BEIJING ENTERPRISES HOLDINGS LIMITED

STOCK CODE: 392

2012 ANNUAL REPORT

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

CONTENTS

CORPORATE INFORMATION

GENERAL INFORMATION:

Registered Office
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18 Harbour Road,
Wanchai, Hong Kong
Tel: (852) 2915 2898
Fax: (852) 2857 5084

Website
http://www.behl.com.hk

Stock Code
392

Company Secretary
Mr. Tam Chun Fai CPA CFA

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

DIRECTORS:

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

Non-executive Director
Mr. Guo Pujin

Independent Non-executive Directors
Mr. Wu Jiesi
Mr. Robert A. Theleen
Mr. Lam Hoi Ham
Mr. Fu Tingmei
Mr. Sze Chi Ching
Mr. Shi Hanmin

AUDIT COMMITTEE:

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

REMUNERATION COMMITTEE:

Mr. Zhou Si
Mr. Wu Jiesi *(Committee Chairman)*
Mr. Lam Hoi Ham

NOMINATION COMMITTEE:

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

PROFESSIONALS:

Auditors
Ernst & Young

Legal Advisers
as to Hong Kong law:
DLA Piper
Mayer Brown JSM

as to PRC law:
Haiwen & Partners

as to US law:
Mayer Brown JSM

PRINCIPAL BANKERS:

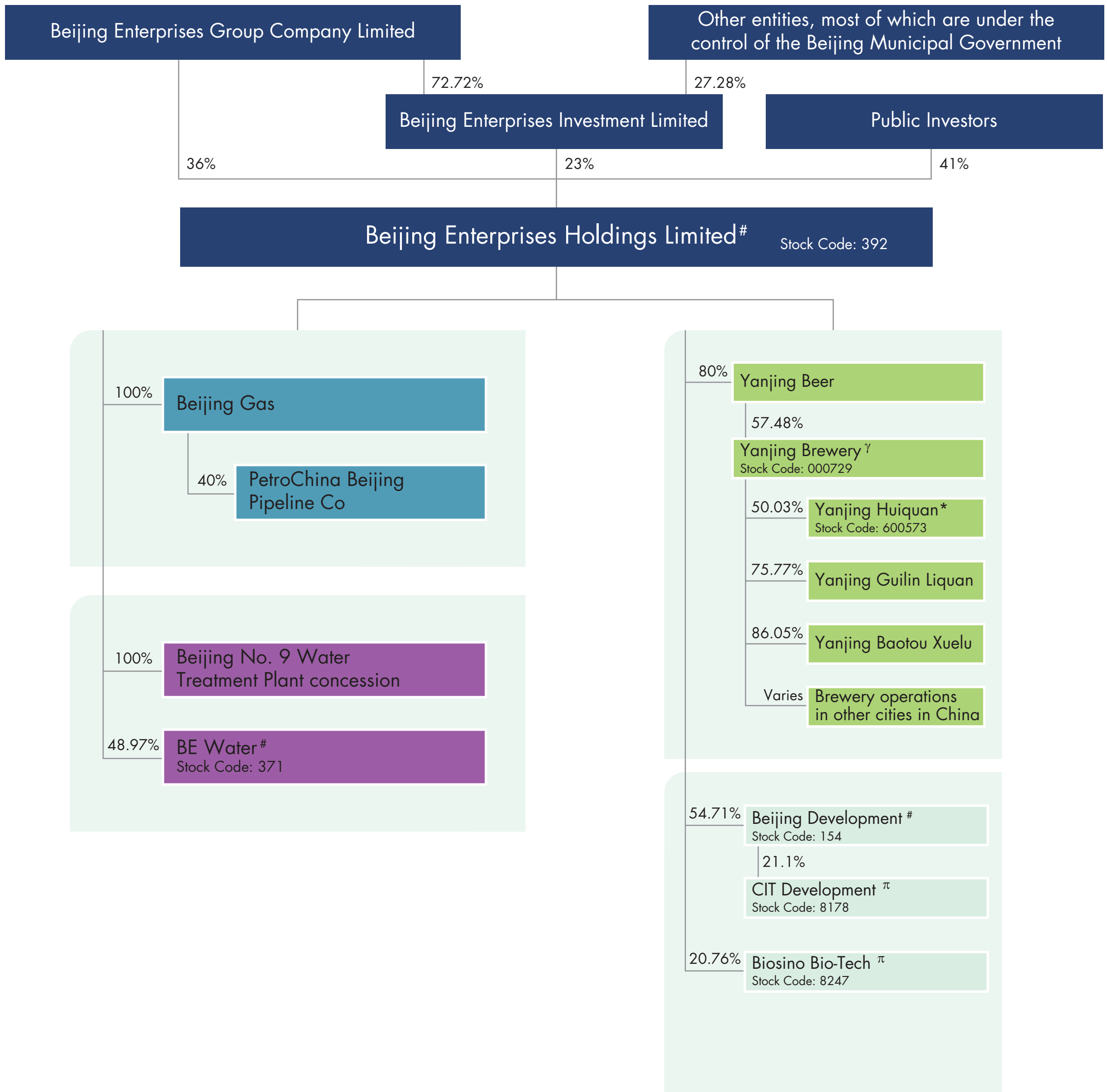
In Hong Kong
Bank of China, Hong Kong Branch
Bank of Communications, Hong Kong Branch
China Construction Bank, Hong Kong Branch
Mizuho Corporate Bank Ltd., Hong Kong Branch

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

ADR Depository Bank
The Bank of New York

CORPORATE STRUCTURE

AS AT 28 MARCH 2013



* *Listed on The Shanghai Stock Exchange*

γ *Listed on The Shenzhen Stock Exchange*

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

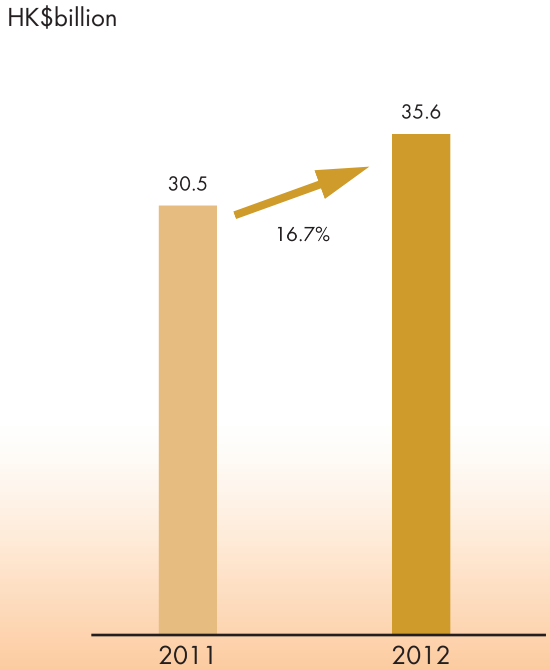
π *Listed on The Growth Enterprise Market of the Stock Exchange*

HIGHLIGHTS

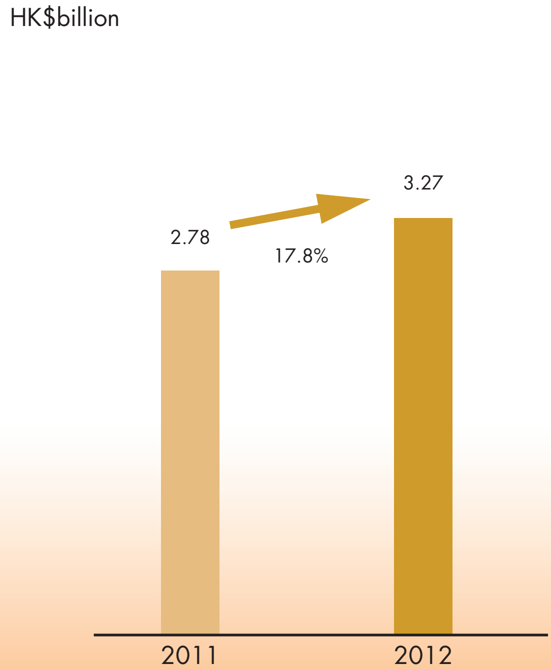
FINANCIAL HIGHLIGHTS (AUDITED)

	2012 **(HK$'000)**	2011 *(HK$'000)*	**Change**
Revenue	**35,569,649**	30,471,759	+16.7%
Gross Profit	**7,362,045**	6,734,075	+9.3%
Profit Attributable to Shareholders of the Company	**3,270,383**	2,775,880	+17.8%
Basic Earnings Per Share *(HK dollar)*	**2.87**	2.44	+17.6%
Annual Dividend *(HK cent)*	**75**	70	+7.1%

Revenue



Profit Attributable to Shareholders of the Company



CHAIRMAN'S STATEMENT

In 2012, Beijing Enterprises Holdings Limited (the "Company" or the "Group") proactively coped with turbulent business environment under the leadership of the board of directors of the Company by pursuing the object of maximizing shareholders' benefits as well as upholding its market-oriented operation philosophy in an innovative and aggressive manner. The businesses under the Group have tapped opportunities for expansion by fully capitalizing its own strengths, resulting in significant results.

According to the financial statements prepared under the Hong Kong Financial Reporting Standards, revenue in 2012 amounted to HK$35.57 billion, representing a year-on-year increase of 16.7%. Profit attributable to shareholders of the Company amounted to HK$3.27 billion, representing a year-on-year increase of 17.8%. The board of directors proposed a final dividend of HK$50 cents per share.

As the overall objective of building the country into a well-off society in an all-round way has been determined, the new type of urbanization has become the main line for the strategic development for maintaining economic growth and promoting various reforms; Beijing has also identified new strategic objectives for city development, and has raised new higher requirements for the ecological civilization, environmental improvement and energy restructuring. With the gradual implementation of relevant industrial policies and plans, clean energy, energy conservation and environmental protection will face unprecedented development opportunities. As an integrated utility company with government background, the Company has unique advantages in participating in ecological civilization and the new type of urbanization, entailing huge development potential in the main business market. Our development targets are as follows:

Gas business: we will continue to seize the expansion opportunities brought about by the acceleration of adjustment in energy structure in Beijing City as well as the intensified efforts made by the PRC government to curb air pollution, promote adjustments and optimization of market structure with an aim to construct a new layout for development. With the target of building a principally "coal free" city center by Beijing Municipal Government in 2013, we will speed up the construction of key projects on shifting coal to gas. Given the policies on public transportation and environmental sanitation taken by Beijing Municipal Government as well as the policies on promoting new energy vehicles by government authority, we will further develop the auto gas market and intensify the development of triple co-generation distributed energy market. While consolidating Beijing market, we will give a boost to the development of the markets in suburban areas, and give full play to the brand, management and technical advantages of Beijing Gas, positively explore and improve the foreign investment system and mechanism, vigorously develop the gas market outside Beijing, and focus on developing the regional market of Shaanxi—Beijing line, the Northeast, North China and Bohai Rim. We will further increase the efforts in the investment in upstream resource projects. In 2013, we will invest in long-distance pipelines including No.4 Shaanxi—Beijing Pipeline and inter-province trunk pipeline networks, and accelerated the extension of the industrial chain; we will also closely follow up the investment projects for non-conventional gases such as coal-based gas, coal bed gas and shale gas, striving to seize the opportunities in a new round of competition for upstream resources.

Beer business: we will rely on the market opportunity brought about by the policy guidance of "expand domestic demand and care for people's livelihood" and, on the basis of consolidating five major advantageous competition areas and with the realization of strategic breakthrough as the objective, to further intensify market development and cultivate new advantageous competition areas as soon as possible. We will continuously promote the three major structural adjustments for product, brand and market respectively, optimize our product price system, take extra efforts on marketing and promotion, as well as improve our brand image, corporate reputation and market competitiveness to increase the corporate benefits. We will adhere to the guideline of carrying out construction and expansion and technological transformation side by side, expand production capacity reasonably, and seize market opportunity to rapidly improve the production capacity through capital operation, merger and acquisition and other measures as appropriate.

Water business: under the premise of stringent risk management, we will further seize opportunities, focus on resources, give play to the integrated advantages of regional distribution and value chain to implement the strategy of expanding main business, and continue to increase input in the traditional investment areas for water business; prudently participate in the investment in the integrated control for water environment in key areas through strategic cooperation; continue to positively stride forward internationalization in a steady way, and on the basis of further accumulating experience in investment, operation and management of overseas projects, accelerate the construction of overseas investment platforms; promote the cultivation of desalination strategic projects in an orderly way, develop the sludge disposal market, and accelerate the technical development, the application of results and the market promotion for the underground sewage disposal system to further optimize the industrial structure and create technical core competitiveness, thus continuously improving BE Water's ability to create value.

Solid waste business: we will spare no efforts to promote the segment construction and create a BEHL solid waste brand in 2013. Based on the three main lines of "investment, construction and operation", we will adhere to attaching equal importance to scale expansion and efficiency improvement, continuing to follow up and accelerate to launch quality projects while promoting the progress of key projects including Fangshan and Haidian projects. We will positively develop new operation types in the environmental protection area, accelerate to cultivate new growth points, improve core competitiveness and focus on developing the main business of power generating from incineration of household refuse.

