,669)
Gain on disposal of interests in subsidiaries, net	5	(60,830)	(94,707)
Gain on deemed disposal of interest in a subsidiary		(105,426)	(450,791)
Gain on deemed disposal of interest in an associate	5	–	(2,084)
Gain on disposal of an available-for-sale investment carried at cost	5	(7,021)	(10,456)
Gain on disposal of financial assets at fair value through profit or loss, net	5	(363)	(393)
Depreciation	7	1,305,884	1,208,107
Amortisation of operating concessions	7	105,139	90,222
Amortisation of patents	7	56	26
Amortisation of computer software	7	3,780	23,483
Impairment of items of property, plant and equipment	7	76,820	36,231
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	18,381	2,234
Fair value (gain)/loss on investment properties	7	(5,603)	1,750
Fair value loss on financial assets at fair value through profit or loss, net	7	–	2,247
Provision against inventories, net	7	21,005	11,121
Impairment of receivables under service concession arrangements, net	7	61,841	46,511
Impairment of trade and bills receivables, net	7	49,644	26,559
Impairment of other receivables, net	7	22,019	26,442
Finance costs	8	363,574	407,068
Share of profits and losses of jointly-controlled entities and associates		(1,084,154)	(765,817)
Operating profit before working capital changes		4,291,420	3,487,065

Year ended 31 December 2009

	2009 *HK$'000*	2008 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES (continued)		
Operating profit before working capital changes	4,291,420	3,487,065
Increase in prepaid land premiums	(58,484)	(309,765)
Decrease/(increase) in inventories	55,733	(654,162)
Increase in amounts due from contract customers	(1,026,581)	(92,157)
Decrease/(increase) in receivables under service concession arrangements	(744,039)	73,785
Increase in trade and bills receivables	(139,164)	(228,553)
Decrease/(increase) in prepayments, deposits and other receivables	(552,100)	149,277
Increase in other taxes recoverable	(12,268)	(34,988)
Increase/(decrease) in trade and bills payables	177,188	(732,340)
Increase/(decrease) in amounts due to contract customers	(59,489)	87,363
Increase in other payables and accruals	579,347	23,651
Increase in other taxes payable	70,587	14,924
Increase in defined benefit plans	34,329	150,183
Increase/(decrease) in provision for major overhauls	59,472	(42,047)
Increase/(decrease) in other non-current liabilities	(24,650)	78,320
Cash generated from operations	2,651,301	1,970,556
Dividends received from jointly-controlled entities and associates	883,557	496,536
Mainland China income tax paid	(441,368)	(475,583)
Net cash flows from operating activities	3,093,490	1,991,509

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(2,250,169)	(2,574,853)
Proceeds from disposal of items of property, plant and equipment		62,585	24,804
Purchases of operating concessions		(44,043)	–
Purchases of other intangible assets		(15,773)	(24,465)
Proceeds from disposal of other intangible assets		76	–
Acquisition of subsidiaries	44	4,140	11,633
Acquisition of minority interests		(47,015)	(172,322)
Disposal of subsidiaries	45	136,531	(79,625)
Acquisition of and increase in investments in jointly-controlled entities and associates		(753,935)	(523,746)
Proceeds from disposal of interests in associates		6,925	–
Increase in amounts due from/to and loans to jointly-controlled entities and associates		(123,703)	(12,511)
Purchases of available-for-sale investments		–	(18,508)
Proceeds from disposal of an available-for-sale investment		7,021	10,056
Purchases of financial assets at fair value through profit or loss		–	(2,976)
Proceeds from disposal of financial assets at fair value through profit or loss		1,929	33,938
Increase in time deposits with maturity of more than three months when acquired		(1,248,305)	(380,444)
Decrease/(increase) in pledged deposits		(53,832)	66,608
Interest received		89,634	106,628
Investment income received		–	1,370
Net cash flows used in investing activities		(4,227,934)	(3,534,413)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options	33(a)	4,644	4,267
Repurchase of ordinary shares	33(b)	–	(56,416)
Capital contributions by minority shareholders		613,064	722,641
Issue of convertible bonds	37	2,369,537	100,000
New loans		6,951,653	4,726,606
Repayment of loans		(5,980,743)	(4,780,885)
Interest paid		(311,201)	(366,562)
Dividends paid		(739,107)	(683,055)
Dividends paid to minority shareholders		(202,874)	(171,812)
Net cash flows from/(used in) financing activities		2,704,973	(505,216)

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,570,529	(2,048,120)
Cash and cash equivalents at beginning of year		6,256,581	8,042,569
Effect of foreign exchange rate changes, net		252	262,132
CASH AND CASH EQUIVALENTS AT END OF YEAR		7,827,362	6,256,581
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	32	5,714,023	4,767,691
Cash equivalents	32	79,376	90,827
Time deposits	32	3,810,872	1,872,835
Less: Restricted cash and pledged deposits	32	(118,245)	(64,413)
Cash and cash equivalents as stated in the consolidated statement of financial position		9,486,026	6,666,940
Less: Time deposits with maturity of more than three months when acquired		(1,658,664)	(410,359)
Cash and cash equivalents as stated in the consolidated statement of cash flows		7,827,362	6,256,581

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	15	4,039	5,540
Investment properties	16	38,617	36,650
Interests in subsidiaries	21	22,516,330	23,339,032
Interests in jointly-controlled entities	22	2,584	2,598
Interests in associates	23	93,044	92,982
Available-for-sale investments	24	132,572	132,494
Total non-current assets		22,787,186	23,609,296
Current assets:			
Trade and bills receivables	27	999	999
Prepayments, deposits and other receivables	28	125,631	119,303
Financial assets at fair value through profit or loss	30	–	1,566
Cash and cash equivalents	32	1,205,903	210,664
Total current assets		1,332,533	332,532
TOTAL ASSETS		24,119,719	23,941,828

31 December 2009

	Notes	2009 *HK$'000*	2008 *HK$'000*
EQUITY AND LIABILITIES			
Equity:			
Issued capital	33	113,737	113,700
Reserves	35(b)	20,760,287	20,814,133
Proposed final dividends	13	511,817	511,650
TOTAL EQUITY		21,385,841	21,439,483
Non-current liabilities:			
Bank and other borrowings	36	2,607,202	2,095,267
Current liabilities:			
Bank and other borrowings	36	–	296,300
Other payables and accruals	43	116,697	100,799
Other taxes payable		9,979	9,979
Total current liabilities		126,676	407,078
TOTAL LIABILITIES		2,733,878	2,502,345
TOTAL EQUITY AND LIABILITIES		24,119,719	23,941,828

Wang Dong
Director

Zhang Honghai
Director

1. CORPORATE INFORMATION

Beijing Enterprises Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong and shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company and its subsidiaries (collectively the "Group") were involved in the following principal activities:

- the distribution and sale of piped natural gas, the provision of gas technology consultation and development services, surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repair and maintenance services in Beijing, the People's Republic of China (the "PRC")

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

- the construction of sewage and water treatment plants, 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 and certain financial assets which have been measured at fair value. 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 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Contingent consideration is recognised if the adjustment is probable and can be measured reliably. Subsequent measurement to the contingent consideration affects goodwill.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised in the consolidated statement of financial position as goodwill or in the consolidated income statement as an excess over cost of acquisition, where appropriate.

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 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKFRS 8 Amendment *	Amendment to HKFRS 8 *Operating Segments – Disclosure of Information about Segment Assets* (early adopted)
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment *	Amendment to Appendix to HKAS 18 *Revenue – Determining Whether an Entity is Acting as a Principal or as an Agent*
HKAS 23 (Revised)	*Borrowing Costs*

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008) **	Amendments to a number of HKFRSs

* Included in Improvements to HKFRSs 2009 (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

(a) **Amendments to HKFRS 1** ***First-time Adoption of HKFRSs*** **and HKAS 27** ***Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***

The HKAS 27 Amendment requires all dividends from subsidiaries, jointly-controlled entities and associates to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Group to consider whether there is an indicator of impairment. The amendment is applied prospectively. HKAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

(b) **Amendments to HKFRS 2** ***Share-based Payment – Vesting Conditions and Cancellations***

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or result of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

The Group has early adopted in these financial statements the Amendment to HKFRS 8 issued in *Improvements to HKFRSs 2009* which clarifies that segment assets need only to be reported when those assets are included in measures that are used by the chief operating decision maker.

(d) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard introduces the statement of comprehensive income, with all items of income and expense recognised in the income statement, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(e) Amendment to Appendix to HKAS 18 *Revenue – Determining Whether an Entity is Acting as a Principal or as an Agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that the amendment has had no impact on the financial position or results of operations of the Group.

(f) HK(IFRIC)-Int 18 *Transfers of Assets from Customers* (adopted from 1 July 2009)

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. The Group has recognised the assets (e.g., gas pipelines and gas metres) transferred from the property developers or builders at their fair values on the dates of the transfers, with the credit recognised as other income in accordance with HKAS 18 *Revenue*.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(g) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 16 *Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

  In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

- HKAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

- HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
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* [4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 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* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

[1] *Effective for annual periods beginning on or after 1 July 2009*
[2] *Effective for annual periods beginning on or after 1 January 2010*
[3] *Effective for annual periods beginning on or after 1 February 2010*
[4] *Effective for annual periods beginning on or after 1 July 2010*
[5] *Effective for annual periods beginning on or after 1 January 2011*
[6] *Effective for annual periods beginning on or after 1 January 2013*

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

Further information about those changes that are expected to be relevant to the Group is as follows:

(a) The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 *Scope of HKFRS 2* and HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*. The amendments are unlikely to have any significant implications on the Group's accounting for share-based payments.

(b) HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that 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 HKAS 27 changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made 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 Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

(c) 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. HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013.

(d) 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 and is in the process of making an assessment of the impact upon the adoption of the revised standard on the Group's related party disclosures.

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

(e) HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in the income statement. Other consequential amendments were made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any significant financial impact on the Group.

(f) The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

(g) HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in the income statement. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* in May 2009 sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKAS 18 and the amendment to HKFRS 8 which were early adopted, the Group expects to adopt the amendments from 1 January 2010. 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 be relevant to the Group are as follows:

(a) HKFRS 2 *Share-based Payment:* Clarifies that a contribution of a business on the formation of a joint venture and combination of entities or businesses under common control is not within the scope of HKFRS 2 even though it is outside the scope of HKFRS 3.

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

(b) HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies that (i) the disclosures required in respect of non-current assets (or a disposal group) classified as held for sale or a discontinued operation are those set out in HKFRS 5; (ii) the general requirements of HKAS 1 still apply (e.g., source of estimation uncertainty); and (iii) the disclosures in other HKFRSs are not required unless:

(i) those HKFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or

(ii) the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of measurement requirements of HKFRS 5 and disclosures are not disclosed elsewhere in the financial statements.

(c) 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.

(d) 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.

(e) 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.

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 *Investment Property*.

(f) 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.

(g) 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 for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

2.4 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 interests 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 interests 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 interests 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 interests 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 interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising on the acquisition of associates, which was not previously eliminated against the consolidated capital reserve, is included as part of the Group's interests 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 interests in associates are treated as non-current assets and are stated at cost less any accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Group or its holding companies;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2004

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed 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 testing for 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill on acquisitions for which the agreement date is on or after 1 January 2004 (continued)

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.

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.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, jointly-controlled entities and associates, after reassessment, is recognised immediately in the consolidated income statement.

The excess for jointly-controlled entities and associates is included in the Group's share of the jointly-controlled entities' and associates' profits or losses in the period in which the investments are acquired.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 or investment properties 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor, are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for "Investments and other financial assets" below.

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

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

Construction or upgrade services

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Service concession arrangements (continued)

Operating services

Revenue 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 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 to sell entrance tickets in a scenic area, and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 40 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Patents

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

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 other than goodwill

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

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 financial assets 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

(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 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 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 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 investment valuation 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 for "Other investment income" 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 that investment 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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 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 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- 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 (loans and borrowings)

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are all classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value less directly attributable transaction costs.

Subsequent measurement

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantee contracts

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

Convertible bonds

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 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 ordinary shares issued is recorded in their respective share premium accounts. When convertible bonds are redeemed, the carrying amount of the equity component is transferred to retained profits as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognised in the income statement. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits as a movement in reserves. No gain or loss is recognised in the income statement upon conversion or expiration of the conversion option.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Treasury shares

The Company's own ordinary shares which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Company's own ordinary shares.

Upon repurchase and cancellation of the Company's own ordinary shares, the issued share capital of the Company is reduced by the nominal value thereof and the premium paid on repurchase of the Company's own ordinary shares is charged to the retained profits of the Company. Pursuant to Section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the nominal value of the shares cancelled upon repurchase is transferred from the retained profits of the Company to the capital redemption reserve of the Company.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services (continued)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 and associates and interests in 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 and associates and interests in 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (loans and borrowings)” 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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(h) profit and loss from the trading of listed or unlisted investments, on the trade dates; and

(i) other investment income, when the right to receive payment has been established.

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 or 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

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 made are 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 made are 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 income statements 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 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 2009 were HK$1,697,362,000 (2008: HK$1,813,494,000), and HK$4,074,407,000 (2008: HK$3,202,103,000), 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 included:

(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 2009 was HK$184,499,000 (2008: HK$121,438,000). Further details of which are set out in note 39 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 2009 was HK$8,704,690,000 (2008: HK$8,593,381,000) 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 2009 were HK$19,045,485,000 (2008: HK$17,988,216,000), and HK$1,724,273,000 (2008: HK$1,828,463,000), respectively, details of which are set out in notes 15, 19 and 20 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 2009 was HK$290,000,000 (2008: HK$309,789,000), details of which are set out in note 24 to the financial statements.