Looking ahead, the Company will tightly seize the development opportunity brought by the new period of strategic opportunities, continue to base itself upon the main business, take a long view, go with the market trend, be innovative and strive to realize the fundamental objective of making the main business bigger and stronger.

Wang Dong
Chairman

Hong Kong
28 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

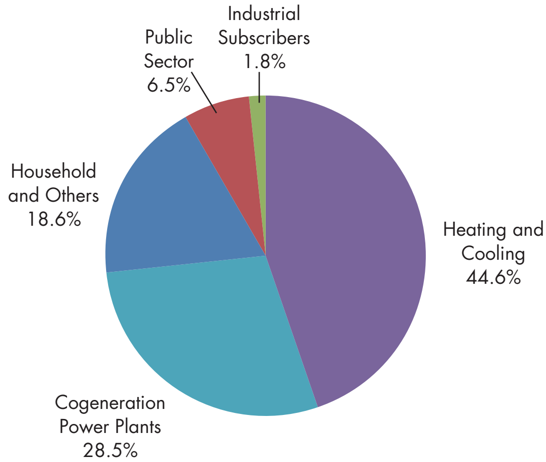
I. BUSINESS REVIEW

Natural Gas Distribution Business

Beijing Gas Group Company Limited ("Beijing Gas") recorded a gas sales volume of 7.94 billion cubic metres in 2012, representing a year-on-year growth of 22.7%. Revenue amounted to HK$20.64 billion, representing a year-on-year growth of 25.4%. Net profit amounted to HK$1.09 billion, representing a year-on-year growth of 13%.

In 2012, there were approximately 374,000 new subscribers, of which 334,000 were household subscribers and 4,081 were public-sector subscribers. At the end of 2012, the total number of natural gas subscribers has reached 4,694,000 and pipelines in operation in Beijing increased to over 15,231 kilometres in length. During the year, heating boilers with a total capacity of 5,443 t/h steam were developed, with a loading of 430t/h steam in summer. Capital expenditure for basic pipeline and gateway stations infrastructure in Beijing amounted to HK$5.47 billion.

The sales volume of Beijing Gas in 2012 was approximately 7.94 billion cubic metres, analysed as follows:

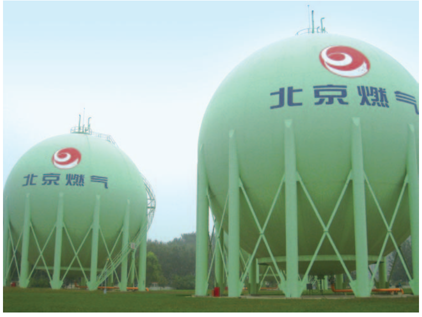


Beijing Gas reported a strong growth in sales last year, reflecting mainly significant increase in annual gas consumption by Huaneng Power Plant (華能電廠) after the commencement of its gas-fired generating units at the beginning of the year. Moreover, gas consumption for heating also increased substantially by 615 million cubic metres or 20.1% in tandem with the continuous growth in residential users as well as the lower-than-usual temperature in winter. Direct gas consumption by residential users increased by 17% as a result of the addition of new residential subscribers and the use of wall-type heaters.

I. BUSINESS REVIEW (Continued)

Natural Gas Distribution Business (Continued)

During the year under review, Beijing Gas seized the opportunities presented by the Capital City's initiatives to cure the PM2.5 hazard and achieved notable results in safeguarding energy supply security for the Capital City, enhancing the coverage of the suburban market, penetrating the urban market for gas consumption and promoting the use of clean energy, in persistent application of the general principle of "adjusting structures and procuring growth".



First of all, the construction of main pipeline networks for gas sources and the urban area was expedited. Full connection for gas supply of the Yancun-Xishatun section of No. 3 Shaanxi-Beijing Pipeline, a section within Beijing city, took place during the year, as strong support was afforded to intra-city engineering construction in connection with No. 3 Shaanxi-Beijing Pipeline. Further improvements were made to the natural gas pipeline network system to facilitate better gas reception and distribution. Key construction works at the north-south section of the 6th West Ring Road, Xisha Tunmen Station and Xijimen Station were advanced in steady progress.

Development was focused on the suburban areas with enhanced market development efforts. Gas resources for the suburban areas have been further consolidated with the full inclusion of operations of acquired enterprises in Huairou, Miyun and Changping etc into our respective local subsidiaries. The official unveiling of Beijing Gas Yanqing Company signified the full coverage of all outer suburban districts and counties of Beijing by Beijing Gas and the formation of a basic setup for suburban market development. The business development model for compressed gas operations in suburban areas has been elucidated, as we endeavoured to increase supply to the suburban market to drive the full coverage of suburban areas with clean energy, leveraging the local strengths of suburban companies and synergies afforded by the "operation of three gases".

Infrastructure investments for the year increased significantly by RMB1 billion over the previous year, making positive contributions in safeguarding gas supply and accelerating market development. The implementation of gas supply constructions at the four major Thermal Power Centres was advanced with increased pace. Phase II gas supply construction of Huaneng Power Plant (華能電廠) was fully completed. Connection for gas supply at the Southwest Thermal Power Centre (Caoqiao Thermal Power Plant) has commenced upon the completion of relevant construction works played an important role in the growth of annual gas consumption. Preliminary works for the Northeast and Northwest Thermal Power Centres and the reception facilities of the Datang Coal-to-Gas Conversion Project were progressing smoothly. The annual target coal-to-gas conversion of boilers has been met and exceeded.

I. BUSINESS REVIEW (Continued)

Natural Gas Distribution Business (Continued)
Historically significant progress has been made in the vehicle gas market, with advances on all fronts such as production at gas sources, gas distribution, establishment of stations and the promotion of natural-gas vehicles, etc. Firstly, in a bid to lobby government adoption of policies relating to vehicle gas, we proactively offered to undertake related policy research and completed the "12th Five-Year Period" planning for vehicle gas development on behalf of the government, thereby fostering a favourable environment for vehicle gas development. Secondly, the construction of CNG and LNG gas sources were commenced in full scale. Meanwhile, Tongzhou Ciqu LNG Storage Station, the first LNG transfer station in Beijing, was completed and commenced to become the main source of gas supply for natural-gas public buses in Beijing during the 18th CPC National Congress. Thirdly, vigorous efforts were being made to promote the use of natural-gas vehicles, in connection with which a proposal for the promotion of natural-gas buses and taxis was formulated and published. Fourthly, the construction of natural-gas service stations was expedited. A vehicle gas company has been set up in joint venture with Sinopec and this joint venture has started natural-gas service station operations in cooperation with Beijing Public Transport (北京公交). Cooperation with Shunyi, Tongzhou, Daxing and other districts and counties has also been established, resulting in the completion and operation of a number of service stations. As at 31 December 2012, close to 20 service stations had been built and 1,000 natural-gas vehicles has been developed.

Breakthroughs have also been made in the distributive energy market for cooling-heating-power supply. Firstly, active efforts were made to strive for government adoption of policies relating to cooling-heating-power supply. Consequently, distributive energy of natural gas was classified as a priority sector at national level. Secondly, project company was established to expedite the development of such projects in Beijing, in connection with which a framework agreement was signed with the Haidian District Government for cooperation in energy projects located in the development area in northern Haidian. The target for the year, namely to complete 2, start construction of another 2 and further develop 3 projects, was completed, allowing us to stock up a number of cooling-heating-power supply projects.

Active efforts were made to advance projects in upstream resources. Meanwhile, positive developments of the Datang Coal-to-Gas Conversion Project have been reported, as the project is ready to supply gas to the Capital City following by a successful test run under large loading. Basic construction of the Wushenqi LNG Project has been completed, while the progress of non-conventional natural gas projects has been accelerated.

Investments in the urban gas business will be actively accelerated. As a matter of fact, Beijing Gas developed more gas projects outside Beijing than ever during the year under review, with three major regions of investment basically formed in Shandong, the Northeastern region and the periphery of Beijing. Meanwhile, through actively tracking and searching, a number of valuable investment projects have been stocked to provide a sound foundation for greater development of Beijing Gas in the future.

I. BUSINESS REVIEW (Continued)

Natural Gas Transmission Business

PetroChina Beijing Natural Gas Pipeline Company Limited (中石油北京天然氣管道有限公司)("PetroChina Beijing Pipeline Co."), a company in which Beijing Gas holds 40% equity interests, achieved a gas transmission volume of 23.72 billion cubic meters in 2012, a year-on-year increase of 16.8%. Profit after taxation attributable to the Company amounted to HK$1.7 billion, a year-on-year increase of 30.5%. The urban ancillary work in Beijing for No. 3 Shaanxi-Beijing Pipeline project, which stretches 86 km in total from the Liangxiang gas transmission station in the south, up to the Xishatun gas transmission station in the north, is close to completion. This section will increase the overall transmission capacity of the Shaanxi-Beijing Pipeline system after its completion in January 2013.

Beer Business

In 2012, Beijing Yanjing Brewery Co., Ltd.(北京燕京啤酒有限公司) ("Yanjing Beer") was confronted by the most challenging operating conditions of China's beer industry in the past 10 years. National sales volume of Yanjing Beer was 5.404 million kilolitres, representing a year-on-year decrease of 1.8%. The decrease in sales was mainly due to the decrease in sales of particular enterprises. Revenue was HK$14.44 billion, a year-on-year increase of 8%. It was mainly attributed to the product restructuring and the increase in sales of mid-high end products. Profit attributable to shareholders of the Company was approximately HK$350 million, representing a year-on-year decrease of HK$90 million or 20.5%. The decrease in profit was mainly attributed to the land compensation of RMB110 million received by Hohhit City Company last year and the delay in receiving the land compensation of Gangzhou Company's relocation from the city to industrial park in the current year.

In 2012, China's beer industry was significantly affected by the macroeconomic conditions. As construction workers represent an important mass of consumers of beer, the decrease in the population of construction workers, in the wake of the close of the RMB4,000 billion fiscal stimulus, more stringent control over the real estate industry and reduced infrastructure construction work, have resulted in the decrease in beer consumption as compared to the past, with a low growth rate for the beer industry not seen in the past 20 years.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW (Continued)

Beer Business (Continued)

In response to such new trends and circumstances as slowing down of the economy of China, declining growth of beer consumption and rising production costs, Yanjing Beer was primarily engaged in structural adjustments in 2012 in three principal aspects, namely product structure adjustment, brand structure adjustment and market structure adjustment. A great deal of work has been done in relation to these core tasks and notable results have been achieved.

First of all, we conducted product structure adjustment. On the one hand, members of Yanjing Beer, seized the opportunities to adjust the prices of popular beers. As a principle, we are proactive in raising the prices of leading products in markets where we have the advantage, while in disadvantaged markets we raise prices only when the dominant brands have done so. A number of foreign enterprises have made price adjustments to their leading products in first half of 2012. On the other hand, we strengthened our sales efforts for medium and high end products. A diversified product line featuring high end flagship products like Yanjing Chunsheng (燕京純生) and Yanjing Wuchun (燕京無醇), medium end flagship products like Yanjing Draught Beer (燕京鮮啤) and affordable flagship products like Yanjing Refreshing Beer (燕京清爽啤酒) was established. Through efforts in these two areas, the per kilolitre price was improved, thereby lifting revenue from our core business. In 2012, the sales volume of products with revenue per kilolitre below RMB2,500 was 3.94 million kilolitres, a decrease of 0.33 million kilolitres or 7.7% from the corresponding period of the previous year; while sales volume of products with revenue per kilolitres above RMB2,500 was 1.46 million kilolitres, an increase of 0.22 million kilolitres or 18% from the corresponding period of the previous year. Generally, the ratio of medium and high end products reached 27%, an increase of 4 percentage points from the same period of the previous year.

In terms of brand structure adjustment, the Company continued to implement the "1+3" branding strategy and increased the concentration of "1+3" brands, establishing "Yanjing" as the national core brand and Liquan (漓泉), Huiquan (惠泉) and Xuelu (雪鹿) as the regional strong brands. The emphasis in 2012 was mainly focus on certain enterprises, such as the newly acquired subsidiaries, Henan Yueshan (河南月山) and Zhumadian (駐馬店), as well as the Shandong subsidiaries which have greater sales volume of local brands. Sales efforts of beer under Yanjing brand were intensified to enhance the influence of Yanjing brand so as to curtail the sales volume of other weaker regional brands.

I. BUSINESS REVIEW (Continued)

Beer Business (Continued)

In order to complement the promotion of the main Yanjing brand in the national market, the Company increased its advertising efforts with a series of marketing campaigns to promote the popularity and reputation of the Yanjing brand. Through such endeavours, Yanjing Beer's brand value reached RMB36.594 billion, representing an increase of 30.15% from last year. Sales volume of the brands included in the Company's "1+3" brands was 4.83 million kilolitres last year, representing a concentration of over 90%. Sales volume of the Yanjing Beer reached 3.54 million kilolitres, an increase of 0.16 million kilolitres over the corresponding period of the previous year, increasing at a growth rate of 4.73% and with a major brand concentration of 66%.

Lastly, we also carried out market structure adjustment. Since market growth for China's beer industry is shifting from the eastern and coastal to the central and western regions, Yanjing Beer is also shifting the focus of its investment from the eastern to central and western regions, progressively increasing its investment and marketing efforts in the central and western markets. During the year, subsidiaries in Yunnan and Sichuan underwent renovation or expansion from time to time. Investment projects currently under construction include: (1) a newly built project in Alar, Xinjiang, which is currently in trial run; (2) the relocation of Xuelu Beer (Fengzhen) Co. Ltd. (雪鹿啤酒(豐鎮)有限責任公司) from urban areas to industrial parks; (3) the relocation of 燕京啤酒(金川)有限責任公司 (Yanjing Beer (Jinchuan) Co. Ltd.) out of urban areas into industrial parks; (4) a newly built project in Guizhou; (5) the technological upgrade project of Xiandu (仙都); and (6) the expansion project of Yanjing Beer (Zhumadian) Co. Ltd.(燕京啤酒(駐馬店)有限公司) to increase its capacity by 100,000 tons. All projects mentioned above are scheduled for commissioning in mid to late 2013. Meanwhile, in order to fulfil the funding requirements for the expansions and to reduce financial costs, a resolution was passed in December at the board meeting and the general meeting of Yanjing Beer to raise funds amounting to approximately RMB1.64 billion by way of public issue of shares, to finance the new construction, renovation and expansion projects in 9 companies in Xinjiang, Sichuan, and Yunnan, etc.

Sewage and Water Treatment Operations

The water treatment business of the Group carried out through Beijing Enterprises Water Group Limited ("BE Water") (stock code: 371) continued to report a rapid development in 2012. During the year, BE Water continued to adopt the multi-module development strategy, with an addition of 1.7655 million tons/day in water processing capacity.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW (Continued)

Sewage and Water Treatment Operations (Continued)

As of 31 December 2012, in the 19 provinces across the country, BE Water owned a total of 155 water plants of different categories, including 120 sewage treatment plants, 30 water treatment plants, 4 reclaimed water plants and 1 desalination plant. Total completed operating treatment capacity was 7.29 million tons/day, comprising sewage processing capacity of 4.78 million tons/day, water supply capacity of 2.13 million tons/day and reclaimed water capacity of 0.38 million tons/day. The capacity of water plants that had not yet commenced operation was 3.2 million tons/day, comprising sewage processing capacity of 1.81 million tons/day, water supply capacity of 1.23 million tons/day and reclaimed water capacity of 0.11 million tons/day and desalination capacity of 50,000 tons/day. The actual treatment volume was 1.611 billion tons in 2012, representing a growth of 42.8% over last year. During the year, the revenue of construction services of BE Water had a more rapid growth, eliminating the effects of the increased head office expense. Revenue from the operation of BE water as a whole was HK$3.73 billion, and profit attributable to its shareholders was HK$750 million, representing a growth of 25% over last year. Net profit for the year attributable to the Company was HK$331 million, representing a growth of 25% over last year. The relative faster profit growth in 2012 was primarily driven by the substantial increase in revenue from processing fees after the new sewage treatment plants were put into operation and the rapid growth of the profits of construction services.

As for water purification business, net profit of water concession of Beijing No. 9 Water Treatment Plant attributable to the Group was approximately HK$139 million (2011: HK$146 million).

Toll Roads Business

The toll charging traffic volume of the Beijing Capital Airport Expressway in 2012 was 25.17 million (2011: 26.34 million) vehicles. The toll revenue amounted to HK$150 million, representing a year-on-year decrease of 36%. Net loss attributable to shareholders of the Company was HK$99.33 million (2011: Profit of HK$6.27 million). The operation of Shenzhen Shiguan Road was terminated during the year and discussions with the Shenzhen government regarding the arrangements of shareholder settlement are currently underway.

Following the Company's formal disposal of 96% equity interests in Beijing Capital Airport Expressway to Beijing Enterprises Group Company Limited, the parent company, at a consideration of RMB1.114 billion subsequent to the balance sheet date, the Company will cease to operate any toll road business.

I. BUSINESS REVIEW (Continued)

Solid Waste Treatment Business

After several years of cultivation and development, the Company has commenced the establishment and operation of 4 solid waste treatment projects, including (1) the Guodingshan domestic waste to energy project in Wuhan with a processing capacity of 1,500 tons/day equipped with 3 circulating fluidized bed combustion boilers fuelled by waste and 2 pure condensing power units. The project has a concession term of 25 years, and commenced commercial operation at the end of September 2012; (2) a hazardous waste treatment centre in Hengyang with a designed annual capacity of 35,000 tons and a concession term of 25 years. The project is currently in trial run; (3) the Shuangqi domestic waste to energy project in Harbin with a designed total capacity of 1,600 tons/day. The project includes renovation of the fluidized bed process with a capacity of 400 tons/day and expansion of the chain-grate stoker combustion process with a capacity of 1,200 tons/day. The project was invested and constructed on a BOT basis and has a concession term for 30 years. The upgrade project is scheduled to complete testing by the end of April 2013; (4) the Wenchang waste to energy project in Hainan Island, which has passed its trial run. Volume of waste fed into the furnace throughout the year was 25,866 tons, from which 4.86 million of units of electricity was generated, out of which 3.58 million units was supplied to the power grid. Hazard-free production was maintained throughout the year.

II. PROSPECTS

Natural Gas Distribution Business

Beijing Gas will continue to penetrate the urban market. We will procure the implementation of the Beijing Government's policy for curing PM2.5 hazards and enhance the development of coal-to-gas boiler projects to complement coal-to-gas projects in urban areas, striving to achieve the goal of a coal-free No. 6 District by 2014. Further sub-division will be made in respect of mature markets, with an eye for quality customers in the restaurant, public service and construction sectors. Increased efforts will be made to identify potential customers in various functional parks and zones, as well as to direct and optimise the manner of energy consumption by users, in close tandem with urban development planning and functional positioning. Development of the suburban market will be expedited to drive gas sales at suburban counties for a higher-than-average annual growth rate. The implementation of key construction work will be expedited, and the subsequent phases of the 6th West Ring Road Project will be actively advanced to secure gas supply. Intra-city ancillary constructions for the No. 4 Shaanxi Pipeline, as well as the construction of intra-city reception facilities for the Datang Coal-to-Gas Project, will be properly conducted. The construction of the thermal power centres at Gaoantun and Gaojing, together with ancillary gas pipelines and facilities, will also be accelerated to ensure completion and connection for gas supply by the end of 2013. The construction of ancillary pipelines for the Tangshan LNG Project will be completed. The coal-to-gas conversion of the coal-fired boiler with a capacity of over 2,590 tonnes of steam and 20 tonnes/hour will be completed with full force. Vigorous efforts will be made to develop urban gas markets in other regions of China. In line with the strategic setup of Beijing Gas, focused efforts will be made to tap regional urban gas markets along the Shaanxi-Beijing Line and in the Northeastern, Northern and Bohai Rim regions, with a view to forming a greater regional market comprising mutually supportive and synergistic sub-segments.

II. PROSPECTS (Continued)

Natural Gas Distribution Business (Continued)

In connection with the penetration of the Beijing market for gas distribution, we will first and foremost seek to expedite development of the distributive energy market for cooling-heating-power supply through natural gas. As our market development principal, the project company established will step up with the implementation of relevant supporting policies. High-end exemplary projects will be properly conducted with the Beijing market as the primary target, as focused efforts will be made to advance projects in zones and parks such as Beijing Technology Business Zone, the northern Haidian District and Beijing-Bohai Rim High-end Headquarter Base, etc, in order to enhance our ability to compete and control and assure our dominance in the Beijing market.

Secondly, the vehicle gas market will be developed with vigorous efforts. As the principal for market development, Luyuanda (綠源達公司) will step up with the construction of the LNG-CNG supply system, to create a one-stop supply chain for vehicle gas comprising production, transportation and sales. The construction of service stations will also be accelerated — the construction of LNG plants, transfer stations and CNG main stations will be properly conducted and the distribution of service stations will be further improved to reassure our stronghold of the high-end market. Cooperation with district/county governments and Sinopec will be enhanced to facilitate faster tapping of the market utilising all forms of resources. We will continue to strengthen our marketing efforts, procuring the implementation of projects for the use of natural gas in buses and taxis, while making focused efforts to seek breakthroughs for the use of natural gas vehicles in the sectors of logistics and long-distance passenger transport, etc, with the aim of procuring the use of natural gas in 10,000 vehicles by the end of 2013. Operations should be enhanced — a complete operation and service regime covering the entire CNG and LNG business chain of production, transportation and sales will be formed as soon as practicable, while our ability to safeguard and maintain the standard of operating services for vehicle gas will also be enhanced to ensure effective operation of the business chain.

Natural Gas Transmission Business

With the full connection and operation of No. 3 Shaanxi-Beijing Pipeline, the Shaanxi-Beijing pipeline system currently boasts an integrated annual gas transmission capacity of over 35.0 billion cubic metres, which will be sufficient to meet the growth in demand for the next two years. Preliminary ancillary construction for No. 4 Shaanxi-Beijing Pipeline has started and connection for gas supply is expected to take place by the end of 2014, which will provide assurance for supply requirements in the natural gas development of Beijing and the Northern regions.

Beer Business

The overall target set out in the "12th Five Year Period" of Yanjing Beer remains at 8 million kilolitres, aiming to enter the world's beer industry as one of the top six brands. The targeted beer sales volume of Yanjing Beer for 2013 is 6 million kilolitres. In 2013, Yanjing Beer will remain focused on the adjustment of three principal structures: namely the product structure, the brand structure and the market structure. The most important priority for the adjustment of the product structure would be the adjustment of the price regime. In the coming year, Yanjing Beer will endeavour to increase sales of high-end beer, and future development will be focused on canned beer. As canned beer currently accounts for a relatively low percentage of the overall beer market in China, opportunities presented by this trend should be well seized. Meanwhile, the designs, price mechanisms and images of products should be standardised in the process of product structure adjustment. In terms of brand structure adjustment, we will remain committed to the "1+3" branding strategy and continue to enhance the level of concentration on the "1+3" branding. In terms of market structure adjustment, we will continue to increase investment in the mid-western market in persistent implementation of our policy of committing more resources to better-performing regions, so as to further enlarge the market share of Yanjing Beer.

III. FINANCIAL REVIEW

Revenue

The revenue of the Group in 2012 was approximately HK$35.57 billion, increased by 16.7% compared with the revenue of HK$30.47 billion in 2011. This was mainly driven by the stable growth of Beijing Gas' revenue and Yanjing Beer's revenue. Other business contributed an aggregate of not more than 3% of the total revenue.

Cost of Sales

Cost of sales increased by 19% to HK$28.21 billion. The cost of sales for gas distribution business included purchase cost of natural gas as well as depreciation of piped line network. Cost of sales of beer operations includes raw materials, wage expenses and absorption of certain direct overhead.

Gross Profit Margin

Overall gross profit margin was 20.7% as compared to 22.1% in 2011. The decrease in gross profit margin was mainly attributable to the increase in raw materials costs and energy charges, resulting in the higher cost of sales as a whole. The results of toll roads from profit to loss also lowered the gross profit margin as a whole.

Gain on Disposal of Interests in Subsidiaries

During 2012, the Group disposed of its 96% interest in Beijing Capital Expressway Development Co., Ltd. with a gain of HK$602 million.

Other Income

Other income was mainly comprised of government grants amounted to HK$210 million, transfer of pipeline networks amounted to HK$120 million and bank interest income amounted to HK$250 million and so on.

Selling and Distribution Expenses

Selling and distribution costs of the Group in 2012 increased by 8.3% to HK$2.38 billion and was mainly due to the promotion of natural gas for cars by Beijing Gas also incurred higher selling costs and many new breweries outside Beijing has commenced operation and the launching of more new products during the year, recruitment of a large number of new sales staff and higher increase in marketing expenditure.

Administration Expenses

Administration expenses of the Group in 2012 were HK$3.01 billion, increased by 23.3% comparing to last year. The increase in administration expenses was mainly due to the continuing expansion of the scale of gas distribution business and beer business and increase in related wages and fixed costs.

Finance Costs

Finance costs of the Group in 2012 was HK$997 million, increased by 54.1% comparing to HK$647 million in 2011, which was mainly due to the increase in the issuance of Guaranteed senior notes of US$0.8 billion in April 2012 and the calculation of last year annual interest expenses of Guaranteed senior notes of US$1 billion.

III. FINANCIAL REVIEW (Continued)

Share of Profits and Losses of Jointly-Controlled Entities

Share of profits and losses of jointly controlled entities in last year 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 Kunlun Energy. The primary business of PetroChina Beijing Pipeline Co. is natural gas transmission which supplies natural gas to city gas operators along the three long piped lines with an approximate total length of 3,000 kilometers owned by PetroChina Beijing Pipeline Co..