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

The Group's management determines the provision for impairment of receivables under service concession arrangements, trade and bills receivables and other receivables. This estimate is based on the evaluation of collectibility and aged analysis of accounts and on management's estimation in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been changed. The carrying amounts of receivables under service concession arrangements, trade and bills receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2009 were HK$4,074,407,000 (2008: HK$3,202,103,000), HK$1,149,366,000 (2008: HK$1,056,026,000) and HK$1,840,444,000 (2008: HK$1,495,637,000), 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 2009 was HK$2,995,039,000 (2008: HK$3,067,436,000), details of which are set out in note 25 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Defined benefit plans

The present value of the retirement benefit obligations under the various defined benefit plans of the Group depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligations. Key assumptions for the obligations are based in part on the current market conditions. The carrying amount of the obligations carried as liabilities in the consolidated statement of financial position under defined benefit plans as at 31 December 2009 was HK$424,739,000 (2008: HK$390,410,000), details of which are disclosed in note 38 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 liabilities in the consolidated statement of financial position as at 31 December 2009 was HK$522,316,000 (2008: HK$457,983,000).

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 2009 were HK$564,490,000 (2008: HK$484,772,000) and HK$413,139,000 (2008: HK$279,859,000), respectively, details of which are set out in note 41 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, 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, tourism operation (discontinued during the year ended 31 December 2008, as further detailed in note 45(c)(i) to the financial statements), the production, distribution and sale of wine (discontinued during the year ended 31 December 2008, as further detailed in note 45(c)(i) to the financial statements), property investment and corporate income and expense items.

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Group

Year ended 31 December 2009

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

4. OPERATING SEGMENT INFORMATION (continued)

Group

Year ended 31 December 2008

	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$'000*	Inter-segment reconciliations *HK$'000*	Consolidated *HK$'000*
Segment revenue	10,151,850	8,473,234	570,616	475,323	33,224	–	19,704,247
Cost of sales	(8,707,557)	(6,079,221)	(175,483)	(218,093)	(18,997)	–	(15,199,351)
Gross profit	1,444,293	2,394,013	395,133	257,230	14,227	–	4,504,896
Profit/(loss) from operating activities	793,642	900,602	319,702	233,280	460,511	(10,901)	2,696,836
Finance costs	(42,780)	(208,606)	(65,196)	(10,226)	(91,161)	10,901	(407,068)
Share of profits and losses of:							
Jointly-controlled entities	913,439	–	(811)	–	–	–	912,628
Associates	–	(1,091)	–	205	(145,925)	–	(146,811)
Profit before tax	1,664,301	690,905	253,695	223,259	223,425	–	3,055,585
Income tax	(174,324)	(57,818)	(51,868)	(44,041)	(31,246)	–	(359,297)
Profit for the year	1,489,977	633,087	201,827	179,218	192,179	–	2,696,288
Segment profit attributable to shareholders of the Company	1,481,171	210,276	186,000	171,936	232,445	–	2,281,828
Segment assets	25,422,652	14,044,360	7,271,640	2,580,337	6,113,194	(3,735,441)	51,696,742
Segment equity	19,048,527	8,435,238	3,947,055	2,138,522	2,741,128	–	36,310,470
Other segment information:							
Depreciation	531,035	655,417	2,373	14,625	4,657	–	1,208,107
Amortisation of operating concessions	–	–	5,798	84,424	–	–	90,222
Amortisation of other intangible assets	23,420	–	79	–	10	–	23,509
Impairment/provision/(reversal of impairment/provision) against segment assets, net	75,503	1,478	46,717	52,854	(29,688)	–	146,864
Fair value loss on investment properties	–	–	–	–	1,750	–	1,750
Provision for major overhauls	–	–	7,285	37,078	–	–	44,363
Capital expenditure *	1,524,336	985,261	5,024	8,665	76,032	–	2,599,318

* 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

Since over 90% of the Group's revenue from external customers is generated in the PRC and over 90% of the assets of the Group are located in the PRC, no geographical information is presented.

Information about major customers

During each of the years ended 31 December 2009 and 2008, none of the Group's revenue was derived from transactions with individual external customers amounting to 10 per cent or more of the Group's revenue.

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:

	2009 *HK$'000*	2008 *HK$'000*
Revenue		
Piped gas operation	11,942,601	10,151,625
Sewage and water treatment operations [δ]	1,875,270	570,615
Brewery operation	9,758,104	8,473,045
Expressway and toll road operations	410,035	475,318
Corporate and others	222,420	33,644
	24,208,430	19,704,247

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

	2009 *HK$'000*	2008 *HK$'000*
Other income		
Bank interest income	89,634	106,628
Imputed interest income on interest-free other receivables	436	9,606
Rental income #	22,173	16,320
Service income	20,392	19,067
Investment income	–	1,370
Government grants *	142,197	202,030
Sludge treatment income	12,791	–
Others	79,343	46,361
	366,966	401,382
Gains, net		
Fair value gain on investment properties *(note 16)*	5,603	–
Excess over the cost of acquisition of subsidiaries and minority interests	–	8,669
Gain on disposal of interests in subsidiaries, net *(note 45)* †	60,830	94,707
Gain on deemed disposal of interest in an associate Ω	–	2,084
Gain on disposal of an available-for-sale investment carried at cost	7,021	10,456
Gain on disposal of financial assets at fair value through profit or loss, net	363	393
Foreign exchange differences, net	–	17,239
	73,817	133,548
Other income and gains, net	440,783	534,930

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

δ Imputed interest income on receivables under service concession arrangements of HK$411,763,000 (2008: HK$276,549,000) 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. Further details of the operating lease arrangements are set out in note 48(a) to the financial statements.

* 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 interests in 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 45(a) and (b) to the financial statements, respectively.

The gain on disposal of interests in subsidiaries recognised during the year ended 31 December 2008 was attributable to the disposal of the Group's 100% equity interest in Everbest Islands Limited ("Everbest"), 51% equity interest in each of 北京順興葡萄酒有限公司 ("Shun Xing") and 北京豐收葡萄酒有限公司 ("Feng Shou"), 100% equity interest in Helken Industries Limited ("Helken") and 100% equity interest in Shanghai Classic Limited. Further details of the disposal of these subsidiaries are set out in note 45(c) to the financial statements.

Ω The gain on deemed disposal of interest in an associate recognised during the year ended 31 December 2008 arose from the dilution of the Group's effective equity interest in Beijing Development (Hong Kong) Limited ("Beijing Development") upon the issuance of new ordinary shares by Beijing Development during that year.

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 2009 and 2008 arose from the dilution of the Group's equity interest in Beijing Enterprises Water Group Limited ("BE Water"), an indirectly-held subsidiary of the Company acquired by the Group during the year ended 31 December 2008, from 64.32% to 57.35% (2008: from 74.78% to 64.32%) upon the issuance of new ordinary shares by BE Water during these years. Further details of the acquisition of BE Water during the year ended 31 December 2008 are included in note 44(c)(i) to the financial statements.

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2009 HK$'000	2008 HK$'000
Cost of inventories sold		16,577,373	14,496,851
Cost of services provided		1,707,351	612,252
Depreciation	15	1,305,884	1,208,107
Amortisation of prepaid land premiums	17	29,092	26,652
Amortisation of operating concessions *	19	105,139	90,222
Amortisation of patents *	20	56	26
Amortisation of computer software **	20	3,780	23,483
Research and development expenditure		8,268	4,295
Loss on disposal of items of property, plant and equipment, net		18,381	2,234
Fair value (gain)/loss on investment properties	16	(5,603)	1,750
Fair value loss on financial assets at fair value through profit or loss, net		–	2,247
Minimum lease payments under operating leases:			
Land and buildings		116,051	66,721
Plant and machinery		601	1,564
		116,652	68,285
Auditors' remuneration		8,400	8,400
Employee benefit expense			
(including directors' remuneration *(note 9)*):			
Salaries, allowances and benefits in kind		2,067,461	1,721,547
Net pension scheme contributions		219,883	171,598
Cost of defined benefit plans **	38(a)	35,106	150,771
		2,322,450	2,043,916

7. PROFIT FROM OPERATING ACTIVITIES (continued)

	Notes	2009 HK$'000	2008 HK$'000
Provision against inventories, net		21,005	11,121
Provision for major overhauls	39	59,472	44,363
Impairment of items of property, plant and equipment ***	15	76,820	36,231
Impairment of receivables under service concession arrangements, net	19(e)	61,841	46,511
Impairment of an available-for-sale investment carried at cost	24	11,358	–
Impairment of trade and bills receivables, net	27(c)	49,644	26,559
Net impairment/(reversal of impairment) of other receivables due from:	28(b)		
Related parties		23,619	52,854
Others		(1,600)	(26,412)
		22,019	26,442
Investment income from listed investments		–	(1,370)
Net rental income on investment properties less direct operating expenses of HK$1,291,000 (2008: HK$1,274,000)		(18,217)	(13,869)
Foreign exchange differences, net		6,749	(17,239)

* 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 impairment of items of property, plant and equipment for the year is included in "Other operating expenses, net" on the face of the consolidated income statement.

8. FINANCE COSTS

		Group	
		2009	2008
	Notes	*HK$'000*	*HK$'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years		285,814	370,398
Interest on other loans		874	1,415
Interest on convertible bonds	37	32,423	–
Imputed interest on convertible bonds	37	40,782	21,294
Imputed interest on an interest-free amount due to the immediate holding company with an extended credit period of one year	44	–	10,780
Imputed interest on an interest-free other loan from a minority shareholder		7,396	7,410
Total interest expense		367,289	411,297
Increase in discounted amounts of provision for major overhauls arising from the passage of time	39	3,587	1,022
Total finance costs		370,876	412,319
Less: Interest included in cost of construction contracts		(7,302)	(5,251)
		363,574	407,068

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	
	2009	2008
	HK$'000	*HK$'000*
Fees:		
Executive directors	1,825	1,650
Independent non-executive directors	720	678
	2,545	2,328
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	20,318	19,344
Pension scheme contributions	19	19
	20,337	19,363
	22,882	21,691

(a) Independent non-executive directors

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

	2009	2008
	HK$'000	*HK$'000*
Mr. Wu Jiesi	180	180
Mr. Robert A. Theleen	180	174
Mr. Lam Hoi Ham	180	150
Mr. Fu Ting Mei	180	90
Mr. Lau Hon Chuen, Ambrose	–	24
Dr. Lee Tung Hai, Leo	–	30
Mr. Wang Xian Zhang	–	30
	720	678

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'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
Year ended 31 December 2008				
Mr. Yi Xiqun	150	3,225	–	3,375
Mr. Zhang Honghai	150	2,611	–	2,761
Mr. Li Fucheng	300	–	–	300
Mr. Bai Jinrong	150	2,913	–	3,063
Mr. Zhou Si	150	2,576	–	2,726
Mr. Liu Kai	120	2,152	–	2,272
Mr. Guo Pujin	150	–	–	150
Mr. E Meng	120	2,152	–	2,272
Mr. Lei Zhengang	120	–	–	120
Mr. Jiang Xinhao	120	2,152	–	2,272
Mr. Tam Chun Fai	120	1,563	19	1,702
	1,650	19,344	19	21,013

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 2009 and 2008 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 2009 as the Group did not generate any assessable profits in Hong Kong during the year (2008: 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	
	2009	2008
	HK$'000	*HK$'000*
Current – PRC:		
Hong Kong	–	–
Mainland China	542,074	415,952
Overprovision in prior years	(36,495)	(57,959)
Deferred *(note 41)*	53,418	1,304
Total tax charge for the year	558,997	359,297

11. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit 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 – 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

11. INCOME TAX (continued)

Group – 2008

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	371,851		2,683,734		3,055,585	
Tax at the statutory tax rate	61,363	16.5	670,933	25.0	732,296	24.0
Lower tax rate for specific provinces or enacted by local authority	–	–	(98,741)	(3.7)	(98,741)	(3.2)
Adjustments in respect of current tax of previous periods	(76)	–	(57,883)	(2.1)	(57,959)	(1.9)
Profits and losses attributable to jointly-controlled entities and associates	29,091	7.8	(234,183)	(8.7)	(205,092)	(6.7)
Income not subject to tax	(129,026)	(34.7)	(48,044)	(1.8)	(177,070)	(5.8)
Expenses not deductible for tax	11,936	3.2	46,915	1.7	58,851	1.9
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	–	–	29,542	1.1	29,542	1.0
Tax losses not recognised as deferred tax assets	26,636	7.2	58,971	2.2	85,607	2.8
Tax losses utilised from previous periods	–	–	(8,137)	(0.3)	(8,137)	(0.3)
Tax charge/(credit) at the Group's effective rate	(76)	–	359,373	13.4	359,297	11.8

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 2009 includes a profit of HK$680,821,000 (2008: HK$350,671,000) which has been dealt with in the financial statements of the Company *(note 35(b))*.

13. DIVIDENDS

	2009 HK$'000	2008 HK$'000
Interim – HK$0.20 (2008: HK$0.20) per ordinary share	227,457	227,479*
Proposed final – HK$0.45 (2008: HK$0.40) per ordinary share	511,817	454,800
Proposed final special – Nil (2008: HK$0.05 per ordinary share)	–	56,850
	511,817	511,650
	739,274	739,129

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

* The interim dividend for the six months ended 30 June 2008 disclosed in the Company's interim report dated 17 September 2008 for that period was HK$227,600,000, which is different from the amount actually paid disclosed above as a result of the repurchase and cancellation of the Company's ordinary shares during the period between 17 September 2008 (the date of approval of the interim condensed financial statements of the Company for the six months ended 30 June 2008) and 3 October 2008 (the date of closure of the register of members).

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 amounts 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, 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.

14. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (continued)

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

	2009 *HK$'000*	2008 *HK$'000*
Earnings:		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	2,398,883	2,281,828
Imputed interest expense for the year relating to the liability component of the dilutive convertible bonds of the Group	73,205	21,294
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)	(145,292)
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	2,352,891	2,157,830

	2009	2008
Number of ordinary shares:		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	1,137,162,342	1,138,028,340
Effect of dilution – weighted average number of ordinary shares:		
Share options	342,838	525,258
Convertible bonds	28,904,109	–
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	1,166,409,289	1,138,553,598

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Buildings HK$'000 (notes (a) and (b))	Leasehold improvements HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000 (note (b))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2009									
At 31 December 2008 and 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	44	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
At 31 December 2009:									
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

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Notes	Buildings HK$'000 (notes (a) and (b))	Leasehold improvements HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000 (note (b))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2008									
At 1 January 2008:									
Cost		4,596,989	14,735	6,510,856	7,545,582	387,473	371,583	1,263,560	20,690,778
Accumulated depreciation and impairment		(826,313)	(10,899)	(253,814)	(3,377,854)	(211,567)	(166,888)	(29,809)	(4,877,144)
Net carrying amount		3,770,676	3,836	6,257,042	4,167,728	175,906	204,695	1,233,751	15,813,634
Net carrying amount:									
At 1 January 2008		3,770,676	3,836	6,257,042	4,167,728	175,906	204,695	1,233,751	15,813,634
Acquisition of subsidiaries	44	–	450	–	–	3,644	6,017	–	10,111
Additions		83,867	3,257	94,167	207,773	37,892	64,522	2,083,375	2,574,853
Transfer from construction in progress		401,011	–	551,079	848,637	11,818	3,207	(1,815,752)	–
Fair value gain on revaluation upon transfer to investment properties		17,561	–	–	–	–	–	–	17,561
Transfer to investment properties	16	(36,650)	–	–	–	–	–	–	(36,650)
Depreciation provided during the year		(141,587)	(710)	(320,380)	(648,818)	(45,152)	(51,460)	–	(1,208,107)
Impairment during the year recognised in the income statement		–	–	–	–	–	–	(36,231)	(36,231)
Disposals		(20,736)	–	–	(9,827)	(1,175)	(4,176)	(29,002)	(64,916)
Disposal of subsidiaries	45	(41,640)	(1,091)	–	(32,466)	(6,114)	(4,946)	(1,712)	(87,969)
Exchange realignment		236,385	79	399,223	266,293	10,759	12,730	80,461	1,005,930
At 31 December 2008		4,268,887	5,821	6,981,131	4,799,320	187,578	230,589	1,514,890	17,988,216

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2009					
At 31 December 2008 and 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
At 31 December 2009:					
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
Year ended 31 December 2008					
At 1 January 2008:					
Cost	23,502	5,196	5,577	2,056	36,331
Accumulated depreciation	(3,881)	(3,881)	(5,272)	(1,836)	(14,870)
Net carrying amount	19,621	1,315	305	220	21,461
Net carrying amount:					
At 1 January 2008	19,621	1,315	305	220	21,461
Additions	–	3,231	–	1,532	4,763
Fair value gain on revaluation upon transfer to investment properties *(note 35(b))*	17,561	–	–	–	17,561
Transferred to investment properties *(note 16)*	(36,650)	–	–	–	(36,650)
Depreciation provided during the year	(532)	(479)	(185)	(289)	(1,485)
Disposals	–	–	–	(110)	(110)
At 31 December 2008	–	4,067	120	1,353	5,540

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) The buildings of the Group included above as at 31 December 2009 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	–	6,025,413	6,025,413
	29,170	6,025,413	6,054,583

(b) Certain of the above buildings, plant and machinery of the Group with an aggregate net carrying amount as at 31 December 2009 of HK$4,952,000 (2008: HK$31,724,000) were pledged to secure certain bank and other loans granted to the Group *(note 36(d)(i))*.

16. INVESTMENT PROPERTIES

		Group		Company	
		2009	2008	2009	2008
	Notes	*HK$'000*	*HK$'000*	HK$'000	*HK$'000*
Carrying amount at 1 January		198,759	334,262	36,650	159,650
Transfer from property, plant and equipment	15	–	36,650	–	36,650
Transfer from prepaid land premiums	17	–	48,122	–	–
Disposals		–	(214,042)	–	(159,650)
Disposal of subsidiaries	45	–	(11,000)	–	–
Fair value gain/(loss) on revaluation		5,603	(1,750)	1,967	–
Exchange realignment		9	6,517	–	–
Carrying amount at 31 December		204,371	198,759	38,617	36,650

16. INVESTMENT PROPERTIES (continued)

Notes:

(a) The investment properties of the Group as at 31 December 2009 are held under the following lease terms:

Group

	Hong Kong *HK$'000*	Elsewhere *HK$'000*	Total *HK$'000*
Long term leases	8,550	–	8,550
Medium term leases	–	195,821	195,821
	8,550	195,821	204,371

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

(b) At 31 December 2009, 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	2009 *HK$'000*	2008 *HK$'000*
Carrying amount at 1 January		1,160,714	856,339
Acquisition of subsidiaries	44	28,005	–
Additions		88,561	336,049
Transfer to construction in progress	15	(90,968)	–
Amortisation provided during the year		(29,092)	(26,652)
Transfer to investment properties	16	–	(48,122)
Disposals		(985)	(276)
Disposal of subsidiaries	45	–	(12,137)
Exchange realignment		82	55,513
Carrying amount at 31 December		1,156,317	1,160,714
Portion classified as current assets		(26,433)	(24,356)
Non-current portion		1,129,884	1,136,358

All leasehold land of the Group as at 31 December 2009 is held under medium term leases.

Certain of the leasehold land of the Group with an aggregate carrying amount as at 31 December 2009 of HK$71,508,000 (2008: HK$30,724,000) was pledged to secure certain bank and other loans granted to the Group *(note 36(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 minority interests, is as follows:

Group

	2009 *HK$'000*	2008 *HK$'000*
Cost and net carrying amount:		
At 1 January	8,537,759	6,898,734
Acquisition of subsidiaries *(note 44)*	20,607	1,466,760
Acquisition of minority interests	87,925	164,613
Exchange realignment	2,777	7,652
At 31 December	8,649,068	8,537,759

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 movement of the amount of goodwill remaining in the consolidated capital reserve, arising on the acquisition of subsidiaries prior to 1 January 2001, during the year is as follows:

	2009 *HK$'000*	2008 *HK$'000*
Cost and net carrying amount:		
At 1 January	6,048	26,062
Disposal of a subsidiary	–	(20,014)
At 31 December	6,048	6,048

18. GOODWILL (continued)

Notes: (continued)

(b) Impairment testing of goodwill

The carrying amount of the goodwill acquired through acquisitions has been allocated to the relevant business units of the following individual business operations of the Group for impairment testing, which is summarised as follows:

Group

	Notes	2009 *HK$'000*	2008 *HK$'000*
Piped gas operation	(i)	6,836,993	6,836,993
Brewery operation	(ii)	205,392	204,932
Sewage and water treatment operations	(iii)	1,575,292	1,466,760
Others		31,391	29,074
		8,649,068	8,537,759

(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 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% 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 2009.

(iii) The recoverable amounts of the relevant business units in the sewage and water treatment operations have been 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 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% is used for the perpetual period.

18. GOODWILL (continued)

Notes: (continued)

(b) Impairment testing of goodwill (continued)

Based on the results of 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 2009.

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 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.

18. GOODWILL (continued)

Notes: (continued)

(b) Impairment testing of goodwill (continued)

- *Business environment (continued)*

  – 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, sewage and water treatment operations and tourism operation (derecognised during the year ended 31 December 2008 as further detailed in note 45(c)(i) to the financial statements). These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; (iii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 40 years (the "service concession periods"), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to, where appropriate, use all the property, plant and equipment of the infrastructures, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the infrastructures, and retain the beneficial entitlement to any residual interest in the infrastructures at the end of the term of the service concession periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the infrastructures to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes. The accounting policies in respect of the classification of the service concession arrangements between intangible assets (operating concessions) and financial assets (receivables under service concession arrangements) are set out under the heading of "Service concession arrangements" in note 2.4 to the financial statements.

19. SERVICE CONCESSION ARRANGEMENTS (continued)

The following is the summarised information of the Group's service concession arrangements by business operation:

Operating concessions

Group

	Expressway and toll road operations *HK$'000* *(note (a))*	Sewage and water treatment operations *HK$'000* *(note (b))*	Tourism operation *HK$'000* *(note (c))*	Total *HK$'000*
Year ended 31 December 2009				
At 31 December 2008 and 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
At 31 December 2009:				
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

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))	Tourism operation HK$'000 (note (c))	Total HK$'000
Year ended 31 December 2008					
At 1 January 2008:					
Cost		2,189,264	–	64,103	2,253,367
Accumulated amortisation		(807,037)	–	(14,423)	(821,460)
Net carrying amount		1,382,227	–	49,680	1,431,907
Net carrying amount:					
At 1 January 2008		1,382,227	–	49,680	1,431,907
Acquisition of subsidiaries	44	–	436,105	–	436,105
Amortisation provided during the year		(84,424)	(5,798)	–	(90,222)
Disposal of subsidiaries	45	–	–	(49,680)	(49,680)
Exchange realignment		86,102	(718)	–	85,384
At 31 December 2008		1,383,905	429,589	–	1,813,494

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements

	Group 2009 HK$'000	2008 HK$'000
Sewage and water treatment operations	4,188,825	3,256,966
Impairment *(note (e))*	(114,418)	(54,863)
Receivables under service concession arrangements, net of impairment *(note (d))*	4,074,407	3,202,103
Portion classified as current assets	(659,566)	(380,792)
Non-current portion	3,414,841	2,821,311

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 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 2009, the remaining term of this service concession arrangement was approximately 17 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 2009, the remaining term of this service concession arrangement was approximately 12 years and 4 months.

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

(b) Details of the Group's sewage and water treatment operations under service concession arrangements are summarised as follows:

(i) BE Water, a subsidiary acquired by the Group during the year ended 31 December 2008 as further detailed in note 44(c)(i) to the financial statements, 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.

At 31 December 2009, the BE Water Group had 43 service concession arrangements on sewage treatment and 2 service concession arrangements on water treatment and distribution with various governmental authorities in Mainland China and a summary of the major terms of the principal service concession arrangements is set out as follows:

No.	Name of subsidiary as operator	Name of sewage and water treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
1.	江油中科成污水淨化有限公司	江油市污水處理廠一期	Jiangyou, Sichuan Province, the PRC	江油市人民政府	BOT	25,000	30 years from 2002 to 2032
2.	江油中科成污水淨化有限公司	江油市污水處理廠二期	Jiangyou, Sichuan Province, the PRC	江油市人民政府	BOT	25,000	30 years from 2007 to 2037
3.	成都雙流中科成污水淨化有限公司	雙流縣污水處理廠	Shuangliu, Sichuan Province, the PRC	雙流縣人民政府	BOT	25,000	20 years from 2004 to 2024
4.	成都雙流中科成污水淨化有限公司	雙流縣污水處理廠（二期）	Shuangliu, Sichuan Province, the PRC	雙流縣人民政府	BOT	25,000	20 years from 2004 to 2024
5.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠一期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	TOT	100,000	30 years from 2002 to 2032
6.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠二期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	BOT	50,000	30 years from 2004 to 2034
7.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠三期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	BOT	50,000	30 years (Not yet started)

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

(b) (continued)

(i) (continued)

No.	Name of subsidiary as operator	Name of sewage and water treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
8.	長沙中科成污水淨化有限公司	長沙市金霞污水處理廠	Changsha, Hunan Province, the PRC	長沙市公用事業管理局	TOT	180,000	20 years from 2004 to 2024
9.	青島膠南中科成污水淨化有限公司	膠南市污水處理廠	Jiaonan, Shandong Province, the PRC	膠南市城鄉建設局	BOT	60,000	20 years from 2006 to 2026
10.	青島中科成污水淨化有限公司	山東省膠州市污水處理廠	Jiaozhou, Shandong Province, the PRC	膠州市城鄉建設局	BOT	50,000	20 years from 2004 to 2024
11.	青島膠州北控水務有限公司	山東省膠州市污水處理廠	Jiaozhou, Shandong Province, the PRC	膠州市城鄉建設局	BOT	50,000	20 years (Not yet started)
12.	菏澤中科成污水淨化有限公司	菏澤市污水處理廠	Heze, Shandong Province, the PRC	菏澤市建設局	TOT	80,000	25 years from 2007 to 2032
13.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠一期擴建工程	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT	100,000	25 years from 2008 to 2033
14.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠（二期）	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT	99,000	25 years from 2009 to 2034
15.	廣州中科成污水淨化有限公司	廣州南沙開發區黃閣污水處理廠	Guangzhou, Guangdong Province, the PRC	廣州南沙開發區建設局	BOT	50,000	22 years from 2004 to 2026
16.	廣州中科成污水淨化有限公司	廣州南沙開發區黃閣污水處理廠（二期）	Guangzhou, Guangdong Province, the PRC	廣州南沙開發區建設局	BOT	50,000	22 years from 2004 to 2026
17.	台州市路橋中科成污水淨化有限公司	路橋污水處理廠一期	Taizhou, Zhejiang Province, the PRC	台州市建設規劃局路橋分局	TOT	40,000	27 years from 2006 to 2033

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

(b) (continued)

(i) (continued)