Share of Profits and Losses of Associates

During 2012, PetroChina Beijing Pipeline Co. became our associate. The Group shared 40% of its net profits after taxation, amounted to HK$1.7 billion. The Group's share of net profits of BE Water amounted to HK$331 million and share of net loss of Beijing Development (Hong Kong) Limited ("Beijing Development") amounted to HK$8.19 million in 2012.

Tax

After deducting the share of profits and losses of jointly-controlled entities and associates, the effective income tax rate is 26.4%, higher than that of 22.7% in last year. The increase in effective income tax rate in 2012 was mainly because most of the Guaranteed senior notes interest expenses are non tax-deductible for the year.

Profit Attributable to Shareholders of the Company

The profit attributable to the shareholders of the Company for the year ended 31 December 2012 was HK$3.27 billion (2011: HK$2.776 billion).

IV. FINANCIAL POSITION OF THE GROUP

Non-current assets

Property, plant and equipment and capital expenditure

The net book value of property, plant and equipment increased by HK$6.5 billion. During 2012, Beijing Gas incurred a capital expenditure of approximately HK$5.47 billion in gas distribution business. The capital expenditure of Yanjing Beer was approximately HK$2.3 billion.

Interests in associates

During 2012, the Group's additional capital contribution to PetroChina Beijing Pipeline Co. and Datang Coal-to-Gas amounted to HK$940 million and HK$490 million respectively.

The increased balances attributed to the net of the share of net profits in 2012 of PetroChina Beijing Pipeline Co. and BE Water and the capital contribution to PetroChina Beijing Pipeline Co. less the amounts of dividend distributed.

IV. FINANCIAL POSITION OF THE GROUP (Continued)

Non-current assets (Continued)

Receivables under service concession arrangements
The substantial decrease in the balance by HK$1.08 billion was mainly attributable to the reclassification of the concession assets of Beijing No. 9 Water Treatment Plant as non-current assets held for sale.

Prepayments, deposits and other receivables
The substantial increase in the balance by HK$709 million was mainly attributable to the receivables from the disposal of Beijing Capital Expressway Development Co., Ltd. amounting to HK$660 million.

Current assets

Trade and bills receivables
The substantial increase in the balance by HK$820 million was mainly attributable to the significant increase in the volume of gas purchased by the power plant users and heat users of Beijing Gas near the year end.

Prepayments, deposits and other receivables
The substantial increase in the balance by HK$1.68 billion was mainly attributable to the increase in prepaid gas fee amounted to HK$911 million to meet the demands of the peak season for gas consumption during January and February 2013, and was also due to the addition of new receivables from the disposal of Beijing Capital Airport Expressway amounting to HK$440 million and prepayments made for the purchase of certain assets.

Cash and Bank Borrowings
As at 31 December 2012, cash and bank deposits held by the Group amounted to HK$12.3 billion. At the end of the reporting period, the Group had a strong net working capital of HK$6.96 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 total borrowings amounted to HK$26.62 billion as at 31 December 2012, which mainly comprised three Guaranteed senior notes totalling of US$1.8 billion, five year syndicated loans amounting to HK$3 billion and convertible bonds amounting to HK$2.26 billion with the rest working capital loans of HK$7.62 billion denominated in Renminbi and Hong Kong dollars. Around 28.3% of the bank loans were denominated in Hong Kong dollars with the rest mainly in Renminbi. The Group was in a net debt position of HK$14.32 billion as at 31 December 2012.

IV. FINANCIAL POSITION OF THE GROUP (Continued)

Non-current liabilities

Guaranteed senior notes
The increase in the balance by HK$6.15 billion was mainly attributable to the issue of 10-year guaranteed senior notes with a principal amount of approximately US$800 million in the first half of the year. Such notes carry a coupon interest rate of 4.5% per annum.

Liability component of convertible bonds
The decrease in the balance by HK$450 million was mainly attributable to the partial exercise of the Renminbi convertible bonds of Yanjing Beer for conversion into the issued share capital of Yanjing Beer and the partial repurchase of convertible bond from Yanjing Beer.

Current liabilities

Trade and bills payables
The increase in the balance by HK$710 million was mainly attributable to the larger volume of purchases made by Beijing Gas and Yanjing Beer in line with their ongoing business expansion.

Other payables and accruals
The substantial increase in the balance by HK$2.521 billion was mainly attributable to the significant increase in the balance of construction in progress as a result of the acceleration of a number of pipeline construction projects in Beijing in the fourth quarter by Beijing Gas.

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, there was no significant movement in the issued capital of the Company. As at the end of 2012, the issued capital of the Company amounted to 1,137,571,000 shares and the shareholders' equity grew to HK$39.61 billion. Total equity was HK$47.64 billion comparing to HK$45.2 billion as at the end of 2011.

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

WANG Dong, aged 47, is the Chairman of the Company and Beijing Enterprises Group Company Limited. Mr. Wang graduated from Mining Mechanical Engineering Faculty of Beijing Institute of Iron and Steel in 1986, holds a master degree in Public Administration from People's University of China and the title of Senior Engineer. Mr. Wang has held various senior positions in many large and medium size state-owned enterprises. From 2001 to 2008, Mr. Wang served as the Deputy General Manager, subsequently the Executive Deputy General Manager and finally the Chairman of BBMG Group Company Limited. From 2008 to 2009, he served as Head of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Wang has extensive experience in corporate management, finance and state-owned assets supervision. Mr. Wang joined the Group in August 2009.

ZHOU Si, aged 56, is the Vice Chairman and Chief Executive Officer of the Company. Mr. Zhou is also Vice Chairman of Beijing Enterprises Group Company Limited, Chairman of Beijing Gas Group Co., Ltd., Chairman and Executive Director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Zhou received a bachelor's degree in science (Physics) from Capital Normal University in 1982, an MBA degree from school of Economics and Management, Tsinghua University in 1998 and possesses the title of Senior Economist. From 1984 to 2003, he worked with Comprehensive Planning Department of Urban Management Commission of Beijing Municipality as Chief Officer, Deputy Director and Director; and later worked as Deputy Director of Urban Management Commission of Beijing Municipality. He has extensive experience in urban management, economics, finance and enterprise management. Mr. Zhou joined the Group in June 2005.

ZHANG Honghai, aged 60, is the Vice Chairman of the Company. Mr. Zhang also serves as a Director of Beijing Enterprises Group Company Limited, an Executive Director of Beijing Development (Hong Kong) Limited (stock code: 154) and the Chairman and Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. Zhang graduated from Peking University in 1982 and subsequently completed a postgraduate programme at the International Business School of Hunan University and was awarded a master degree and the title of Senior Economist. Mr. Zhang also obtained an EMBA degree from Guanghua School of Management, Peking University. Mr. Zhang has worked for the Beijing Municipal Government for many years. Prior to joining the Company, Mr. Zhang was the director of the Foreign Affairs Office of the People's Government of Beijing Municipality and Hong Kong and Macao Affairs Office of the People's Government of Beijing Municipality. Mr. Zhang currently is the Vice President of the Beijing Chinese Overseas Friendship Association. Mr. Zhang initially worked as Deputy General Manager and was then promoted to Vice Chairman and General Manager of Beijing International Trust Investment Limited during the period from 1990 to 1998, and has accumulated extensive experience in corporate management. Mr. Zhang joined the Group in December 2003.

LI Fucheng, aged 58, is the Vice Chairman of the Company. Mr. Li also serves as the Director and Vice General Manager of Beijing Enterprises Group Company Limited. During his tenure with Yanjing Beer Factory since 1983, he had held various positions including Deputy Secretary, Deputy Director and Director, etc and is currently the Chairman of the Yanjing Group. Mr. Li has extensive experience in the brewery industry. Mr. Li joined the Group in April 1997.

DIRECTORS AND SENIOR MANAGEMENT

HOU Zibo, aged 47, is the Executive Director of the Company. Mr. Hou also serves as Vice Chairman of Beijing Enterprises Group Company Limited and Chairman of Beijing Instrument Industry Group Co., Ltd. Mr. Hou graduated from the School One of Ministry of Aerospace Industry with the specialty in Structural Mechanics and China Europe International Business School with the specialty in Business Administration; possesses a master degree in engineering, an MBA degree and the title of Professor-grade Senior Engineer. He was Deputy Director of Institute 702 of Ministry of Aerospace Industry and participated in many science and research projects of the state. Subsequently, Mr. Hou acted as Director and Deputy General Manager of Beijing Jingcheng Machinery Electric Holding Co., Ltd. From 2005 to 2010, he was Deputy Director of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Hou has extensive experience in state-owned assets management, corporate assets management and capital operations. Mr. Hou joined the Group in March 2012.

LIU Kai, aged 59, is the Executive Director of the Company. Mr. Liu also serves as the Director of Beijing Enterprises Group Company Limited and the Vice Chairman of Beijing Holdings Limited. He graduated from the mechanical engineering faculty of Tsinghua University in 1979, and later obtained postgraduate qualification in domestic economics, management and legal professional studies from the State Administration Institute. In 2007, Mr. Liu graduated from the EMBA program of Tsinghua 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 extensive experience in economics and management. Mr. Liu joined the Group in January 2001.

LEI Zhengang, aged 59, is the Executive Director of the Company. Mr. Lei also serves as the Director and Vice General Manager of Beijing Enterprises Group Company Limited, as well as the Chairman of Beijing Holdings Limited. Mr. Lei obtained a postgraduate qualification from the Capital University of Economics and Business. He is a PRC senior accountant and has extensive experience of corporate finance and management. Mr. Lei joined the Group in June 2006.

E Meng, aged 54, is the Executive Director and Executive Vice President of the Company. Mr. E also serves as the Vice Manager and CFO of Beijing Enterprises Group Company Limited, the Chairman and Executive Director of Beijing Development (Hong Kong) Limited (stock code: 154), the Vice Chairman and 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.

JIANG Xinhao, aged 48, is the Executive Director and Vice President of the Company. Mr. Jiang also serves as Vice General Manager of Beijing Enterprises Group Company Limited, an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371) and Beijing Properties (Holdings) Limited (stock code: 925). Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, then he served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. In 1992, he was granted a master's degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Vice President of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a Manager of the investment development department of Beijing Holdings Limited and a General Manager of Beijing BHL Investment Center between May 2000 and February 2005. Mr. Jiang has extensive experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

TAM Chun Fai, Jimmy, aged 50, 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.

LIN Fusheng, aged 49, was the Vice Chairman of the Company. Mr. Lin also serves as Vice Chairman and General Manager of Beijing Enterprises Group Company Limited. Mr. Lin graduated from Harbin Institute of Technology in 1987 and was awarded a post-graduate master degree from the Faculty of Power Engineering with the specialty in Thermal Energy Engineering. He then obtained an MBA degree from the School of Economics and Management of Tsinghua University in 2001. Presently he possesses the title of Professor-grade Senior Engineer. Before joining the Group, he was Chairman of Babcock & Wilcox Beijing Company Ltd., Deputy Director of Mechanical Industry Administration Bureau of Beijing Municipality, Director and General Manager of Beijing Machinery Electric Industrial Holding (Group) Co., Ltd., and Chairman and General Manager of Beijing Jingcheng Machinery Electric Holding Co., Ltd. In 2007, Mr. Lin was appointed as Chief Executive of Haidian District of Beijing Municipality. Mr. Lin has a strong professional background with considerable experience through his previous jobs in the government. He also has extensive experience in corporate management, assets management and capital operations. Mr. Lin joined the Group in June 2011 and resigned in March 2013.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

GUO Pujin, aged 59, is the Non-executive Director of the Company. He graduated from the political education faculty of Capital Normal University in 1976 and later finished his postgraduate studies at Capital Trade and Economics University. Mr. Guo was previously the Chief Executive Officer of Da Xing District of Beijing and is currently the Chairman of Beijing Capital Expressway Development Co., Ltd.. Mr. Guo has extensive experience in government affairs and corporate management in China. Mr. Guo joined the Group in April 2004 as Executive Director of the Company and was re-designated as Non-executive Director of the Company in March 2013.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WU Jiesi, aged 61, holds a doctorate degree in Economics. Mr. Wu also serves as Non-executive Director and Vice Chairman of China Aoyuan Property Group Limited (stock code: 3883), Independent Non-executive Director of China Taiping Insurance Holdings Company Limited (stock code: 966) and Non-executive Director of China Water Affairs Group Limited (stock code: 855), Shenzhen Investment Limited (stock code: 604) and Silver Base Group Holdings Limited (stock code: 886). He conducted post-doctoral research work in theoretical economics at the Nankai University in the PRC and was conferred the professorship qualification by the Nankai University in 2001. During the period from 1984 to 1995, Mr. Wu worked at the Industrial and Commercial Bank of China in a number of positions, including as the President of Shenzhen Branch. From 1995 to 1998, Mr. Wu was Vice Mayor of Shenzhen Municipal Government and from 1998 to 2000 he was the assistant to the Governor of Guangdong province. He was the Chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, the Honorary President of Guangdong Investment Limited and Guangdong Tannery Limited, and the managing director and chief executive officer of Hopson Development Holdings Limited. From September 2005 to July 2011, he was Independent Non-executive Director of China Merchants Bank Co., Ltd. (stock code: 3968). He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

Robert A. THELEEN, aged 67, is the Chairman, founder and Co-Chief Executive Officer of China Vest, Ltd., a Shanghai-based Merchant Bank. Mr. Theleen was a pioneer in the private equity investment industry in China where, in 1982, he launched one of the first venture capital funds investing in China. Mr. Theleen is also a Trustee of the Asia Foundation and an active member of the business community in Shanghai where he resides. He was educated at Duquesne University and at the American School of Management in the United States where he obtained his master's degree in business administration in 1970. He is also the Vice Chairman of the American Chamber of Commerce in Shanghai for 2012. Mr. Theleen joined the Group in July 2004.