No.	Name of subsidiary as operator	Name of sewage and water treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
18.	台州市路橋中科成污水淨化有限公司	路橋污水處理廠二期	Taizhou, Zhejiang Province, the PRC	台州市建設規劃局路橋分局	BOT	50,000	27 years from 2006 to 2033
19.	濟南中科成水質淨化有限公司	濟南高新區水質淨化一廠一期	Jinan, Shandong Province, the PRC	濟南高新技術產業開發區中心	TOT	10,000	30 years from 2008 to 2038
20.	濟南中科成水質淨化有限公司	濟南高新區水質淨化一廠二期	Jinan, Shandong Province, the PRC	濟南高新技術產業開發區中心	BOT	40,000	30 years (Not yet started)
21.	佛山市三水中科成水質淨化有限公司	佛山市三水區中心工業園南部污水處理廠	Foshan, Guangdong Province, the PRC	佛山市三水工業園區管理委員會	BOT	50,000	22 years (Not yet started)
22.	永州市北控污水淨化有限公司	永州市下河綫污水處理廠	Yongzhou, Hunan Province, the PRC	永州市公用事業管理處	BOT	50,000	30 years from 2008 to 2038
23.	永州市北控污水淨化有限公司	永州市道縣污水處理廠	Yongzhou, Hunan Province, the PRC	永州市道縣人民政府	BOT	20,000	30 years from 2009 to 2039
24.	永州市北控污水淨化有限公司	永州市江永縣污水處理廠	Yongzhou, Hunan Province, the PRC	永州市江永縣人民政府	BOT	10,000	30 years from 2009 to 2039
25.	永州市北控污水淨化有限公司	永州市新田縣污水處理廠	Yongzhou, Hunan Province, the PRC	永州市新田縣人民政府	BOT	10,000	30 years from 2009 to 2039
26.	深圳北控創新投資有限公司（"Bei Kong Chuang Xin", formerly known as 深圳華強創新投資有限公司）	深圳市橫嶺污水處理廠（二期）	Shenzhen, Guangdong Province, the PRC	深圳市水務局	TOT	400,000	20 years (Not yet started)

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

(b) (continued)

(i) (continued)

No.	Name of subsidiary as operator	Name of sewage and water treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
27.	深圳華強豐泰投資有限公司	深圳市龍崗區橫嶺污水處理廠	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區人民政府	BOT	200,000	25 years from 2003 to 2028
28.	濱州華強西海水務有限公司	濱州市西海供水工程#	Binzhou, Shandong Province, the PRC	濱州市人民政府	BOT	50,000	40 years from 2006 to 2046
29.	台州黃岩北控水務污水淨化有限公司	台州市黃岩區污水處理廠	Huang Yan, Zhejiang Province, the PRC	台州市黃岩區建設局	TOT	80,000	30 years from 2009 to 2039
30.	成都青白江中科成污水淨化有限公司	成都市青白江區污水處理廠	Chengdu, Sichuan Province, the PRC	成都市青白江區人民政府	TOT	100,000	25 years from 2009 to 2034
31.	齊齊哈爾市北控污水淨化有限公司	齊齊哈爾市富拉爾基區污水處理廠	Qi Qi Har, Heilongjiang Province, the PRC	齊齊哈爾市環境保護局	TOT	100,000	30 years (Not yet started)
32.	清鎮市北控水務有限公司	貴陽清鎮朱家河一期污水處理廠	Guizhou, Yunnan Province, the PRC	清鎮市建設局	TOT	25,000	30 years from 2009 to 2039
33.	清鎮市北控水務有限公司	貴陽清鎮朱家河二期污水處理廠	Guizhou, Yunnan Province, the PRC	清鎮市建設局	BOT	27,500	30 years from 2009 to 2039
34.	錦州市北控水務有限公司 ("Jinzhou Beikong")	錦州市一期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	TOT	100,000	30 years from 2009 to 2039
35.	錦州市北控水務有限公司 ("Jinzhou Beikong")	錦州市二期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT	100,000	30 years (Not yet started)
36.	錦州市北控水務有限公司 ("Jinzhou Beikong")	錦州市再生水項目#	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT	180,000	30 years (Not yet started)

Except for these service concession arrangement being on water treatment and distribution, all other service concession arrangements of the Group are on sewage treatment.

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

(b) (continued)

(i) (continued)

The above table lists the service concession arrangements of the BE Water 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 service concession arrangements would, in the opinion of the directors, result in particulars of excessive length.

Pursuant to the service concession agreements signed, the BE Water Group is granted the rights to use the property, plant and equipment of the sewage and water treatment plants and related land, which are generally registered under the names of the relevant companies in the BE Water Group during the service concession periods, but the BE Water Group is generally required to surrender these property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective service concession periods. At 31 December 2009, the BE Water Group was in the process of applying for the changing of registration of the title certificates in respect of certain land use rights and buildings of certain sewage treatment plants to which the BE Water Group's service concession arrangements relate. The directors are of the opinion that the BE Water Group is entitled to the lawful and valid occupation or use of these buildings and land that the above-mentioned land use rights relate, and that the BE Water Group would not have any legal barriers in obtaining the proper title certificates.

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 (2008: HK$98,529,000), 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 36(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 has 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.

At 31 December 2009, the remaining term of this service concession arrangement was approximately 9 years.

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

(c) Pursuant to a concession agreement dated 17 June 1998 entered into between Beijing Long Qing Xia Tourism Development Co., Ltd. ("LQX Tourism"), a former 75% indirectly-owned subsidiary of the Company, and 延慶龍慶峽管理處 ("LQX Management"), LQX Tourism acquired at a consideration of RMB60 million an operating right from LQX Management to sell entrance tickets and provide tourism services in Longqingxia, a scenic area in Beijing, for a period of 40 years commencing on 19 August 1998 (the "LQX Concession"). An additional concession fee is payable as determined by reference to the turnover of LQX Tourism for an accounting year based on the following progressive rates:

Turnover	Concession fee rate
The portion exceeding RMB35 million but less than RMB70 million, inclusive	20%
The portion exceeding RMB70 million but less than RMB100 million, inclusive	30%
The portion exceeding RMB100 million	40%

The LQX Concession was derecognised upon the disposal of the Group's equity interest in Everbest (the investment holding company of LQX Tourism) during the year ended 31 December 2008, as further detailed in note 45(c)(i) to the financial statements.

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

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

	2009 *HK$'000*	2008 *HK$'000*
Billed:		
Within one year	413,028	378,978
One to two years	246,538	1,814
	659,566	380,792
Unbilled	3,414,841	2,821,311
	4,074,407	3,202,103

19. SERVICE CONCESSION ARRANGEMENTS (continued)

Receivables under service concession arrangements (continued)

Notes: (continued)

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

	Group 2009 HK$'000	Group 2008 HK$'000
At 1 January	54,863	–
Acquisition of a subsidiary	–	7,749
Impairment during the year recognised in the income statement, net *(note 7)*	61,841	46,511
Amount written off as uncollectible	(2,286)	–
Exchange realignment	–	603
At 31 December	114,418	54,863

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$635,935,000 (2008: HK$300,308,000). 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 2009 HK$'000	Group 2008 HK$'000
Neither past due nor impaired	43,626	23,071
Less than one year past due	369,339	355,952
Over one year past due	246,601	1,769
	659,566	380,792

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 2009			
At 31 December 2008 and 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 44)*	–	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
At 31 December 2009:			
Cost	7,348	51,744	59,092
Accumulated amortisation	(505)	(31,676)	(32,181)
Net carrying amount	6,843	20,068	26,911
Year ended 31 December 2008			
At 1 January 2008:			
Cost	–	15,866	15,866
Accumulated amortisation	–	(3,832)	(3,832)
Net carrying amount	–	12,034	12,034
Net carrying amount:			
At 1 January 2008	–	12,034	12,034
Acquisition of subsidiaries *(note 44)*	133	1,086	1,219
Additions	–	24,465	24,465
Amortisation provided during the year	(26)	(23,483)	(23,509)
Exchange realignment	(1)	761	760
At 31 December 2008	106	14,863	14,969

21. INTERESTS IN SUBSIDIARIES

		Company	
		2009	2008
	Notes	*HK$'000*	*HK$'000*
Unlisted shares or investments, at cost		20,355,982	20,429,253
Due from subsidiaries	(a)	6,565,250	5,767,327
Due to subsidiaries	(a)	(4,059,812)	(2,512,458)
		22,861,420	23,684,122
Impairment of unlisted shares	(b)	(124,227)	(124,227)
Impairment of amount due from subsidiaries	(c)	(220,863)	(220,863)
		(345,090)	(345,090)
		22,516,330	23,339,032

Notes:

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

(b) An impairment was recognised for certain unlisted investments with an aggregate carrying amount of HK$231,438,000 (before deducting the impairment loss) (2008: 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 the provision for impairment of the amounts due from subsidiaries during the year is as follows:

	Company	
	2009	2008
	HK$'000	*HK$'000*
At 1 January	220,863	242,199
Disposal of subsidiaries	–	(21,336)
At 31 December	220,863	220,863

21. INTERESTS IN SUBSIDIARIES (continued)

Notes: (continued)

(d) Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		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	–	34.99†	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	–	35.40†	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	–	42.76†	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	RMB230,769,230	–	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

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
Beijing Enterprises Water Group Limited[π]	Bermuda/ Hong Kong	HK$348,219,699	–	57.35	Investment holding
Beijing Enterprises Z.K.C Environmental Co., Ltd. ("BE-ZKC", formerly known as Z.K.C Environmental Group Co., Ltd.)	PRC/ Mainland China	RMB286,969,071	–	56.90	Consultancy service and investment holding
綿陽中科成污水淨化有限公司	PRC/ Mainland China	RMB40,000,000	–	56.90	Sewage treatment
長沙中科成污水淨化有限公司	PRC/ Mainland China	RMB50,000,000	–	51.21	Sewage treatment
廣州中業污水處理有限公司	PRC/ Mainland China	RMB85,000,000	–	56.90	Sewage treatment
深圳北控創新投資有限公司 (formerly known as 深圳華強創新投資有限公司)	PRC/ Mainland China	RMB300,000,000	–	50.62	Investment holding
深圳華強豐泰投資有限公司	PRC/ Mainland China	RMB70,000,000	–	40.49[†]	Sewage treatment
廣州中科成污水淨化有限公司	PRC/ Mainland China	RMB30,000,000	–	56.90	Sewage treatment
永州市北控污水淨化有限公司[Ω]	PRC/ Mainland China	HKD73,130,000	–	57.35	Sewage treatment
濱州華強西海水務有限公司	PRC/ Mainland China	RMB50,000,000	–	42.42[†]	Water Supply
北控水務(中國)投資有限公司[δΩ]	PRC/ Mainland China	US$32,600,000	–	57.35	Investment holding
錦州市北控水務有限公司[δ]	PRC/ Mainland China	RMB105,355,240	–	45.88[†]	Sewage treatment and water supply

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
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.

π Shares of BE Water are listed on the Main Board of the Stock Exchange.

Ω These entities are registered as wholly-foreign-owned enterprises under PRC Law.

δ Acquired/incorporated during the year.

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.

During the year, the Group acquired a 66.67% equity interest in 廣西貴港北控水務有限公司 ("Guigang Water", formerly known as 貴港市供水有限責任公司). Guigang Water and its subsidiaries are principally engaged in the operations of water supply and treatment, and the provision of related water supply services in Guigang Municipality, Guangxi Province, the PRC.

In addition, on 15 August 2009, the Group acquired the sewage and water treatment business previously operated by a government authority in Mainland China by the establishment of Jinzhou Beikong, in which the Group holds a 80% equity interest, with the government authority (the "Jinzhou JV Partner").

Further details of the above acquisition transactions are included in note 44 to the financial statements.

22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

		Group		Company	
		2009	2008	2009	2008
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets	(a)	5,244,694	4,488,646	–	–
Due from jointly-controlled entities	(b)	152,632	19,944	2,584	2,598
		5,397,326	4,508,590	2,584	2,598

Notes:

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

	2009	2008
	HK$'000	*HK$'000*
Share of the jointly-controlled entities' assets and liabilities		
Non-current assets	8,813,528	6,733,062
Current assets	281,742	530,462
Non-current liabilities	(3,072,630)	(587,983)
Current liabilities	(771,819)	(2,181,383)
Minority interests	(6,127)	(5,512)
Net assets	5,244,694	4,488,646
Share of the jointly-controlled entities' results		
Revenue	2,836,670	2,418,524
Other income	14,415	167
Total revenue	2,851,085	2,418,691
Total expenses	(1,379,991)	(1,180,186)
Profit before tax	1,471,094	1,238,505
Income tax	(379,020)	(325,877)
Profit for the year	1,092,074	912,628

(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$132,213,000) due from a jointly-controlled entity, which bears interest at a rate of 5.76% per annum and is repayable in 2014.

22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Notes: (continued)

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

			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 activity
中石油北京天然氣管道有限公司("PetroChina Beijing Gas")	PRC/ Mainland China	RMB7,920,195,000	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. INTERESTS IN ASSOCIATES

		Group		Company	
		2009	2008	2009	2008
	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)	844,094	737,538	–	–
Due from associates	(b)	62	9,047	62	–
Goodwill on acquisition	(c)	55,622	55,622	–	–
		899,778	802,207	93,044	92,982

23. INTERESTS IN ASSOCIATES (continued)

Notes:

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

	2009 *HK$'000*	2008 *HK$'000*
Share of the associates' assets and liabilities		
Non-current assets	383,207	463,677
Current assets	887,672	678,954
Non-current liabilities	(91,838)	(95,485)
Current liabilities	(301,755)	(270,215)
Minority interests	(33,192)	(39,393)
Net assets	844,094	737,538
Share of the associates' results		
Revenue	469,911	491,203
Other income	41,433	17,095
Total revenue	511,344	508,298
Total expenses	(507,535)	(652,986)
Profit/(loss) before tax	3,809	(144,688)
Income tax	(11,729)	(2,123)
Loss for the year	(7,920)	(146,811)

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

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

	Group 2009 *HK$'000*	 2008 *HK$'000*
Cost and net carrying amount:		
At 1 January	55,622	33,995
Acquisition of an additional interest in an associate	–	21,627
At 31 December	55,622	55,622

23. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

(c) (continued)

As detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of acquisition of associates before 1 January 2001 to remain eliminated against the consolidated capital reserve.

The amount of goodwill remaining in the consolidated capital reserve, arising on the acquisition of associates prior to 1 January 2001, was HK$76,236,000 as at 31 December 2008, which was transferred to retained profits upon the disposal of an associate during the year. The amount of goodwill was stated at cost.

(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 activity
Beijing Development (Hong Kong) Limited $^{\Omega}$	Hong Kong	HK$677,460,150	42.86	42.86	42.86	Investment holding
Biosino Bio-Technology and Science Incorporation ("BioSino") $^{\pi}$	PRC/Mainland China	RMB100,017,528	24.50	24.50	24.50	Manufacture, sale and distribution of in-vitro diagnostic reagent and pharmaceutical products, and investment holding
北京機電院高技術股份有限公司*	PRC/Mainland China	RMB135,872,209	38.27	38.27	38.27	Production and sale of mechanical and electrical equipment, and property investment

23. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

(d) (continued)

Ω 2.17% and 40.69% equity interests of Beijing Development are 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 fair value of the shares of Beijing Development held by the Group as at 31 December 2009, based on its then published price quotation, amounted to approximately HK$647,502,000.

π The interest in BioSino is indirectly held by the Company. H shares of BioSino are listed on the Growth Enterprise Market of the Stock Exchange. All of the shares of BioSino held by the Group as at 31 December 2009 are legal person shares and cannot be traded on any stock exchange. The directors do not consider it appropriate to disclose a value of the Group's investment in BioSino based on the published price quotation of BioSino's listed H shares as such information would be misleading.

* 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	
	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted equity investments, at cost	301,358	309,789	132,572	132,494
Impairment *(note 7)*	(11,358)	–	–	–
	290,000	309,789	132,572	132,494

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$7,021,000 (2008: HK$10,456,000). The investment being disposed of during the year ended 31 December 2009 was fully impaired in prior years and the carrying amount of the investment being disposed of during the year ended 31 December 2008 amounted to HK$3,000 at the time of disposal.

25. INVENTORIES

	Group 2009 HK$'000	2008 HK$'000
Raw materials	2,477,135	2,630,334
Work in progress	306,006	237,633
Finished goods	211,898	199,469
	2,995,039	3,067,436

26. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group 2009 HK$'000	2008 HK$'000
Amounts due from contract customers:		
Non-current portion	1,286,205	–
Current portion	55,089	202,512
	1,341,294	202,512
Amounts due to contract customers	(48,342)	(107,831)
	1,292,952	94,681
Contract costs incurred plus recognised profits less recognised losses to date	1,445,972	321,742
Less: Progress billings received and receivable	(153,020)	(227,061)
	1,292,952	94,681

27. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bills receivables	1,440,236	1,308,600	999	999
Impairment *(note (c))*	(290,870)	(252,574)	–	–
	1,149,366	1,056,026	999	999
Portion classified as current assets	(1,097,656)	(1,056,026)	–	–
Non-current portion	51,710	–	999	999

Notes:

(a) Included in the Group's trade and bills receivables as at 31 December 2009 is an aggregate amount of HK$55,495,000 (2008: HK$57,616,000) 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	
	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Billed:				
Within one year	449,129	520,068	–	999
One to two years	35,162	44,698	999	–
Two to three years	10,403	18,548	–	–
Over three years	28,168	31,492	–	–
Balance with extended credit period	51,710	–	–	–
	574,572	614,806	999	999
Unbilled	574,794	441,220	–	–
	1,149,366	1,056,026	999	999

27. TRADE AND BILLS RECEIVABLES (continued)

Notes: (continued)

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
At 1 January	252,574	259,335
Impairment during the year recognised in the income statement, net *(note 7)*	49,644	26,559
Amount written off as uncollectible	(11,357)	(49,381)
Exchange realignment	9	16,061
At 31 December	290,870	252,574

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$351,079,000 (2008: HK$312,783,000). 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	
	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Neither past due nor impaired	191,495	359,715	–	–
Less than one year past due	257,634	157,835	–	999
More than one year past due	125,443	97,256	999	–
	574,572	614,806	999	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	
		2009	2008	2009	2008
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments		84,240	47,967	6,633	49
Deposits and other debtors	(a)	1,679,118	1,160,959	98,806	99,755
Due from holding companies	29	273,105	273,415	79,506	79,816
Due from fellow subsidiaries	29	42,766	44,507	29,925	29,856
Due from related parties	29	53,028	269,728	5,963	5,961
		2,132,257	1,796,576	220,833	215,437
Impairment of deposits and other debtors	(b)	(207,573)	(252,972)	(95,202)	(96,134)
		1,924,684	1,543,604	125,631	119,303
Portion classified as current assets		(1,653,855)	(1,419,334)	(125,631)	(119,303)
Non-current portion		270,829	124,270	–	–

Notes:

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

(i) an aggregate amount of HK$5,812,000 (2008: HK$89,453,000) 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 are unsecured and interest-free.

(ii) the amortised cost of a loan advanced to 北京市八達嶺旅遊總公司 ("Badaling Tourism Corporation"), a former related company, by the Group in March 2006. The amount, with an original principal of RMB64,000,000, bears interest at a rate of 3.5% per annum and is repayable in 16 equal quarterly instalments with the last instalment being due for repayment in 2010.

At 31 December 2009, the outstanding loan to Badaling Tourism Corporation amounted to RMB4,238,000 (2008: RMB20,966,000) with a corresponding amortised cost of HK$4,814,000 (2008: HK$23,346,000), which is repayable within one year (2008: current and non-current portions of HK$18,532,000 and HK$4,814,000, respectively).

Interest income of HK$436,000 (2008: HK$2,099,000) was recognised in the consolidated income statement during the year ended 31 December 2009.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes:

(a) (continued)

(iii) various tender deposits of RMB525,310,000 (equivalent to HK$596,672,000) (2008: RMB30,650,000 (equivalent to HK$34,812,000)) in aggregate paid by the Group for the bidding of potential sewage treatment projects. These deposits are classified as current assets.

(iv) an instalment of RMB154,000,000 (equivalent to HK$175,000,000) (2008: Nil) 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 is classified as a non-current asset.

(v) an investment deposit of HK$51,200,000 (2008: RMB50,001,600 (equivalent to HK$56,837,000)) paid in connection with the acquisition of a subsidiary. The deposit is classified as a non-current asset.

(vi) cash advances of RMB11,092,000 (equivalent to HK$12,599,000) (2008: RMB41,107,000 (equivalent to HK$46,689,000)) in aggregate made to a contract customer of the Group in connection with a contract of service dated 8 May 2008 entered into between the two parties, pursuant to which the Group is providing (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. Notwithstanding that any advances made had been due for repayment on 25 April 2009, in the opinion of the directors, no impairment against these advances is considered necessary. The balance is classified as current asset.

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**252,972**	215,681	**96,134**	79,071
Acquisition of subsidiaries	**–**	4,043	**–**	–
Impairment during the year recognised in the income statement, net *(note 7)*	**22,019**	26,442	**–**	17,063
Amount written off as uncollectible	**(67,418)**	(3,477)	**(932)**	–
Exchange realignment	**–**	10,283	**–**	–
At 31 December	**207,573**	252,972	**95,202**	96,134

The above provision for impairment of other receivables of the Group and the Company represented provision for individually impaired other receivables with aggregate carrying amounts of HK$276,224,000 (2008: HK$321,623,000) and HK$95,202,000 (2008: HK$96,134,000), 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$288,118,000 (2008: HK$405,321,000) 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 PRC bank floating rate and has no fixed terms of repayment. Interest expense of HK$7,042,000 (2008: HK$6,545,000) was recognised in the consolidated income statement during the year ended 31 December 2009.

The amounts due from/to the Group's related parties as at 31 December 2008 included, inter alia, the following:

(i) the outstanding consideration payable to a shareholder of BE Water of HK$542,451,000 as at 31 December 2008 in connection with the Group's acquisition of 100% equity interest in Monico Investments Limited ("Monico"), as further detailed in note 44(c)(ii) to the financial statements. The amount was fully settled by the BE Water Group during the year; and

(ii) an amount of RMB86,908,000 (equivalent to HK$98,716,000) as at 31 December 2008 due from 鴻橋投資有限公司 ("Hong Qiao", a company established in Mainland China holding a 40% equity interest in Bei Kong Chuang Xin), which represented the remaining unsettled portion of the purchase consideration paid to the vendor on behalf of Hong Qiao by the Group pursuant to the Assignment of Equity Interest Agreement (as defined in BE Water's circular dated 6 October 2008) entered into between the Group and Hong Qiao in connection with the acquisition of Bei Kong Chuang Xin in 2008. During the year, the amount was settled by the deduction in the same amount of the capital contributed by Hong Qiao in Bei Kong Chuang Xin in accordance with a share transfer agreement entered into between the Group and Hong Qiao on 30 June 2009. Following the completion of the transaction during the year, the Group's direct equity interest in Bei Kong Chuang Xin increased from 60% to 88.97% while the profit sharing ratio remains to be 60%. Further details of the acquisition of Bei Kong Chuang Xin in the prior year are disclosed in note 44(c)(iii) to the financial statements.

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)(i), 42 and 43(ii) to the financial statements, respectively.

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets at fair value through profit or loss of the Group and the Company as at 31 December 2008 were listed equity investments in Hong Kong, which were stated at market value.

31. RESTRICTED CASH AND PLEDGED DEPOSITS

	Group	
	2009	2008
	HK$'000	*HK$'000*
Restricted cash *(note (a))*	27,217	27,214
Pledged deposits *(note (b))*	91,028	37,199
Restricted cash and pledged deposits *(note 32)*	118,245	64,413

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 43(i))*.

(b) Bank balances of HK$60,800,000 (2008: HK$29,133,000) and HK$30,228,000 (2008: HK$8,066,000) as at 31 December 2009 were pledged to secure certain trade finance facilities *(note 42)* and bank loans *(note 36(d)(v))* granted to the Group.

32. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	5,714,023	4,767,691	1,161,366	168,503
Cash equivalents	79,376	90,827	44,537	42,161
Time deposits	3,810,872	1,872,835	–	–
	9,604,271	6,731,353	1,205,903	210,664
Less: Restricted cash and pledged deposits *(note 31)*	(118,245)	(64,413)	–	–
Cash and cash equivalents	9,486,026	6,666,940	1,205,903	210,664

32. CASH AND CASH EQUIVALENTS (continued)

At 31 December 2009, the cash and bank balances and time deposits of the Group denominated in RMB amounted to HK$7,986,613,000 (2008: HK$6,385,213,000). 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.

33. SHARE CAPITAL

Shares

	2009 *HK$'000*	2008 *HK$'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 (2008: 1,137,001,000) ordinary shares of HK$0.10 each	113,737	113,700

A summary of the movements in the Company's issued share capital during the years ended 31 December 2009 and 2008 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 2008		1,138,940,000	113,894	20,721,710	20,835,604
Exercise of share options	(a)	340,000	34	5,596	5,630
Repurchase and cancellation of shares	(b)	(2,279,000)	(228)	–	(228)
At 31 December 2008 and 1 January 2009		1,137,001,000	113,700	20,727,306	20,841,006
Exercise of share options	(a)	370,000	37	6,089	6,126
At 31 December 2009		1,137,371,000	113,737	20,733,395	20,847,132

33. SHARE CAPITAL (continued)

Shares (continued)

Notes:

(a) The subscription rights attaching to 370,000 (2008: 340,000) share options were exercised at a subscription price of HK$12.55 (2008: HK$12.55) per ordinary share, resulting in the issue of 370,000 (2008: 340,000) ordinary shares of the Company for a total cash consideration of HK$4,644,000 (2008: HK$4,267,000). At the time when the share options were exercised, the fair values of these share options in an aggregate amount of HK$1,482,000 (2008: HK$1,363,000) previously recognised in the share option reserve were transferred to the share premium account. Further details of the share options are set out in note 34 to the financial statements.

(b) During the year ended 31 December 2008, the Company repurchased a total of 2,279,000 ordinary shares of the Company on the Stock Exchange and these shares were subsequently cancelled by the Company. The summary details of these transactions are as follows:

Month of repurchase	Number of ordinary shares repurchased and cancelled	Price per ordinary share Highest	Price per ordinary share Lowest	Total consideration paid
		HK$	*HK$*	*HK$'000*
June 2008	936,000	25.62	25.01	23,562
July 2008	857,000	25.40	24.30	21,357
September 2008	100,000	22.50	22.00	2,238
October 2008	386,000	24.95	21.85	9,259
	2,279,000			56,416

The repurchased shares were cancelled during the year ended 31 December 2008 and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK$56,188,000 was charged to the retained profits of the Company. Pursuant to Section 49H of the Hong Kong Companies Ordinance, an amount of HK$227,900 equivalent to the par value of the shares cancelled was transferred from the retained profits of the Company to the capital redemption reserve.

The repurchase of the Company's shares during the year ended 31 December 2008 was effected by the directors, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

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.

The following share options were outstanding under the Scheme during the year:

		2009		2008	
	Notes	Weighted average exercise price *HK$ per share*	Number of share options	Weighted average exercise price *HK$ per share*	Number of share options
At 1 January	(a)	12.55	670,000	12.55	1,010,000
Exercised during the year	(b)	12.55	(370,000)	12.55	(340,000)
At 31 December	(a), (c)	12.55	300,000	12.55	670,000

34. SHARE OPTION SCHEME (continued)

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. The share options may be exercised in two portions, with the first portion (representing 80% of the total share options granted for each grantee) being vested on 19 January 2007 and exercisable at any time from that date; and the second portion (representing the remaining 20% of the total share options granted for each grantee) being vested and exercisable at any time after six months from the date of grant. All the share options, if not otherwise excised, will lapse on 19 July 2011.

(b) 370,000 (2008: 340,000) share options were exercised during the year ended 31 December 2009. The weighted average closing price of the ordinary shares of the Company immediately before the dates on which the share options were exercised was HK$41.33 (2008: HK$28.93).