LAM Hoi Ham, *Justice of Peace*, aged 74, was graduated from the faculty of economics of The University of Hong Kong, is the founder of the accounting firm H H Lam & Co., and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam was granted Medal of Honour by The Hong Kong Government in 1994 and was appointed a Justice of the Peace in 1997. Mr. Lam serves as a Standing Committee member of the 10th and 11th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China of Beijing City, the vice chairman of Beijing Overseas Friendship Association and a committee member of Beijing Health Department Overseas Friendship Association, etc. Mr. Lam joined the Group in March 2008.

FU Tingmei, aged 46, has extensive experiences in law, investment, finance and business management. Mr. Fu graduated from the University of London with a master's degree and a doctorate degree in Law in 1989 and 1993, respectively. Between 1992 and 2003, he conducted many corporate finance transactions in investment banking firms based in Hong Kong, including serving as a director of Peregrine Capital Limited, and a deputy managing director and subsequently a managing director of BNP Paribas Peregrine Capital Limited. Mr. Fu is currently engaged in private investment business. He is currently also an independent non-executive director of CPMC Holdings Limited (stock code: 906) and Guotai Junan International Holdings Limited (stock code: 1788), both listed on the Stock Exchange. Mr. Fu joined the Group in July 2008.

SZE Chi Ching, *Justice of Peace*, aged 73, Mr. Sze obtained an honorary doctorate degree in social sciences from City University of Hong Kong in 2008. He previously served as Hong Kong Affairs Advisor to the State Council, vice chairman of All-China Federation of Industry and Commerce, standing committee member of the Chinese People's Political Consultative Conference of Fujian Province, member of China Trade Advisory Board of Hong Kong Trade Development Council, member of the 8th, 9th, 10th and 11th Committee of Chinese People's Political Consultative Conference; associate director of the Committee for Learning and Cultural and Historical Data of the Committee of the People's Political Consultative Conference; vice chairman of China Civilian Chamber of Commerce. He is currently committee member of China Federation of Literary, director of China Calligraphers Association, chairman of Hong Kong Branch of Chinese Calligraphers Association, chairman of the board of Hang Tung Resources Holding Limited, and honorary president of the Hong Kong Fujian Chamber of Commerce. He has been appointed as vice chairman and a visiting professor of Huaqiao University, a part-time professor of the Chinese Department of Xiamen University, consulting professor of Peking University, executive director of the Board of Trustees of Jimei University, etc. Mr. Sze joined the Group in March 2013.

SHI Hanmin, aged 63, senior engineer. Mr. Shi graduated from the Basic Organic Chemical Engineering Faculty of Beijing Institute of Chemical Technology in 1974. From 1978 to 2010, he worked with Beijing Municipal Environmental Protection Bureau. During his tenure, he served as director from 2002 to 2010 and was appointed as environmental expert of the World Expo 2010 by the Shanghai Municipal Government in 2009. Mr. Shi also servers as representative of the 10th Communist Party Congress of Beijing, standing committee member of the 11th Chinese People's Political Consultative Conference of Beijing and deputy director of the Committee of Environment and Resources. Mr. Shi joined the Group in March 2013.

Mr. Shi has engaged himself in the regime of environmental protection for over 30 years, and has proactively made contributions to fulfill the environmental commitment of "Green Olympic" during the course of preparing for and holding Beijing Olympics. He obtained the honorary titles of "The Advanced Individual of The Beijing Olympics and Paralympics" granted by the CPC Central Committee and the State Council in 2008 in succession. He was also awarded the first "Kong Ha Award" in the same year as recognition of his outstanding contributions to the air quality improvement and the fulfillment of the "Green Olympic" commitment in Beijing. In 2009, under the leadership of Mr. Shi, the International Olympic Committee and the United Nations Environment Programme co-hosted the 8th World Congress of Sports and Environment in Canada and the first "Sports and Environment" prize was awarded to Beijing.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

XIAO Xifa, aged 49, is Vice President of the Company. Mr. Xiao is a senior engineer and a PRC Registered Consulting (Investment) Engineer. Mr. Xiao holds a master degree in engineering from University of Science and Technology Beijing and a MBA from Tsinghua University. Mr. Xiao was the dean and chairman of Beijing Gas and Heating Engineering Design Institute (Limited Company), the managing director of Beijing United Gas Engineering & Technology Co., Ltd., the manager of asset management department of Beijing Gas Group Company Limited, and the manager of strategic development department of Beijing Enterprises Group Company Limited. Mr. Xiao has extensive experience in project investment consulting, planning, merger and acquisition as well as business management in the industry of gas and heat supply. Mr. Xiao joined the Group in February 2006.

LI Yalan, aged 50, is Vice President of the Company. Ms. Li also serves as Vice Chairman and General Manager of Beijing Gas Group Company Limited, Deputy Director of China Gas Association and member of the first urban gas expert team under Ministry of Construction of the PRC Government. Ms. Li graduated from Beijing University of Civil Engineering and Architecture with a bachelor degree in urban thermal engineering, studied at People's University of China for postgraduate master degree in business administration, possesses the title of professor-grade senior engineer, and had worked at Gaz de France for one year as trainee. Ms. Li was appointed as Vice President of the Company in April 2011.

KE Jian, aged 44, is Vice President of the Company. Mr. Ke also serves as an Executive Director of Beijing Enterprises Water Group Limited (stock code: 371). Mr. Ke is a PRC Senior Accountant, Certified Tax Agent and Senior International Finance Manager. Mr. Ke received a bachelor's degree in economics from Beijing College of Finance and Commerce and an MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration. He joined the Company in 1997 and was appointed as Vice President of the Company in April 2011.

QI Xiaohong, aged 45, is Vice President of the Company. Ms. Qi graduated from Capital Normal University with a bachelor's degree in legal studies and subsequently from Capital University of Economics and Business with a master's degree in economic management. Ms. Qi's experience include many years with Beijing Municipal Government departments. She concurrently acts as Executive Director and member of the remuneration committee of Beijing Enterprises Water Group Limited (stock code: 371). Ms. Qi joined the Company in 1997 and is responsible for corporation administration and human resources management of its headquarters. She was appointed as Vice President of the Company in March 2013.

REPORT OF THE DIRECTORS

The board of directors of Beijing Enterprises Holdings Limited (the "Company") present the report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

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 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 47 to 175.

An interim dividend of HK25 cents per ordinary share was paid on 29 October 2012. The directors recommend the payment of a final dividend of HK50 cents per ordinary share in respect of the year to shareholders on the register of members on 3 July 2013. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the final dividend will be paid on or around 18 July 2013.

ANNUAL GENERAL MEETING

The 2013 annual general meeting will be held on Wednesday, 19 June 2013. The notice of the 2013 annual general meeting, which constitutes part of the circular to shareholders, will be sent to all shareholders separately and will be published on the Company's website (www.behl.com.hk) and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") website (www.hkexnews.hk).

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the 2013 annual general meeting, and entitlement to the final dividend, the register of members will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the 2013 annual general meeting:

Latest time to lodge transfer documents for registration	4:30 pm on Thursday, 13 June 2013
Closure of register of members	Friday, 14 June 2013 to Wednesday, 19 June 2013 (both dates inclusive)

CLOSURE OF REGISTER OF MEMBERS (Continued)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 pm on Wednesday, 26 June 2013
Closure of register of members	Thursday, 27 June 2013 to Wednesday, 3 July 2013 (both dates inclusive)
Record date	Wednesday, 3 July 2013

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2013 annual general meeting, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than the aforementioned latest time.

EMPLOYEES

At 31 December 2012, the Group had approximately 49,000 employees. The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Group's employee remuneration policy and package are periodically reviewed by the management. Apart from pension funds, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, and assets, liabilities and equity of the Group for the last five financial years as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2011 is set out on page 176. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

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

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the share capital and share options of the Company and the Group's convertible bonds during the year, together with the reasons therefor, are set out in notes 34, 35 and 39 to the financial statements, respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, has made any purchase, sale or redemption of any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2012, 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$874,375,000, of which HK$572,286,000 has been proposed as final dividend for the year. In addition, the Company's share premium account, in the amount of HK$20,738,291,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

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

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Wang Dong	*(Chairman)*
Zhou Si* #	*(Vice Chairman and Chief Executive Officer)*
Zhang Honghai*	*(Vice Chairman)*
Lin Fusheng	*(Vice Chairman) (resigned on 28 March 2013)*
Li Fucheng	*(Vice Chairman)*
Hou Zibo	*(appointed on 30 March 2012)*
Liu Kai#	
Lei Zhengang	
E Meng	*(Executive Vice President)*
Jiang Xinhao	*(Vice President)*
Tam Chun Fai	*(Chief Financial Officer and Company Secretary)*

Non-executive director:

Guo Pujin@

Independent non-executive directors:

Wu Jiesi	
Robert A. Theleen	
Lam Hoi Ham	
Fu Tingmei	
Sze Chi Ching	*(appointed on 28 March 2013)*
Shi Hanmin	*(appointed on 28 March 2013)*

DIRECTORS (Continued)

Notes:

* On 28 March 2013, Mr. Zhou Si succeeded Mr. Zhang Honghai to act as Chief Executive Officer of the Company.

On 28 March 2013, Mr. Zhou Si succeeded Mr. Liu Kai to act as member of the Remuneration Committee of the Company.

@ On 28 March 2013, the Company's Executive Director Mr. Guo Pujin was re-designated as the Company's Non-executive Director.

Saved as the "Notes" disclosed above, since the issue date of the 2012 interim report, there has been no change in the board of directors, and there has been no change in directors' information that is 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").

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, Wu Jiesi, Lam Hoi Ham, Sze Chi Ching, Shi Hanmin 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, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 21 to 26 of the annual report.

DIRECTOR'S SERVICE CONTRACT

Mr. E Meng has entered into a service contract with the Company for a term of three years commencing on 17 June 2011 with unexpired period of approximately 18 months as at 31 December 2012.

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 board has to seek shareholders' authorisation at general meetings to fix directors' remuneration with reference to individual director's duties, responsibilities and performance, the results of the Group as well as recommendation of the remuneration committee.

Further details of the Company's remuneration committee are set out in the corporate governance report on pages 36 to 44 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 2012, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the"Model Code"), were as follows:

(a) Long positions in shares of the Company

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

All interests are directly beneficially owned by the directors.

(b) Long positions in underlying shares of the Company

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

(c) Long positions in shares of associated corporations

Director	Associated corporation	Number of 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@	82,506#	0.003%
Mr. E Meng	Beijing Development@	601,000#	0.089%
Mr. Tam Chun Fai	Beijing Development@	100,000#	0.015%

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

All interests are directly beneficially owned by the director.

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

(d) Long positions in underlying shares of associated corporations

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

Notes:

(i) These share options were granted on 21 June 2011 at an exercise price of HK$1.25* per ordinary share of Beijing Development. The closing price of Beijing Development's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$1.19. The share options may be exercised at any time commencing on 21 June 2011, and if not otherwise exercised, will lapse on 20 June 2021.

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

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

Save as disclosed above, as at 31 December 2012, none of the directors or the chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

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

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 shares of the Company in issue at any time. The total number of ordinary shares of the Company issued and to be issued 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 board 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.

SHARE OPTION SCHEME (Continued)

The exercise price of the share options is determinable by the board, 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.

All share options granted under the Scheme were exercised by April 2011. Since then and until 31 December 2012, the Company did not grant any share options.

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

At 31 December 2012, 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

	Number of ordinary shares held, capacity and nature of interest			
Name	**Directly Beneficially owned**	**Others**	**Total**	**Percentage of the Company's issued share capital**
Modern Orient Limited	100,050,000	–	100,050,000	8.80%
Beijing Enterprises Investments Limited ("BEIL")	163,730,288	100,050,000[a]	263,780,288	23.19%
Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI")	411,250,000	263,780,288[b]	675,030,288	59.34%
Beijing Enterprises Group Company Limited ("Beijing Enterprises Group")	–	675,030,288[c]	675,030,288	59.34%
The Capital Group Companies, Inc.	–	78,231,200[d]	78,231,200	6.88%

Notes:

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

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

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

(d) Such information is extracted from the Corporate Substantial Shareholder Notice filed by The Capital Group Companies, Inc. and published on the website of the Stock Exchange. The date of relevant event is 7 December 2012. The disclosed interest is interest of corporation controlled by the substantial shareholder.

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

Save as disclosed above, as at 31 December 2012, 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 recorded in the register of interests required to be kept by the Company 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 note 52 to the financial statements.