(c) At 31 December 2009, 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).

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 on page 42 of the financial statements.

(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) 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 2009 were distributable in the form of cash dividends.

(v) 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.

35. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2008		20,721,710	–	4,007	–	511,268	21,236,985
Fair value gain on revaluation of a building upon transfer to investment properties and other comprehensive income for the year, net of tax of nil		–	–	–	17,561	–	17,561
Profit for the year		–	–	–	–	350,671	350,671
Total comprehensive income for the year		–	–	–	17,561	350,671	368,232
Exercise of share options	33(a)	5,596	–	(1,363)	–	–	4,233
Repurchase and cancellation of shares	33(b)	–	228	–	–	(56,416)	(56,188)
Interim 2008 dividend	13	–	–	–	–	(227,479)	(227,479)
Proposed final 2008 dividends	13	–	–	–	–	(511,650)	(511,650)
At 31 December 2008 and 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		–	–	–	–	680,821	680,821
Exercise of share options	33(a)	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		20,733,395	228	1,162	17,561	7,941	20,760,287

36. BANK AND OTHER BORROWINGS

	Group		Company	
	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans:				
Secured	1,469,845	1,180,671	–	–
Unsecured	4,817,594	5,082,691	2,096,632	2,391,567
	6,287,439	6,263,362	2,096,632	2,391,567
Other loans, unsecured	2,014,746	804,662	510,570	–
Total bank and other borrowings	8,302,185	7,068,024	2,607,202	2,391,567
Analysed into:				
Bank loans repayable:				
Within one year	2,884,858	3,071,937	–	296,300
In the second year	217,338	241,652	–	–
In the third to fifth years, inclusive	2,577,653	2,520,400	2,096,632	2,095,267
Beyond five years	607,590	429,373	–	–
	6,287,439	6,263,362	2,096,632	2,391,567
Other loans repayable:				
Within one year	153,090	100,699	–	–
In the second year	68,310	63,155	–	–
In the third to fifth years, inclusive	1,295,679	180,208	510,570	–
Beyond five years	497,667	460,600	–	–
	2,014,746	804,662	510,570	–
Total bank and other borrowings	8,302,185	7,068,024	2,607,202	2,391,567
Portion classified as current liabilities	(3,037,948)	(3,172,636)	–	(296,300)
Non-current portion	5,264,237	3,895,388	2,607,202	2,095,267

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	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**2,598,078**	2,391,567	**2,096,632**	2,391,567
RMB	**5,274,676**	4,233,517	**510,570**	–
Euro	**12,497**	13,233	**–**	–
US$	**416,934**	429,707	**–**	–
	8,302,185	7,068,024	**2,607,202**	2,391,567

(b) Included in the Group's bank and other borrowings of the Group as at 31 December 2009 are:

(i) amortised cost of interest-free loans of HK$144,893,000 (2008: HK$139,251,000) granted from a joint venture partner of a subsidiary;

(ii) certain bank and other loans, with an aggregate carrying amount of HK$572,236,000 (2008: HK$610,715,000), 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$11,548,000 (2008: HK$12,711,000), these loans bear interest at rates of 2% to 6.3%;

(iii) an interest-free loan of HK$6,815,000 (2008: HK$6,815,000) granted by a local government in Mainland China to finance a sewage treatment plant construction project of the Group; and

(iv) loans of RMB450,000,000 (equivalent to HK$510,570,000) (2008: Nil) and RMB500,000,000 (equivalent to HK$567,924,000) (2008: Nil) 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$26,273,000 (2008: Nil) was recognised in the consolidated income statement during the year ended 31 December 2009 in respect of the loans.

(c) HK$229,440,000 (2008: HK$313,140,000) of the Group's unsecured bank loans as at 31 December 2009 were guaranteed by the joint venture partners of certain of the Group's PRC subsidiaries or their associates.

(d) Certain of the Group's bank and other loans are secured by:

(i) mortgages over the Group's buildings and plant and machinery, and leasehold land with aggregate net carrying amounts at the end of the reporting period of HK$4,952,000 (2008: HK$31,724,000) *(note 15(b))* and HK$71,508,000 (2008: HK$30,724,000) *(note 17)*, respectively;

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

36. BANK AND OTHER BORROWINGS (continued)

Notes: (continued)

(d) (continued)

(iii) guarantees given by certain subsidiaries;

(iv) a pledge over the Group's 60% equity interest in Bei Kong Chuang Xin; and/or

(v) pledges over certain of the Group's bank balances of HK$30,228,000 (2008: HK$8,066,000) 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 obtained by the Company in 2008. The syndicated loan bears interest at HIBOR+0.285% and is fully repayable on 20 June 2012.

The loan agreement includes 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 facility:

(i) If the beneficial interest of the Company ceases to be owned or controlled by Beijing Enterprises Group; 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. CONVERTIBLE BONDS

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

Group

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

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

37. CONVERTIBLE BONDS (continued)

Each batch of these convertible bonds is bifurcated into a liability component and an equity component for accounting purpose 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 and the liability component of the Group's convertible bonds during the year:

Group

	Tranche 1 Bond HK$'000 (note (a))	Tranche 2 Bond HK$'000 (note (a))	ZKC Convertible Bonds 1 HK$'000 (note (b))	ZKC Convertible Bonds 2 HK$'000 (note (b))	Guaranteed Convertible Bonds HK$'000 (note (c))	Total HK$'000
Principal amount outstanding						
At 1 January 2008	–	–	–	–	–	–
Acquisition of subsidiaries	100,000	–	–	–	–	100,000
Issue of convertible bonds	–	100,000	589,304	–	–	689,304
Conversion to ordinary shares of BE Water	(66,000)	(20,000)	–	–	–	(86,000)
At 31 December 2008 and 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	–	–	555,059	193,287	2,175,000	2,923,346
Liability component						
At 1 January 2008	–	–	–	–	–	–
Acquisition of subsidiaries *(note 44)*	85,955	–	–	–	–	85,955
Issue of convertible bonds	–	78,707	404,263	–	–	482,970
Imputed interest expense *(note 8)*	2,975	4,357	13,962	–	–	21,294
Conversion to ordinary shares of BE Water	(58,154)	(16,157)	–	–	–	(74,311)
At 31 December 2008 and 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	–	–	424,468	158,269	2,138,751	2,721,488

37. CONVERTIBLE BONDS (continued)

Notes:

(a) Tranche 1 Bond and Tranche 2 Bond were issued to Pioneer Wealth Limited, a 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.

(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 BE-ZKC, pursuant to a sale and purchase agreement (the "BE-ZKC Acquisition Agreement") entered into between, among others, BE Water and the BE-ZKC Vendors.

Besto, Tenson and Newton became related companies of the Group immediately following the completion of the acquisition of Gainstar Limited by BE Water. Further details of the ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 are set out in BE Water's circular dated 30 June 2008.

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

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

38. 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	2009				
	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement benefit plan	Total	2008 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current service cost	11,716	3,840	–	15,556	8,877
Past service cost	3,445	1,402	4,514	9,361	133,704
Interest cost on benefit obligations	8,400	3,687	334	12,421	9,617
Net actuarial gain recognised in the year	(2,232)	–	–	(2,232)	(1,427)
Net benefit expense	21,329	8,929	4,848	35,106	150,771

(b) Benefit liabilities

Group	2009				
	Supplemental post-retirement medical reimbursement plan	Supplemental post-retirement allowance and beneficiary benefit plans	Internal retirement benefit plan	Total	2008 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Defined benefit obligations	182,828	79,122	16,515	278,465	341,071
Unrecognised actuarial gains/(losses)	122,928	24,546	(1,200)	146,274	49,339
Total benefit liabilities	305,756	103,668	15,315	424,739	390,410
Portion classified as current liabilities included in other payables and accruals *(note 43)*				(792)	(595)
Non-current portion				423,947	389,815

38. DEFINED BENEFIT PLANS (continued)

(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 2008	120,364	64,036	366	184,766
Current service cost	6,324	2,553	–	8,877
Past service cost	116,834	6,464	10,406	133,704
Interest cost	6,296	3,304	17	9,617
Benefits paid	(73)	(282)	(232)	(587)
Actuarial losses/(gains) on obligations	(30,291)	21,269	147	(8,875)
Exchange realignment	8,921	4,486	162	13,569
At 31 December 2008 and 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	182,828	79,122	16,515	278,465

38. DEFINED BENEFIT PLANS (continued)

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

A three-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*
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 three-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:

	2009	2008
Discount rate	**4.00%**	3.50%
Salary increase rate of internal retirees	**4.50%**	4.50%
Average salary increase rate of Beijing city	**12.00%**	15.00%
Healthcare cost inflation rate	**8.00%**	8.00%

38. DEFINED BENEFIT PLANS (continued)

(d) Principal assumptions (continued)

The assumed healthcare cost inflation rate has a significant effect on the amounts recognised in the consolidated income statement. A one percentage point change in the assumed healthcare cost inflation rate would have the following effects:

Group

	Increase/(decrease) 2009 *HK$'000*	2008 *HK$'000*
Effect on the aggregate of the service cost and interest cost:		
One percentage point increase	6,387	7,139
One percentage point decrease	(4,431)	(4,913)
Effect on the defined benefit obligations:		
One percentage point increase	61,772	82,835
One percentage point decrease	(44,392)	(58,710)

39. 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 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 is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis and revised where appropriate.

39. PROVISION FOR MAJOR OVERHAULS (continued)

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

Group

	Notes	2009 HK$'000	2008 HK$'000
At 1 January		121,438	95,955
Acquisition of subsidiaries	44	–	61,447
Additional provision		59,472	44,363
Amounts utilised during the year		–	(86,430)
Increase in discounted amounts arising from the passage of time	8	3,587	1,022
Exchange realignment		2	5,081
At 31 December		184,499	121,438

40. OTHER NON-CURRENT LIABILITIES

	Group 2009 HK$'000	2008 HK$'000
Other liabilities – non-current portion *(note 43)*	48,244	85,832
Deferred income *(note)*	147,811	118,610
	196,055	204,442

Note: Deferred income of the Group mainly represented subsidies received from third parties, fresh water customers and government authorities in respect of certain projects for the construction of (i) the Group's gas pipelines in Beijing for the delivery of natural gas; and (ii) a sewage treatment plant for the Group's sewage and water treatment businesses. 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.

41. DEFERRED TAX

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

Group

	2009 HK$'000	2008 HK$'000
Deferred tax assets	564,490	484,772
Deferred tax liabilities	(413,139)	(279,859)
	151,351	204,913

The components of deferred tax assets and liabilities and the 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$'000	Revaluation of investment properties HK$'000	Impairment and 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$'000	Withholding tax HK$'000 (note (b))	Net deferred tax assets/ (liabilities) HK$'000
At 1 January 2008		128,801	(764)	28,406	(64)	65,236	67,585	78,843	(157,855)	–	–	210,188
Acquisition of subsidiaries	44	49,910	–	–	–	2,066	–	–	(76,679)	–	–	(24,703)
Deferred tax credited/(charged) to the income statement during the year	11	(27,015)	(733)	(3,508)	–	36,158	48,291	(12,657)	(12,298)	–	(29,542)	(1,304)
Disposal of subsidiaries	45	–	424	–	–	–	–	–	–	–	–	424
Exchange realignment		14,077	(70)	1,745	(77)	4,595	4,911	4,807	(9,680)	–	–	20,308
At 31 December 2008 and 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		153,973	(1,494)	28,410	(141)	158,285	123,151	80,853	(285,607)	4,440	(110,519)	151,351

Notes:

(a) At 31 December 2009, deferred tax assets have not been recognised in respect of unused tax losses of HK$1,004,215,000 (2008: HK$663,391,000) 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$834,704,000 (2008: HK$643,683,000) will expire in one to five years.

41. DEFERRED TAX (continued)

Notes: (continued)

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%, depending on the jurisdiction of the respective investment enterprises. The Group is therefore liable to withholding taxes on dividends declared by those subsidiaries, jointly-controlled entities and associates established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$1,396,724,000 as at 31 December 2009 (2008: HK$1,526,648,000).

(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.

42. 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	
	2009	2008
	HK$'000	*HK$'000*
Within one year	1,345,637	997,868
One to two years	36,131	158,266
Two to three years	9,362	18,351
Over three years	16,973	15,737
	1,408,103	1,190,222

Included in the Group's trade and bills payables as at 31 December 2009 are amounts of HK$7,882,000 (2008: HK$24,927,000) and HK$22,756,000 (2008: HK$44,947,000) 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 2009 are secured by a pledge over certain of the Group's bank balances with an aggregate amount of HK$60,800,000 (2008: HK$29,133,000) *(note 31(b))*.

43. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2009	2008	2009	2008
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accruals		103,247	91,482	50,478	50,109
Defined benefit plans					
– current portion	38(b)	792	595	–	–
Other liabilities		4,986,356	3,605,067	6,207	2,404
Due to the immediate holding					
company	29	26,273	–	12,293	–
Due to related parties	29	368,188	1,078,417	47,719	48,286
		5,484,856	4,775,561	116,697	100,799
Portion classified					
as current liabilities		(5,436,612)	(4,689,729)	(116,697)	(100,799)
Non-current portion	40	48,244	85,832	–	–

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

(i) an amount of HK$27,217,000 (2008: HK$27,214,000) 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$62,058,000 (2008: HK$72,595,000) 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) outstanding considerations in the amounts of RMB3,680,000 (equivalent to HK$4,180,000) (2008: RMB33,680,000 (equivalent to HK$38,255,000)) and RMB42,984,000 (equivalent to HK$46,750,000) (2008: RMB41,159,000 (equivalent to HK$46,748,000)), 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 are repayable in four annual instalments of RMB15,000,000 and the last instalment of RMB14,839,000 being due for repayment in 2012. During the year ended 31 December 2009, an annual instalment and an early repayment of RMB15,000,000 each were settled by the Group.