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

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions which are subject to annual review under Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 56 to the financial statements.

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

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

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

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

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

The five-year HK$2.1 billion syndicated loan borrowed in 2007 was fully repaid by the Company during the year.

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

Wang Dong
Chairman

Hong Kong
28 March 2013

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CODE PROVISIONS

The Code of Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was amended and revised as Corporate Governance Code which took effect on 1 April 2012. Saved as disclosed below, the directors of Beijing Enterprises Holdings Limited (the "Company") believe that during the year ended 31 December 2012, the Company has complied with the code provisions (the "Code Provisions") as set out in Appendix 14 to the Listing Rules as and when they were/are in force.

As at 31 December 2012, the board of directors of the Company comprises 16 members, among them 4 are independent non-executive directors. The Company therefore, failed to meet the requirement set out in Rule 3.10(A) of the Listing Rules that a listed issuer must appoint independent non-executive directors representing at least one-third of the board on or before 31 December 2012. As a remedial step to address non-compliance, on 28 March 2013, the Company appointed Mr. Sze Chi Ching and Mr. Shi Hanmin as independent non-executive directors to fulfill the requirement set out in Rule 3.10(A) of the Listing Rules.

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

During the year, the chairman of the Company did not hold any meeting with non-executive directors (all of the non-executive directors of the Company were independent non-executive directors) without the executive directors present in accordance with Code Provision A.2.7. Nevertheless, from time to time, independent non-executive directors of the Company express their views directly to the chairman via other means including correspondences and emails. The Company is of the view that there is efficient communication between non-executive directors (all were independent non-executive directors) and the chairman.

Under Code Provision A.6.7, independent non-executive directors and non-executive directors should attend general meetings to develop a balanced understanding of the views of shareholders. During the year, Mr. Lam Hoi Ham attended the 2012 annual general meeting of the Company while the remaining three independent non-executive directors of the Company were not able to attend the meeting due to other business engagements, which deviates from Code Provision A.6.7.

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 to the Listing Rules for securities transactions by the directors. All the directors 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 2012.

BOARD OF DIRECTORS

Composition and Role

The principal focus of the board is on the overall strategic development of the Company and it subsidiaries (collectively 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 directors and the management to comply with guidance related to integrity and ethics, including conflicts of interest, related party transactions and the treatment of confidential information. There is no relationship (including financial, business, family or other material/relevant relationships) among the directors (including the chairman and the chief executive officer).

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

BOARD OF DIRECTORS (Continued)

Composition and Role (Continued)

The individual attendance of board or committee meetings is set out below:

Name		Attendance^			
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
Wang Dong *(Chairman)*	2/2			0/0	1/1
Zhang Honghai* *(Vice Chairman and Chief Executive Officer)*	2/2				1/1
Lin Fusheng *(Vice Chairman) (resigned on 28 March 2013)*	1/2				
Li Fucheng *(Vice Chairman)*	2/2				
Zhou Si*# *(Vice Chairman)*	2/2				
Hou Zibo *(appointed on 30 March 2012)*	1/1				
Guo Pujin@	0/2				
Liu Kai#	1/2		0/0		
Lei Zhengang	2/2				
E Meng *(Executive Vice President)*	2/2				
Jiang Xinhao *(Vice President)*	2/2				
Tam Chun Fai *(CFO & Company Secretary)*	2/2				1/1
Independent Non-executive Directors					
Wu Jiesi	2/2	2/2	0/0		0/1
Robert A. Theleen	2/2				0/1
Lam Hoi Ham	2/2	2/2	0/0	0/0	1/1
Fu Tingmei	2/2	2/2		0/0	0/1
Sze Chi Ching *(appointed on 28 March 2013)*	0/0				
Shi Hanmin *(appointed on 28 March 2013)*	0/0				

Note:

^ During the year, no meeting was attended by any Director's alternate.

* On 28 March 2013, Mr. Zhou Si succeeded Mr. Zhang Honghai to act as Chief Executive Officer of the Company.

On 28 March 2013, Mr. Zhou Si succeeded Mr. Liu Kai to act as member of the Remuneration Committee of the Company.

@ On 28 March 2013, the Company's Executive Director Mr. Guo Pujin was re-designated as the Company's Non-executive Director.

BOARD OF DIRECTORS (Continued)

Directors' Training

It has been the Board's policy that every newly appointed director is given a comprehensive, formal and tailored induction on appointment pursuant to Code Provision A.6.1. Also, from time to time, directors are provided with briefings and trainings to ensure that they have a proper understanding of the Company's operations and business and are fully aware of their responsibilities under relevant statues, laws, Listing Rules and other regulations.

Pursuant to Code Provision C.1.2, directors are provided with monthly reports updates which give a balanced and understandable assessment of the Company's performance and position to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

During the year, the Company organized an in-house seminar and provided reading materials for the directors to ensure that they have participated in continuous professional development to develop and refresh their knowledge and skills. A summary of training received by directors during the year according to the records provided by the directors is as follows:

Name	**Attend Seminars/ Read Training Materials**
Executive Directors	
Wang Dong	√
Zhang Honghai	√
Lin Fusheng	√
Li Fucheng	√
Zhou Si	√
Hou Zibo	√
Guo Pujin	√
Liu Kai	√
Lei Zhengang	√
E Meng	√
Jiang Xinhao	√
Tam Chun Fai	√
Independent Non-executive Directors	
Wu Jiesi	√
Robert A. Theleen	√
Lam Hoi Ham	√
Fu Tingmei	√
Sze Chi Ching *(appointed on 28 March 2013)*	√
Shi Hanmin *(appointed on 28 March 2013)*	√

BOARD OF DIRECTORS (Continued)

Chairman and Chief Executive Officer

Mr. Wang Dong has been the chairman of the board since 18 August 2009 while Mr. Zhou Si has succeeded Mr. Zhang Honghai to assume the position of chief executive officer since 28 March 2013. 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

Non-executive directors (including the independent non-executive directors) serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group. They have the same duties of care and skill and fiduciary duties as executive directors.

The Company has entered into letters of appointment with all non-executive directors (including independent non-executive directors) for a term of three years. Their term of appointment is as follows:

Name	**Term of Appointment**
Mr. Guo Pujin	3 years from 28 March 2013
Mr. Wu Jiesi	3 years from 1 April 2012
Mr. Robert A. Theleen	3 years from 1 April 2012
Mr. Lam Hoi Ham	3 years from 1 April 2012
Mr. Fu Tingmei	3 years from 1 April 2012
Mr. Sze Chi Ching	3 years from 28 March 2013
Mr. Shi Hanmin	3 years from 28 March 2013

Like all other directors, the non-executive directors (including independent non-executive directors) are subject to retirement by rotation and shall offer themselves for re-election in general meetings in accordance with the Company's articles of association.

Corporate Governance Functions

The board is responsible for performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors; and

(e) to review the Company's compliance with the Code Provisions.

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.

During the year ended 31 December 2012, the work performed by the Audit Committee included: reviewed and approved the Company's annual results and interim results; reviewed the external auditors' scope of services including audit work and non-audit work and monitored their independence; reviewed with the management the Company's accounting principles and practices; and discussed with the Company's management the effectiveness of its internal control system.

REMUNERATION COMMITTEE

The current members of the Remuneration Committee are:

Mr. Wu Jiesi — Committee Chairman
Mr. Lam Hoi Ham
Mr. Liu Kai *(resigned on 28 March 2013)*
Mr. Zhou Si *(appointed on 28 March 2013)*

The majority of the Remuneration Committee members are independent non-executive directors. The duties of the Remuneration Committee include: advises the board of directors on the Company's overall remuneration policy and structure as well as remuneration packages for 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.1.2. A copy of the terms of reference is posted on the Company's website.

REMUNERATION COMMITTEE (Continued)

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.

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. During the year ended 31 December 2012, no Remuneration Committee meeting was held as the terms of employment of directors remained unchanged.

NOMINATION COMMITTEE

The current members of the Nomination Committee are:

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

Since 30 March 2012 when the Nomination Committee was established and until 31 December 2012, no Nomination Committee meeting was held as the composition of the board remained unchanged.

AUDITORS' REMUNERATION

During the year ended 31 December 2012, fees paid and payable to the Company's external auditors for audit services were approximately HK$8.8 million; fees paid and payable for non-audit services were approximately HK$3.86 million, which included fees for the issue of guaranteed senior notes, an agreed-upon procedures engagement in connection with the Group's interim financial report and tax compliance services.

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 2012 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 ended 31 December 2012, 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.

COMPANY SECRETARY

The executive director and chief financial officer Mr. Tam Chun Fai has been the company secretary of the Company since 1997. Pursuant to Rule 3.29 of the Listing Rules, starting from 1 January 2015, he will be required to take no less than 15 hours of relevant professional training per annum.

SHAREHOLDERS' RIGHTS

To Convene an Extraordinary General Meeting ("EGM") by Shareholders

Shareholder(s) holding not less than one-twentieth of the Company's paid-up capital can submit a written requisition to convene an EGM pursuant to Section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

The written requisition must:

1. state the objects of the EGM;

2. contain the signatures of all the requisitionists (which may be contained in one document or in several documents in like form); and

3. be deposited at the Company's registered office for the attention of the company secretary.

If directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any EGM so convened shall not be held after the expiration of 3 months from the said date.

To Make Enquiries to the Board

1. Shareholders should direct their questions about their shareholdings to the Company's share registrar.

2. Enquiries made to the board may be deposited at the Company's registered office for the attention of the company secretary (email: mailbox@behl.com.hk).

SHAREHOLDERS' RIGHTS (Continued)

To Put forward Proposals at an Annual General Meeting ("AGM")

Shareholder(s) can submit a written requisition to move a resolution at an AGM pursuant to Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) if they:

1. represent not less than one-fortieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the AGM; or

2. are no less than 50 shareholders holding the Company's shares on which there has been paid up an average sum, per shareholder, of not less than HK$2,000.

The written requisition must:

1. state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the AGM;

2. contain the signatures of all the requisitionists (which may be contained in one document or in several documents in like form);

3. be deposited at the Company's registered office for the attention of the company secretary not less than 6 weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than 1 week before the AGM in the case of any other requisition; and

4. be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionists to all shareholders in accordance with the requirements under the applicable laws and rules.

To Propose a Person other than a Director for Election as a Director at any General Meeting

Pursuant to Article 109 of the articles of association of the Company, if a shareholder wishes to propose a person, other than a retiring director or a person recommended by the directors, for election as a director of the Company at a general meeting, such shareholder, who is duly qualified to attend and vote at such general meeting, should lodge a written and signed notice of nomination and a notice signed by the person to be proposed of his willingness to be elected at the Company's registered office or at the Company's share registrar. The notices should be given within the period commencing on the day after dispatch of the notice of the general meeting appointed for such election and ending no later than 7 days prior to the date of such general meeting and such period shall be at least 7 days.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2012, there is no significant change in the Company's constitutional documents.

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 175, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITY (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, 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
28 March 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	**2012 HK$'000**	2011 HK$'000
REVENUE	5	**35,569,649**	30,471,759
Cost of sales		**(28,207,604)**	(23,737,684)
Gross profit		**7,362,045**	6,734,075
Gain on disposal of interests in subsidiaries	6	**601,976**	–
Other income and gains, net	5	**883,508**	872,925
Selling and distribution expenses		**(2,382,424)**	(2,200,075)
Administrative expenses		**(3,010,588)**	(2,442,252)
Fair value gain on the derivative component of convertible bonds	39	**13,973**	239,130
Other operating expenses, net		**(319,085)**	17,962
PROFIT FROM OPERATING ACTIVITIES	7	**3,149,405**	3,221,765
Finance costs	8	**(996,636)**	(646,643)
Share of profits and losses of:			
Jointly-controlled entities	22(a)	**(343)**	1,300,189
Associates	23(a)	**2,049,495**	373,392
PROFIT BEFORE TAX		**4,201,921**	4,248,703
Income tax	11	**(568,953)**	(583,456)
PROFIT FOR THE YEAR		**3,632,968**	3,665,247
ATTRIBUTABLE TO:			
Shareholders of the Company	12	**3,270,383**	2,775,880
Non-controlling interests		**362,585**	889,367
		3,632,968	3,665,247
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	14		
Basic		**HK$2.87**	HK$2.44
Diluted		**HK$2.81**	HK$2.38

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Note	**2012** **HK$'000**	2011 HK$'000
PROFIT FOR THE YEAR		**3,632,968**	3,665,247
OTHER COMPREHENSIVE INCOME/(LOSS)			
Available-for-sale investments:			
Changes in fair value		**95,318**	(111,615)
Reclassification adjustments for gain on disposal included in the consolidated income statement		**(52,938)**	–
Income tax effect		**(22,333)**	–
		20,047	(111,615)
Exchange differences:			
Reclassification adjustments for gain on disposal of interests in subsidiaries included in the consolidated income statement		**(353,123)**	–
Translation of foreign operations		**23,096**	1,918,783
		(330,027)	1,918,783
Fair value gain on revaluation of a building upon transfer to investment properties	15	**–**	4,087
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		**(309,980)**	1,811,255
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,322,988**	5,476,502
ATTRIBUTABLE TO:			
Shareholders of the Company		**2,969,926**	4,234,047
Non-controlling interests		**353,062**	1,242,455
		3,322,988	5,476,502

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	15	**32,805,468**	26,317,184
Investment properties	16	**665,144**	681,096
Prepaid land premiums	17	**1,640,194**	1,275,264
Goodwill	18	**7,549,326**	7,453,561
Operating concessions	19	**419,238**	1,225,011
Other intangible assets	20	**19,650**	23,681
Investments in jointly-controlled entities	22	**136,706**	210,878
Investments in associates	23	**15,120,306**	12,573,986
Available-for-sale investments	24	**883,170**	917,412
Amounts due from contract customers	27	**769,559**	566,032
Receivables under service concession arrangements	19	**505,248**	1,588,046
Prepayments, deposits and other receivables	29	**1,139,600**	430,583
Deferred tax assets	43	**562,256**	594,721
Total non-current assets		**62,215,865**	53,857,455
Current assets:			
Prepaid land premiums	17	**43,643**	30,165
Property held for sale	25	**28,511**	27,611
Inventories	26	**5,913,959**	5,285,611
Amounts due from contract customers	27	**16,441**	46,631
Receivables under service concession arrangements	19	**1,007,375**	1,003,260
Trade and bills receivables	28	**2,403,154**	1,586,438
Prepayments, deposits and other receivables	29	**3,992,633**	2,313,196
Other taxes recoverable		**203,152**	588,996
Restricted cash and pledged deposits	31	**60,953**	36,631
Cash and cash equivalents	32	**12,236,964**	12,579,439
		25,906,785	23,497,978
Non-current asset and assets of disposal groups classified as held for sale	33	**1,385,301**	–
Total current assets		**27,292,086**	23,497,978
TOTAL ASSETS		**89,507,951**	77,355,433

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	34	**113,757**	113,757
Reserves	36(a)(i)	**38,923,422**	36,984,003
Proposed final dividend	13	**572,286**	511,907
		39,609,465	37,609,667
Non-controlling interests		**8,030,221**	7,587,062
TOTAL EQUITY		**47,639,686**	45,196,729
Non-current liabilities:			
Bank and other borrowings	37	**4,224,787**	4,070,115
Guaranteed senior notes	38	**13,853,502**	7,699,084
Liability component of convertible bonds	39	**2,259,313**	2,711,835
Derivative component of convertible bonds	39	**9,428**	61,783
Defined benefit plans	40(b)	**544,467**	522,390
Provision for major overhauls	41	**29,414**	196,157
Other non-current liabilities	42	**244,060**	239,320
Deferred tax liabilities	43	**375,979**	371,353
Total non-current liabilities		**21,540,950**	15,872,037
Current liabilities:			
Trade and bills payables	44	**2,616,491**	1,904,594
Amounts due to contract customers	27	**177,874**	123,822
Receipts in advance		**3,418,479**	3,446,916
Other payables and accruals	45	**6,951,842**	4,430,794
Income tax payables		**504,624**	342,313
Other taxes payables		**240,517**	333,277
Bank and other borrowings	37	**6,276,941**	5,704,951
		20,186,768	16,286,667
Liabilities directly associated with the assets of disposal groups classified as held for sale	33	**140,547**	–
Total current liabilities		**20,327,315**	16,286,667
TOTAL LIABILITIES		**41,868,265**	32,158,704
TOTAL EQUITY AND LIABILITIES		**89,507,951**	77,355,433

Wang Dong
Director

Zhou Si
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		Attributable to shareholders of the Company													
	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000 (note 36(a)(ii))	Share option reserve HK$'000 (note 36(a)(iii))	Capital reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 36(a)(iv))	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011		113,737	20,733,395	228	1,162	997,272	6,372	29,893	3,550,099	2,810,203	5,513,731	511,817	34,267,909	6,668,352	40,936,261
Profit for the year		–	–	–	–	–	–	–	–	–	2,775,880	–	2,775,880	889,367	3,665,247
Other comprehensive income for the year:															
Changes in fair value of available-for-sale investments		–	–	–	–	–	(120,175)	–	–	–	–	–	(120,175)	8,560	(111,615)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	1,574,255	–	–	–	1,574,255	344,528	1,918,783
Fair value gain on revaluation of a building upon transfer to investment properties		–	–	–	–	–	–	4,087	–	–	–	–	4,087	–	4,087
Total comprehensive income for the year		–	–	–	–	–	(120,175)	4,087	1,574,255	–	2,775,880	–	4,234,047	1,242,455	5,476,502
Exercise of share options	34(a)	30	4,896	–	(1,162)	–	–	–	–	–	–	–	3,764	–	3,764
Repurchase and cancellation of shares	34(b)	(10)	–	10	–	–	–	–	–	–	(4,560)	–	(4,560)	–	(4,560)
Capital contribution from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	114,350	114,350
Acquisition of subsidiaries	46	–	–	–	–	–	–	–	–	–	–	–	–	4,027	4,027
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(59,779)	(59,779)
Share of reserves of associates		–	–	–	–	(119,430)	–	–	–	(3,282)	27,429	–	(95,283)	–	(95,283)
Final 2010 dividend		–	–	–	–	–	–	–	–	–	–	(511,817)	(511,817)	–	(511,817)
Interim 2011 dividend	13	–	–	–	–	–	–	–	–	–	(284,393)	–	(284,393)	–	(284,393)
Proposed final 2011 dividend	13	–	–	–	–	–	–	–	–	–	(511,907)	511,907	–	–	–
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	(382,343)	(382,343)
Transfer to reserves		–	–	–	–	–	–	–	–	816,747	(816,747)	–	–	–	–
At 31 December 2011		113,757	20,738,291*	238*	–*	877,842*	(113,803)*	33,980*	5,124,354*	3,623,668*	6,699,433*	511,907	37,609,667	7,587,062	45,196,729
At 1 January 2012		**113,757**	**20,738,291**	**238**	**-**	**877,842**	**(113,803)**	**33,980**	**5,124,354**	**3,623,668**	**6,699,433**	**511,907**	**37,609,667**	**7,587,062**	**45,196,729**
Profit for the year		-	-	-	-	-	-	-	-	-	3,270,383	-	3,270,383	362,585	3,632,968
Other comprehensive income for the year:															
Available-for-sale investments:															
Changes in fair value		-	-	-	-	-	75,636	-	-	-	-	-	75,636	19,682	95,318
Reclassification adjustments for gain on disposal included in the consolidated income statement		-	-	-	-	-	(42,351)	-	-	-	-	-	(42,351)	(10,587)	(52,938)
Income tax effect		-	-	-	-	-	(17,867)	-	-	-	-	-	(17,867)	(4,466)	(22,333)
Exchange differences:															
Reclassification adjustments for gain on disposal of interests in subsidiaries included in the consolidated income statement		-	-	-	-	-	-	-	(338,998)	-	-	-	(338,998)	(14,125)	(353,123)
Translation of foreign operations		-	-	-	-	-	-	-	23,123	-	-	-	23,123	(27)	23,096
Total comprehensive income for the year		-	-	-	-	-	15,418	-	(315,875)	-	3,270,383	-	2,969,926	353,062	3,322,988
Capital contribution from non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	88,836	88,836
Conversion of convertible bonds of a subsidiary		-	-	-	-	(161,058)	-	-	-	-	-	-	(161,058)	370,915	209,857
Acquisition of subsidiaries	46	-	-	-	-	-	-	-	-	-	-	-	-	15,144	15,144
Disposal of subsidiaries	47	-	-	-	-	(183,710)	-	-	-	(360,919)	544,629	-	-	(31,966)	(31,966)
Share of reserves of associates		-	-	-	-	(16,433)	-	-	-	2,657	1,006	-	(12,770)	-	(12,770)
Final 2011 dividend	13	-	-	-	-	-	-	-	-	-	-	(511,907)	(511,907)	-	(511,907)
Interim 2012 dividend	13	-	-	-	-	-	-	-	-	-	(284,393)	-	(284,393)	-	(284,393)
Proposed final 2012 dividend	13	-	-	-	-	-	-	-	-	-	(572,286)	572,286	-	-	-
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	-	(352,832)	(352,832)
Transfer to reserves		-	-	-	-	-	-	-	-	913,123	(913,123)	-	-	-	-
At 31 December 2012		113,757	20,738,291*	238*	-*	516,641*	(98,385)*	33,980*	4,808,479*	4,178,529*	8,745,649*	572,286	39,609,465	8,030,221	47,639,686

* These reserve accounts comprise the consolidated reserves of HK$38,923,422,000 (2011: HK$36,984,003,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,201,921**	4,248,703
Adjustments for:			
Gain on disposal of interests in subsidiaries		**(601,976)**	–
Interest income	5	**(253,779)**	(151,231)
Transfer of assets from customers	5	**(131,601)**	(156,607)
Fair value gain on investment properties	5	**(14,282)**	(21,496)
Gain on deemed disposal of partial interest in an associate	5	**–**	(26,347)
Gain on disposal of an available-for-sale investment carried at fair value, net	5	**(52,938)**	–
Depreciation	7	**1,800,332**	1,669,217
Amortisation of operating concessions	7	**52,810**	90,672
Amortisation of computer software	7	**9,988**	13,968
Impairment of items of property, plant and equipment	7	**115,941**	11,000
Loss on remeasurement of a pre-existing interest in a subsidiary	7	**–**	17,107
Loss on early redemption of convertible bonds	7	**30,663**	–
Loss/(gain) on disposal of items of property, plant and equipment, net	7	**61,792**	(127,317)
Fair value gain on the derivative component of convertible bonds		**(13,973)**	(239,130)
Reversal of impairment of receivables under service concession arrangements	7	**–**	(49,874)
Provision against inventories, net	7	**381**	10,861
Reversal of impairment of trade and bills receivables, net	7	**(35,542)**	(112,926)
Impairment/(reversal of impairment) of other receivables, net	7	**29,195**	(3,191)
Finance costs	8	**996,636**	646,643
Share of profits and losses of jointly-controlled entities and associates		**(2,049,152)**	(1,673,581)
Operating profit before working capital changes		**4,146,416**	4,146,471

	2012	2011
	HK$'000	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES (Continued)		
Operating profit before working capital changes	**4,146,416**	4,146,471
Increase in prepaid land premiums	**(324,362)**	(3,789)
Increase in inventories	**(625,394)**	(1,321,014)
Increase in amounts due from contract customers	**(173,337)**	(313,760)
Decrease in receivables under service concession arrangements	**140,829**	182,207
Decrease/(increase) in trade and bills receivables	**(688,668)**	17,950
Increase in prepayments, deposits and other receivables	**(1,660,080)**	(414,250)
Decrease/(increase) in other taxes recoverable	**385,844**	(285,090)
Increase/(decrease) in trade and bills payables	**608,172**	(2,878,160)
Increase in amounts due to contract customers	**54,052**	59,998
Increase/(decrease) in receipts in advance	**(28,437)**	196,090
Increase in other payables and accruals	**2,696,935**	343,655
Decrease in other taxes payable	**(92,760)**	(51,546)
Increase in defined benefit plans	**22,077**	27,950
Increase in provision for major overhauls	**42,933**	43,554
Increase/(decrease) in other non-current liabilities	**4,740**	(115,160)
Cash generated from/(used in) operations	**4,508,960**	(364,894)
Dividends received from jointly-controlled entities and associates	**1,367,584**	306,591
Mainland China income tax paid	**(495,502)**	(867,965)
Net cash flows from/(used in) operating activities	**5,381,042**	(926,268)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(8,128,137)**	(4,305,607)
Proceeds from disposal of items of property, plant and equipment		**57,623**	320,845
Purchases of other intangible assets		**(5,957)**	(18,534)
Acquisition of subsidiaries	*46*	**(340,521)**	(266,447)
Disposal of subsidiaries	*47*	**(223,258)**	–
Acquisition of/increase in investments in jointly-controlled entities and associates		**(1,880,593)**	(3,316,520)
Decrease/(increase) in amounts due from/to and loans to jointly-controlled entities and associates		**17,689**	(543)
Purchases of available-for-sale investments		**–**	(7,694)
Proceeds from disposal of an available-for-sale investment carried at fair value, net		**124,004**	–
Decrease in time deposits with maturity of more than three months when acquired		**780,048**	521,293
Decrease/(increase) in pledged deposits		**(24,322)**	89,301
Interest received		**253,779**	151,231
Net cash flows used in investing activities		**(9,369,645)**	(6,832,675)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options	*34(a)*	**–**	3,764
Share repurchase	*34(b)*	**–**	(4,560)
Capital contributions from non-controlling equity holders		**88,836**	114,350
Issue of guaranteed senior notes		**6,154,418**	7,705,992
New loans		**10,187,277**	3,779,143
Repayment of loans		**(9,451,042)**	(3,889,885)
Redemption of convertible bonds		**(330,352)**	–
Acquisition of non-controlling interests		**–**	(59,779)
Interest paid		**(1,073,165)**	(620,170)
Dividends paid		**(796,300)**	(796,210)
Dividends paid to non-controlling equity holders		**(352,832)**	(382,343)
Net cash flows from financing activities		**4,426,840**	5,850,302