(iv) outstanding consideration of HK$111,755,000 (2008: Nil) 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. The transaction was completed in 2009 and the balance is fully repayable in 2010.

(v) outstanding considerations in the amounts of RMB100,000,000 (equivalent to HK$113,585,000) (2008: Nil) and RMB42,000,000 (equivalent HK$47,706,000) (2008: Nil) payable to Huangyan Government and Qingzhen Government for the transfers of sewage treatment facilities to the Group under TOT arrangements. The balances are fully repayable in 2010.

44. BUSINESS COMBINATIONS

Except for the property, plant and equipment, prepaid land premiums and receivables under service concession arrangements with respective carrying amounts of HK$159,362,000, HK$25,773,000 and HK$126,110,000 immediately before the acquisitions (2008: operating concessions with an aggregate carrying amount of HK$626,772,000), 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 respective carrying amounts, and are set out as follows:

		2009			
	Notes	Guigang Water HK$'000 (note (a))	Jinzhou Beikong HK$'000 (note (b))	Total HK$'000	2008 Total HK$'000 (note (c))
Net assets acquired:					
Property, plant and equipment	15	169,754	1,814	171,568	10,111
Prepaid land premiums	17	28,005	–	28,005	–
Operating concessions	19	–	–	–	436,105
Other intangible assets	20	–	81	81	1,219
Interest in an associate		–	–	–	26,268
Available-for-sale investment		–	–	–	457
Prepayments, deposits and other receivables		3,404	4,735	8,139	103,770
Deferred tax assets	41	–	–	–	28,730
Inventories		2,517	1,696	4,213	2,896
Amounts due from contract customers		–	112,201	112,201	110,177
Receivables under service concession arrangements		–	134,874	134,874	1,355,950
Trade and bills receivables		3,776	–	3,776	15,287
Financial assets at fair value through profit or loss		–	–	–	27,471
Cash and bank balances		6,161	116,257	122,418	477,550
Trade and bills payables		(1,781)	(38,862)	(40,643)	(105,397)
Other payables and accruals		(55,795)	(12,048)	(67,843)	(240,525)
Income tax payable		(103)	–	(103)	(15,746)
Bank and other borrowings		(71,133)	(184,722)	(255,855)	(970,463)
Convertible bonds	37	–	–	–	(85,955)
Provision for major overhauls	39	–	–	–	(61,447)
Deferred income		(16,254)	–	(16,254)	(1,184)
Deferred tax liabilities	41	–	–	–	(53,433)
Minority interests		(22,848)	(27,221)	(50,069)	(262,343)
		45,703	108,805	154,508	799,498
Goodwill on acquisition	18	13,912	6,695	20,607	1,466,760
Excess over cost of a business combination recognised as income		–	–	–	(1,244)
		59,615	115,500	175,115	2,265,014

44. BUSINESS COMBINATIONS (continued)

	2009			
	Guigang Water HK$'000 (note (a))	Jinzhou Beikong HK$'000 (note (b))	Total HK$'000	2008 Total HK$'000 (note (c))
Satisfied by:				
Cash	56,837	–	56,837	266,947
Cash injection by the Group as capital contribution	–	115,500	115,500	–
Subscription of new ordinary shares of BE Water *(note (c)(i))*	–	–	–	98,800
Allotment of new ordinary shares of BE Water as consideration *(note (c)(ii))*	–	–	–	1,053,871
Issue of new convertible bonds by BE Water *(note (c)(ii))*	–	–	–	828,000
Costs associated with the acquisitions	2,778	–	2,778	17,396
	59,615	115,500	175,115	2,265,014
Profit for the year since acquisition	4,794	23,999	28,793	53,642

44. BUSINESS COMBINATIONS (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2009			
	Guigang Water HK$'000 (note (a))	Jinzhou Beikong HK$'000 (note (b))	Total HK$'000	2008 Total HK$'000 (note (c))
Subscription of new ordinary shares of BE Water	–	–	–	(98,800)
Cash consideration, at cost	(56,837)	–	(56,837)	–
Cash injected by the Group as capital contribution	–	(115,500)	(115,500)	–
Cash and bank balances acquired	6,161	116,257	122,418	477,550
Amortised cost of outstanding cash consideration:				
At beginning of year	–	–	–	(578,643)
Cash consideration, at fair value	–	–	–	(266,947)
Increase in fair value of cash consideration arising from the passage of time *(note 8)*	–	–	–	(10,780)
Offset against the cash consideration receivable from BE Group BVI and fellow subsidiaries in respect of the Group's disposal of Everbest, Shun Xing, Feng Shou, Helken and certain buildings and investment properties *(notes 45(c)(i) and (ii), 46 and 50(b))*	–	–	–	506,649
At end of year	–	–	–	–
Cash consideration prepaid in prior year *(note (a))*	56,837	–	56,837	–
Cash paid for costs associated with the acquisition	(2,778)	–	(2,778)	(17,396)
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	3,383	757	4,140	11,633

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$3,045,999,000 (2008: HK$2,681,229,000) and the Group's revenue (comprising turnover and other income and gains, net) would have been HK$24,757,508,000 (2008: HK$20,693,327,000).

44. BUSINESS COMBINATIONS (continued)

Notes:

(a) 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 *(note 28(a)(v))*. 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.

(b) Pursuant to a joint venture agreement (the "Jinzhou Joint Venture Agreement") entered into between BE Water and the Jinzhou JV Partner in Mainland China on 30 June 2009, Jinzhou Beikong was established by BE Water and the Jinzhou JV Partner for the purpose of operating sewage and water treatment plants under a 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.

(c) The subsidiaries acquired during the year ended 31 December 2008 comprised BE Water, BE-ZKC and Bei Kong Chuang Xin. A summary information of these acquisitions is set out as follows:

(i) Pursuant to a subscription agreement (the "BE Water Subscription Agreement") dated 21 January 2008 entered into between the Company, BE Water and a wholly-owned subsidiary of the Company, the Group acquired a 74.78% equity interest in BE Water, a company incorporated in Bermuda and listed on the Main Board of the Stock Exchange, by subscription of 247,000,000 new ordinary shares of BE Water at a subscription price of HK$0.40 per share. Total subscription consideration, before any costs associated with the acquisition, amounted to HK$98,800,000. The BE Water Subscription Agreement was completed on 7 March 2008 and BE Water became a subsidiary of the Group since then.

At the time of acquisition, BE Water and its then subsidiaries were principally engaged in the trading of computer and related products in Hong Kong and Mainland China.

(ii) Pursuant to the BE-ZKC Acquisition Agreement entered into between, among others, BE Water and the BE-ZKC Vendors on 3 June 2008 and as approved by the BE Water's shareholders at a special general meeting held on 15 July 2008, BE Water acquired from the BE-ZKC Vendors the entire issued share capital of Gainstar Limited, an investment holding company holding indirectly an aggregate of an 88.43% equity interest in BE-ZKC after the completion of its acquisition of Monico (see below). Gainstar Limited and its subsidiaries (the "BE-ZKC Group") are principally engaged in the operations of sewage treatment and the provision of related services in Mainland China. The acquisition was completed on 1 August 2008.

In accordance with the BE-ZKC Acquisition Agreement, total consideration for the acquisition, subject to adjustments in certain circumstances, amounted to HK$1,370,665,000, of which HK$975,557,782 (the "Gainstar Consideration") was payable to the BE-ZKC Vendors for the transfer of the entire issued share capital of Gainstar Limited to the Group and the remaining balance of HK$395,107,218 (the "Monico Consideration") payable to Tenson or its nominees for the transfer of the entire issued share capital of Monico to Gainstar Limited.

44. BUSINESS COMBINATIONS (continued)

Notes: (continued)

(c) (continued)

(ii) (continued)

The Gainstar Consideration, which had been fully settled during the year ended 31 December 2008, was satisfied by the allotment and issuance of 559,787,908 new ordinary shares of BE Water and the issue of the ZKC Convertible Bonds 1 with an aggregate principal amount of HK$589,304,125 by BE Water to the BE-ZKC Vendors. The fair value of the Gainstar Consideration amounted to approximately HK$1,339,420,000, being the aggregate amount of the fair value of the 559,787,908 consideration shares of approximately HK$750,116,000 (determined based on the closing price of BE Water's ordinary shares on the Stock Exchange on the date of acquisition of 1 August 2008) and the nominal value of the ZKC Convertible Bonds 1 issued.

The Monico Consideration was settled during the year ended 31 December 2009 by the allotment and issuance of 226,683,106 new ordinary shares of BE Water and the issue of the ZKC Convertible Bonds 2 with an aggregate principal amount of HK$238,695,875 by BE Water to Tenson or its nominees. The fair value of the Monico Consideration amounted to approximately HK$542,451,000 *(note 29(ii))*, being the aggregate amount of the fair value of the 226,683,106 consideration shares of approximately HK$303,755,000 (determined based on the closing price of BE Water's ordinary shares on the Stock Exchange on the date of acquisition of 1 August 2008) and the nominal value of the ZKC Convertible Bonds 2 issued.

Further details of the ZKC Convertible Bonds 1 and the ZKC Convertible Bonds 2 and this acquisition are set out in note 37 to the financial statements and BE Water's circular dated 30 June 2008, respectively.

(iii) Pursuant to a share transfer agreement entered into between, among others, BE-ZKC, Hong Qiao and two third parties independent to the Group on 8 September 2008 (the "Bei Kong Chuang Xin Acquisition Agreement"), the Group acquired a 60% equity interest in Bei Kong Chuang Xin from the two third parties for a total cash consideration of RMB235,362,074 (equivalent to HK$266,947,000), which was fully settled during the year ended 31 December 2008. Bei Kong Chuang Xin and its subsidiaries are principally engaged in the operations of sewage treatment, water treatment and distribution and the provision of related services in Mainland China. The acquisition was completed on 28 September 2008.

45. DISPOSAL OF SUBSIDIARIES

	Notes	2009 HK$'000 (notes (a) and (b))	2008 HK$'000 (note (c))
Net assets disposed of:			
Property, plant and equipment	15	–	87,969
Investment properties	16	–	11,000
Prepaid land premiums	17	–	12,137
Operating concessions	19	–	49,680
Interests in jointly-controlled entities		–	4,679
Interests in associates		90,329	–
Inventories		–	76,202
Trade and bills receivables		–	23,125
Prepayments, deposits and other receivables		2,061	15,943
Pledged deposits		–	779
Cash and bank balances		242	91,037
Trade and bills payables		–	(21,377)
Other payables and accruals		–	(57,829)
Income tax payable		–	(198)
Other taxes payable		–	(4,911)
Other non-current liabilities		–	(11,752)
Deferred tax liabilities	41	–	(424)
Minority interests		(3,846)	(84,429)
		88,786	191,631
Exchange fluctuation reserve realised		(11,075)	(20,197)
Gain on disposal of interests in subsidiaries, net	5	60,830	94,707
		138,541	266,141
Satisfied by cash		138,541	266,141

45. DISPOSAL OF SUBSIDIARIES (continued)

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2009 *HK$'000*	2008 *HK$'000*
Cash and bank balances disposed of	(242)	(91,037)
Cash consideration satisfied by offsetting current account *(note (b))*	(1,768)	–
Amortised cost of outstanding cash consideration:		
At beginning of year	–	8,205
Cash consideration	138,541	266,141
Offset against the cash consideration payable to BE Group BVI for the acquisition of Beijing Gas Group (BVI) Company Limited ("Beijing Gas BVI") *(notes (c)(i) and (ii) and 46)*	–	(254,729)
Impairment of consideration receivable	–	(9,086)
Exchange realignment	–	881
At end of year	–	–
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	136,351	(79,625)

Notes:

(a) 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.

(b) 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") at 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.

45. DISPOSAL OF SUBSIDIARIES (continued)

Notes: (continued)

(c) During the year ended 31 December 2008, the Group had the following transactions for the disposal of subsidiaries:

(i) Pursuant to a sale and purchase agreement dated 7 April 2008 entered into between the Company and BE Group BVI, the immediate holding company, the Company disposed of its 100% equity interest in Everbest (a company which holds a 75% equity interest in LQX Tourism), and 51% equity interest in each of Shun Xing and Feng Shou to BE Group BVI at a total cash consideration of HK$243,729,000, which had been offset against a portion of the Group's cash consideration payable to BE Group BVI for the acquisition of Beijing Gas BVI as further detailed in note 46 to the financial statements. Upon the completion of the transactions, these companies ceased to be subsidiaries of the Company and the Group's tourism operation and the operation of production and sale of wine were discontinued accordingly.

(ii) Pursuant to a sale and purchase agreement dated 9 May 2008 entered into between the Company and Beijing Holdings Limited ("BHL", a fellow subsidiary), the Company disposed of its 100% equity interest in Helken to BHL at a cash consideration of HK$11,000,000, which had been offset against a portion of the Group's cash consideration payable to BE Group BVI for the acquisition of Beijing Gas BVI as further detailed in note 46 to the financial statements. The main asset held by Helken is an investment property in Hong Kong which is held for rental purpose.

(iii) Pursuant to a sale and purchase agreement dated 27 May 2008, BE Water disposed of its entire equity interest in Shanghai Classic Limited, a wholly-owned subsidiary of BE Water, to an independent third party for a cash consideration of HK$11,412,000. Shanghai Classic Limited and its subsidiary, Shanghai Jian Kai International Trading Company Limited, did not actively engage in any business at the date of disposal.

46. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

During the year ended 31 December 2007, the Company acquired the entire issued share capital of Beijing Gas BVI at HK$11,600,000,000, which was payable as to HK$4,000,100,000 in cash and as to the balance of HK$7,599,900,000 by way of issuance of 411,250,000 ordinary shares of the Company at a price of HK$18.48 per share. The cash consideration was to be settled in two instalments, with the first instalment of HK$3,000,000,000 being payable upon completion of the acquisition and the final instalment of HK$1,000,100,000 being due for settlement on or 30 June 2008 or such other date as the Company and BE Group BVI might agree.

46. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Major non-cash transactions (continued)

The transaction was completed on 29 June 2007 and the first instalment of the cash consideration of HK$3,000,000,000 had been fully settled during the year ended 31 December 2007.

During the year ended 31 December 2008, the final instalment of the cash consideration of HK1,000,100,000 was partly settled in cash or offset against the consideration receivable from BE Group BVI of HK$254,729,000 in respect of its acquisition of the Group's equity interests in Everbest, Shun Xing, Feng Shou and Helken and the consideration receivable from BHL and certain of its subsidiaries of HK$251,920,000 in respect of their purchases of certain buildings and investment properties of the Group during that year, details of which are disclosed in notes 45(c)(i) and (ii) and 50(b) to the financial statements, respectively.

Apart from the transactions detailed above and in notes 6, 37, 44 and 45 to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2009 and 2008.

47. CONTINGENT LIABILITY

At 31 December 2009, contingent liability not provided for in the financial statements was as follows:

	Group		Company	
	2009	2008	**2009**	2008
	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	**92,993**	92,993	**92,993**	92,993

48. 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 is 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 10 years. The terms of the leases generally require the tenants to pay security deposits.

At 31 December 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Within one year	**2,534**	7,641
In the second to fifth years, inclusive	**1,564**	1,946
After five years	**600**	8,880
	4,698	18,467

At 31 December 2009, the Company did not have any non-cancellable operating lease arrangements as lessor (2008: 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 2009, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**57,390**	77,230	**6,164**	6,712
In the second to fifth years, inclusive	**140,158**	96,495	**2,056**	8,220
After five years	**690,799**	685,430	**–**	–
	888,347	859,155	**8,220**	14,932

49. COMMITMENTS

(a) Capital commitments

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

	Group 2009 HK$'000	Group 2008 HK$'000
Contracted, but not provided for:		
Buildings	–	45,128
Gas pipelines	285,854	166,296
Plant and machinery	1,037,758	201,067
Purchase of operating concession of a sewage treatment plant	405,026	–
Capital contributions to a jointly-controlled entity	3,085,416	2,111,702
	4,814,054	2,524,193
Authorised, but not contracted for:		
Buildings	–	579
Plant and machinery	52,013	90,334
Capital contributions to a jointly-controlled entity	648,342	53,951
	700,355	144,864
Total capital commitments	5,514,409	2,669,057

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 2009 HK$'000	Group 2008 HK$'000
Contracted, but not provided for	2,643,526	366,447

At 31 December 2009, the Company did not have any significant capital commitments (2008: Nil).

49. COMMITMENTS (continued)

(b) Other commitments

In addition to the operating lease commitments as disclosed in note 48(b) and the capital commitments as disclosed above, the Group had the following commitments as at the end of the reporting period:

	Group	
	2009	2008
	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	77,839
Contracted, but not provided for	363,359	110,368
	375,243	188,207

50. 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*	2009 *HK$'000*	2008 *HK$'000*
Joint venture partners of subsidiaries and their associates				
Yanjing Beer Group and its associates	Purchase of bottle labels	(i)	119,619	106,595
	Purchase of bottle caps	(i)	83,696	78,573
	Import of raw materials	(ii)	378,285	253,064
	Sale of beer	(iii)	11,250	11,102
	Canning service fees paid	(iv)	30,257	34,014
	Comprehensive support service fees paid	(v)	17,657	17,423
	Land rent expenses	(vi)	2,100	1,959
	Trademark licensing fees paid	(vii)	42,779	38,773
	Less: Refund for advertising subsidies	(vii)	(6,172)	(5,430)

50. RELATED PARTY DISCLOSURES (continued)

(a) (continued)

Name of related party	Nature of transaction	Notes	2009 HK$'000	2008 HK$'000
Fellow subsidiaries				
Beiran Enterprises and its subsidiaries	Sale of piped natural gas	(viii)	211,631	159,160
	Service contract income	(ix)	29,989	12,019
	Purchase of raw materials	(xi)	138,103	216,756
	Building rental expenses	(xi)	65,940	42,911
	Construction contract fee expenses	(x)	43,191	31,064
	Sale of raw materials	(xii)	23,339	42,960
	Repair and maintenance expenses	(xii)	2,598	14,437
北京京泰國際貿易有限公司	Purchase of construction materials	(xi)	17,807	75,210
Jointly-controlled entity				
PetroChina Beijing Gas	Natural gas transmission fee expenses	(viii)	3,194,742	2,442,354

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.

50. RELATED PARTY DISCLOSURES (continued)

(a) (continued)

Notes: (continued)

(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, 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 (2008: 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) Other transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements and in note (a) above, the Group did not enter into any other material transactions with related parties during the year ended 31 December 2009.

50. RELATED PARTY DISCLOSURES (continued)

(b) Other transactions with related parties (continued)

During the year ended 31 December 2008, the Group entered into the following transactions with related parties:

(i) Pursuant to a number of sale and purchase agreements entered into between the Company, Beijing Enterprises (Properties) Limited ("BE Properties", a wholly-owned subsidiary of the Company), BHL and certain of its subsidiaries in May, June and August 2008, the Company and BE Properties disposed of certain buildings and investment properties to BHL and certain of its subsidiaries during the year ended 31 December 2008 for an aggregate cash consideration of HK$251,920,000. The consideration was offset against a portion of the Group's consideration payable to BE Group BVI for the acquisition of Beijing Gas BVI as further detailed in note 46 to the financial statements.

(ii) Pursuant to an agreement dated 21 November 2008 entered into between Beijing Gas, a wholly-owned subsidiary of the Company, and Beiran Enterprises, a fellow subsidiary of the Company, Beijing Gas purchased during the year ended 31 December 2008 from Beiran Enterprises 68,677.25 meters long of natural gas pipelines and their related pressure regulation facilities, monitoring and control systems in Yizhuang district of the Beijing City Economic-technical Development Zone at a cash consideration of RMB120,763,163 (equivalent to HK$136,610,000).

(c) 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)(i), 42 and 43 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 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 47 to the financial statements.

50. RELATED PARTY DISCLOSURES (continued)

(d) Compensation of key management personnel of the Group

	2009 *HK$'000*	2008 *HK$'000*
Short term employee benefits	23,692	21,962
Pension scheme contributions	19	19
Total compensation paid to key management personnel	23,711	21,981

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

51. 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, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity 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 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.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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 2009

	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	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:								
Restricted cash and pledged deposits	–	–	–	–	–	–	–	–
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 2008

	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	64,413	–	–	–	–	–	64,413	0.36
Cash and cash equivalents	4,794,105	–	–	–	–	–	4,794,105	0.36
Bank and other borrowings	(903,167)	(267,278)	(179,959)	(2,274,831)	(160,061)	(684,376)	(4,469,672)	3.08
Fixed rate:								
Restricted cash and pledged deposits	–	–	–	–	–	–	–	–
Cash and cash equivalents	1,872,835	–	–	–	–	–	1,872,835	1.82
Bank and other borrowings	(2,257,682)	(27,852)	(27,852)	(27,852)	(27,852)	(70,485)	(2,439,575)	4.87

At 31 December 2009, 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$3,063,000 (2008: HK$8,770,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end 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 next annual end of the reporting period. The analysis was performed on the same basis for 2008.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in RMB/HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity *HK$'000*
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)
2008		
If Hong Kong dollar weakens against RMB by 5%	132,919	1,399,721
If Hong Kong dollar strengthens against RMB by 5%	(132,919)	(1,399,721)

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.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group engaged in certain cash income businesses, such as the expressway and toll road operations, and the Group has 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 the 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 47 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 overdrafts, 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.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

At 31 December 2009

	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	–	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
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
Convertible bonds	–	–	–	–	582,737	2,138,751	–	2,721,488
	364,140	9,761,169	435,060	2,503,318	919,025	3,523,734	1,201,378	18,707,824

At 31 December 2008

	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	–	3,238,957	336,317	230,114	2,297,547	157,741	479,468	6,740,144
Other loans	6,815	123,869	93,334	100,347	100,213	100,162	542,214	1,066,954
Trade and bills payables	–	1,190,222	–	–	–	–	–	1,190,222
Accruals and other liabilities	15,863	3,594,854	34,904	17,037	33,891	–	–	3,696,549
Due to related parties	535,966	542,451	–	–	–	–	–	1,078,417
Convertible bonds	–	–	30,776	66,907	–	418,225	–	515,908
	558,644	8,690,353	495,331	414,405	2,431,651	676,128	1,021,682	14,288,194

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value risk

The following table sets out a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values. The fair values of these financial instruments have been calculated by discounting the expected future cash flows at prevailing interest rates.

	Carrying amount		Fair value	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets:				
Non-current receivables under service concession arrangements	**3,414,841**	2,821,311	**3,414,841**	2,821,311
Non-current prepayments, deposits and other receivables	**270,829**	124,270	**270,829**	124,270
Financial liabilities:				
Non-current bank and other borrowings:				
Floating rate borrowings	**3,793,081**	3,566,505	**3,793,081**	3,566,505
Fixed rate borrowings	**1,326,907**	181,893	**1,065,755**	142,250
Interest-free borrowings *(note (ii))*	**144,249**	146,990	**138,556**	139,709
Convertible bonds	**2,721,488**	669,275	**2,785,184**	713,028

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, the 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$144,893,000 (2008: HK$139,251,000) obtained by the Group from a joint venture partner of a subsidiary and is repayable within 16 years (2008: 17 years) and an interest-free loan of HK$11,548,000 (2008: HK$12,711,000) obtained from an overseas government as further detailed in notes 36(b)(i) and 36(b)(ii) to the financial statements, respectively.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 2008.

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 ratios as at the end of the reporting period were as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Interest-bearing bank borrowings	6,275,891	6,250,651
Total equity	38,789,834	36,310,470
Total equity and interest-bearing bank borrowings	45,065,725	42,561,121
Gearing ratio	14%	15%

52. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain equity investments being classified as available-for-sale investments and financial assets at fair value through profit or loss as disclosed in notes 24 and 30 to the financial statements, respectively, all financial assets and liabilities of the Group and the Company as at 31 December 2009 and 2008, were loans and receivables, and financial liabilities stated at amortised cost, respectively.

53. EVENTS AFTER THE REPORTING PERIOD

(a) On 27 January 2010, certain convertible bonds of BE Water with an aggregate principal amount of HK$68,150,000 were converted by certain bondholders into 98,768,668 new ordinary shares of BE Water at the conversion price of HK$0.69 per share, resulting in a decrease in the Group's equity interest in BE Water from 57.35% to 55.77%. The Group is not yet in a position to disclose any financial impact of this transaction on the Group.

(b) On 10 February 2010, Beijing Enterprises Holdings High-Tech Development Co., Ltd. ("BEHT", a wholly-owned subsidiary of the Company) and Shanghai Fosun Pingyao Investment Management Company Limited ("Fosun Pingyao", a wholly-owned subsidiary of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("Fosun Pharma")) entered into a share transfer agreement pursuant to which, BEHT agreed to sell, and Fosun Pingyao agreed to purchase from BEHT, 24,506,143 domestic shares of Biosino, an associate of the Group, at a price of RMB2.08 (equivalent to approximately HK$2.36) per domestic share.

On the same date, Biosino entered into separate H share subscription agreements with the Company and Fosun Industrial Company Ltd. ("Fosun Industrial", a wholly-owned subsidiary of Fosun Pharma), pursuant to which, the Company and Fosun Industrial agreed to subscribe, and Biosino agreed to allot and issue 24,506,143 H shares and 6,780,000 H shares of Biosino to the Company and Fosun Industrial, respectively, at the subscription price of RMB2.08 (equivalent to approximately HK$2.36) per H share.

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

54. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the HKFRS 8 during the current year, the presentation of operating segment information in the financial statements have been revised to comply with the new requirements. In addition, certain comparative amounts have been reclassified and restated to conform to the current year's presentation.

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2010.

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2009, is set out below:

RESULTS

	Year ended 31 December				
	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000
CONTINUING OPERATIONS					
Revenue	5,756,516	6,730,443	10,975,515	19,704,247	24,208,430
Operating profit	728,575	419,560	1,587,555	2,289,768	2,521,232
Share of profits and losses of:					
Jointly-controlled entities	(12,712)	688	178,243	912,628	1,092,074
Associates	24,095	64,644	261,009	(146,811)	(7,920)
Profit before tax	739,958	484,892	2,026,807	3,055,585	3,605,386
Income tax	(141,978)	(183,510)	(263,872)	(359,297)	(558,997)
Profit for the year from continuing operations	597,980	301,382	1,762,935	2,696,288	3,046,389
DISCONTINUED OPERATIONS					
Profit for the year from discontinued operations	119,061	353,875	80,827	–	–
Profit for the year	717,041	655,257	1,843,762	2,696,288	3,046,389
ATTRIBUTABLE TO:					
Shareholders of the Company	574,082	385,247	1,478,212	2,281,828	2,398,883
Minority interests	142,959	270,010	365,550	414,460	647,506
	717,041	655,257	1,843,762	2,696,288	3,046,389

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000
Total assets	19,992,218	17,627,972	45,022,029	51,696,742	59,105,310
Total liabilities	(7,454,421)	(4,487,284)	(13,457,639)	(15,386,272)	(20,088,309)
NET ASSETS	12,537,797	13,140,688	31,564,390	36,310,470	39,017,001
Equity attributable to shareholders of the Company	8,487,796	8,965,211	26,889,314	29,631,948	31,305,082
Minority interests	4,050,001	4,175,477	4,675,076	6,678,522	7,711,919
TOTAL EQUITY	12,537,797	13,140,688	31,564,390	36,310,470	39,017,001

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

Annual Report 2009