	Notes	2012 HK$'000	2011 HK$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**438,237**	(1,908,641)
Cash and cash equivalents at beginning of year		**11,077,445**	12,506,461
Effect of foreign exchange rate changes, net		**–**	479,625
CASH AND CASH EQUIVALENTS AT END OF YEAR		**11,515,682**	11,077,445
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	32	**5,474,868**	6,332,529
Time deposits	32	**6,823,049**	6,283,541
Cash equivalents	32	**–**	–
Less: Restricted cash and pledged deposits	32	**(60,953)**	(36,631)
Cash and cash equivalents as stated in the consolidated statement of financial position		**12,236,964**	12,579,439
Add: Cash and bank balances attributable to disposal groups	33	**664**	–
Less: Time deposits with maturity of more than three months when acquired		**(721,946)**	(1,501,994)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**11,515,682**	11,077,445

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	*15*	**9,536**	12,372
Investment properties	*16*	**56,914**	49,136
Investments in subsidiaries	*21*	**35,097,780**	35,176,875
Investments in jointly-controlled entities	*22*	**2,581**	2,586
Investments in associates	*23*	**153,245**	110,969
Available-for-sale investments	*24*	**175,637**	175,637
Prepayments, deposits and other receivables	*29*	**660,000**	–
Total non-current assets		**36,155,693**	35,527,575
Current assets:			
Trade and bills receivables	*28*	**1,095**	1,086
Prepayments, deposits and other receivables	*29*	**603,815**	127,881
Cash and cash equivalents	*32*	**4,543,243**	2,334,626
Total current assets		**5,148,153**	2,463,593
TOTAL ASSETS		**41,303,846**	37,991,168

	Notes	**2012** **HK$'000**	2011 HK$'000
EQUITY AND LIABILITIES			
Equity:			
Issued capital	*34*	**113,757**	113,757
Reserves	*36(b)*	**21,048,626**	21,118,058
Proposed final dividend	*13*	**572,286**	511,907
TOTAL EQUITY		**21,734,669**	21,743,722
Non-current liabilities:			
Bank and other borrowings	*37*	**2,976,750**	2,967,750
Due to subsidiaries	*21*	**16,429,658**	11,005,121
Total non-current liabilities		**19,406,408**	13,972,871
Current liabilities:			
Other payables and accruals	*45*	**77,397**	97,070
Income tax payable		**85,372**	1,143
Bank and other borrowings	*37*	**–**	2,176,362
Total current liabilities		**162,769**	2,274,575
TOTAL LIABILITIES		**19,569,177**	16,247,446
TOTAL EQUITY AND LIABILITIES		**41,303,846**	37,991,168

Wang Dong
Director

Zhou Si
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2012

1. CORPORATE INFORMATION

Beijing Enterprises Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong and shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office and the principal place of business of the Company is located at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

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

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

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

- the construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, 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 (disposed of during the year — note 47), and the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC (operation ceased since 31 December 2011 — note 19(a)(i))

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 (i) investment properties, certain available-for-sale investments and the derivative component of convertible bonds which have been measured at fair value; and (ii) non-current assets and disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

Other than as further explained below regarding the impact of amendments to HKAS 12, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The adoption of the amendments did not have any significant impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement* [2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

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

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

(a) The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral arrangements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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

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

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

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

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

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

(c) (Continued)

Based on the preliminary analyses performed, HKFRS 10 may affect the accounting for the Group's equity interests in Beijing Enterprises Water Group Limited ("BE Water") and Beijing Development (Hong Kong) Limited ("Beijing Development"), both of which are listed companies in Hong Kong and are former indirectly-held subsidiaries of the Company. The Group ceased to account for BE Water and Beijing Development as subsidiaries but associates under HKAS 27 when the Group's equity interests in them fell below 50% as a result of dilution in equity interests upon issue of new shares by each of BE Water and Beijing Development in prior years. At 31 December 2012, 44.11% and 42.87% of equity interests in BE Water and Beijing Development were held by the Group.

Under the new definition of control set out in HKFRS 10, in the opinion of the directors, the Group has voting rights that may be sufficient to give it power to control over BE Water and Beijing Development during the period when the Group's equity interests in both companies fell below 50%. Accordingly, upon adoption of HKFRS 10 on 1 January 2013, both BE Water and Beijing Development may be retrospectively treated as subsidiaries of the Group and consolidated as if HKFRS 10 had always been effective. The Group is in the process of assessing the quantitative impact, if any, for the financial statements for the year ended 31 December 2012 (which will be the comparative period in the financial statements as of 31 December 2013).

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

(e) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to the income statement at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

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

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

(g) The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

(h) The *Annual Improvements 2009–2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(i) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassification, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(ii) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distribution to equity holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any accumulated impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group/Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for sale and Discontinued Operations*.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising on the acquisition of associates, is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

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

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

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

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

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

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in the income statement or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sales it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale".

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Leasehold land	Over the lease terms
Buildings	10 to 50 years
Leasehold improvements	Over the lease terms or 5 to 10 years, whichever is shorter
Gas pipelines	25 years
Gas meters	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.

Property, plant and equipment and depreciation (Continued)

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents gas pipelines, sewage and water pipelines, buildings, structures, plant and machinery and other property, plant and equipment under construction or installation, construction materials (which include materials for construction projects and equipment that needs to be installed) and prepayments for large-scale equipment. Construction in progress is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

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

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the period of the retirement or disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

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 reserves 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.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Operating leases

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Service concession arrangements

Consideration given by the grantor

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

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

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

Construction or upgrade services

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

Operating services

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

Contractual obligations to restore the infrastructures to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the infrastructures it operates to a specified level of serviceability and/or (b) to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the infrastructures, except for any upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

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

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

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

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concessions

Operating concessions represent the rights to operate an expressway and a toll road, sewage and water treatment plants, and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 40 years.

Patents

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

Computer software

Computer software are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 2 to 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset arising from the projects so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Development expenditure which does not meet these criteria is expensed when incurred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, goodwill, deferred tax assets, financial assets, inventories, amounts due from contract customers and non-current assets/disposal groups classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of a non-financial asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

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

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

(b) Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

(c) Available-for-sale investments

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

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

Impairment

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Impairment (Continued)

(a) Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the 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 write-off is later recovered, the recovery is credited to "Other operating expenses, net" in the income statement.

(b) Available-for-sale investments carried at fair value

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Impairment (Continued)

(b) Available-for-sale investments carried at fair value (Continued)

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

(c) Available-for-sale investments carried at cost

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

Derecognition

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Derecognition (Continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extend it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

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

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

Financial liabilities (Continued)

Subsequent measurement (Continued)

(b) Loans and borrowings

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

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

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Financial guarantee contracts

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

Convertible bonds

Convertible bonds containing an equity component

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible bonds (Continued)

Convertible bonds containing an equity component (Continued)

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability or a current liability, as appropriate, on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option (the equity component) that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. In respect of the convertible bonds issued by the Company, the equity component is included in the Company's convertible bond equity reserve. In respect of the convertible bonds issued by a subsidiary, the equity component attributable to the Group is included in the consolidated capital reserve. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

Upon the exercise of the conversion options, the resulting shares issued are recorded by the relevant companies in the Group as additional share capital at the nominal value of the shares issued, and the excess of the total carrying amount of the liability and equity components of the convertible bonds over the nominal value of the shares issued is recorded in their respective share premium accounts. When convertible bonds are redeemed, the carrying amount of the equity component is transferred to retained profits as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognised in the income statement. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits as a movement in reserves. No gain or loss is recognised in the income statement upon conversion or expiration of the conversion option.

Convertible bonds containing a derivative component

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible bonds (Continued)

Convertible bonds containing a derivative component (Continued)

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

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Properties held for sale

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis or the weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts

Contract revenue comprises (i) the agreed contract amounts and appropriate amounts from variation orders, claims and incentive payments in respect of the construction services for comprehensive renovation projects; 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 the construction services for comprehensive renovation projects 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

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

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

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

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation/amortisation charge.

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) toll revenue, on an accrual basis;

(c) from construction contracts, on the percentage-of-completion basis, as further explained in the accounting policy for "Construction contracts" above;

(d) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for "Contracts for services" above;

(e) from licensing of technical know-how, when the related technique has been delivered and accepted;

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

(g) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over 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)

Share-based payments

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 payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

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

The cost of equity-settled transactions is recognised in the income statement, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

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

The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of earnings per share amounts.

Share-based payments (Continued)

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

Options which are cancelled prior to their exercise date or lapse are deleted from the register of outstanding options. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits as a movement in reserves.

Other employee benefits

Pension schemes

The Group has joined a number of defined contribution pension schemes organised by certain PRC provincial or municipal governments for certain of its employees, the assets of which are held separately from those of the Group. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable, in accordance with the rules of the pension schemes. The employer contributions vest fully once made.

For those employees that have not yet joined a pension scheme, the Group has accrued for the estimated future pension costs based on a percentage of their salaries. The related assets for the purpose of discharging such liabilities are not separately held from those of the Group.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits (Continued)

Other retirement benefits

Certain employees of the Group can enjoy other retirement benefits after retirement such as supplementary medical reimbursement, allowance and beneficiary benefits pursuant to certain defined benefit plans of the Group. These benefits are unfunded. The costs of providing benefits under these defined benefit plans are determined using the projected unit credit method and are charged to the income statement so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. These obligations are measured at the present value of the estimated future cash outflows using the interest rates of the PRC government bonds which have terms similar to those of related liabilities. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the value of defined benefit obligations and the fair value of plan assets, if any, at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

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

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

Borrowing costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in Hong Kong 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or the income statement are also recognised in other comprehensive income or the income statement, respectively).

The functional currencies of certain Mainland China and overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollars. 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 prevailing at the end of the reporting period and their statements of comprehensive income and 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 Mainland China and overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Estimate of gas consumption

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

In addition, with respect to the distribution and sale of piped gas, the Group recognises revenue from prepayments made by customers using integrated circuit cards ("IC card customers") upon their consumption of gas. The Group's management estimates the consumption of gas by IC card customers with reference to the average consumption volume of the customers for whom metre reading is available with similar consumption patterns.

The actual consumption could deviate from those estimates.

Classification between operating concessions and receivables under service concession arrangements

As explained in note 2.4 to the financial statements, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset under a service concession arrangement, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, expected future sewage treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2012 were HK$419,238,000 (2011: HK$1,225,011,000), and HK$1,512,623,000 (2011: HK$2,591,306,000), respectively, details of which are set out in note 19 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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

The Group has contractual obligations which it must fulfil as a condition of its licence and that is (a) to maintain the infrastructures it operates to a specified level of serviceability and/or (b) to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructures, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The estimation of the expenditure requires the Group to estimate the expected future cash outlays on major overhauls of the infrastructures over the service concession periods and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the provision for major overhauls carried as a liability in the consolidated statement of financial position as at 31 December 2012 was HK$29,414,000 (2011: HK$196,157,000), further details of which are set out in note 41 to the financial statements.

Useful lives and residual values of property, plant and equipment

The Group's management determines the useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and hence depreciation in future periods.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as assets in the consolidated statement of financial position as at 31 December 2012 was HK$7,916,386,000 (2011: HK$7,820,621,000) in aggregate, details of which are set out in notes 18 and 23 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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

The carrying amounts of items of property, plant and equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows or compensation to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2012 were HK$32,805,468,000 (2011: HK$26,317,184,000), and HK$438,888,000 (2011: HK$1,248,692,000), respectively, details of which are set out in notes 15, 19 and 20 to the financial statements.

Impairment of available-for-sale investments

The Group follows the guidance of HKAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and the extent to which the estimated value of an investment is less than its cost; and the financial health of and the short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows. The carrying amount of available-for-sale investments carried as assets in the consolidated statement of financial position as at 31 December 2012 was HK$883,170,000 (2011: HK$917,412,000), 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 2012 were HK$1,512,623,000 (2011: HK$2,591,306,000), HK$2,403,154,000 (2011: HK$1,586,438,000) and HK$4,170,262,000 (2011: HK$2,626,125,000), respectively, details of which are set out in notes 19, 28 and 29 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Provision against obsolete and slow-moving inventories

Management reviews the condition of inventories of the Group and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories carried as assets in the consolidated statement of financial position as at 31 December 2012 was HK$5,913,959,000 (2011: HK$5,285,611,000), details of which are set out in note 26 to the financial statements.

Defined benefit plans

The present value of the retirement benefit obligations under the various defined benefit plans of the Group depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligations. Key assumptions for the obligations are based in part on the current market conditions. The carrying amount of the obligations carried as liabilities in the consolidated statement of financial position under defined benefit plans as at 31 December 2012 was HK$553,284,000 (2011: HK$525,552,000), details of which are disclosed in note 40 to the financial statements.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas. The Group carefully evaluates tax implications of transactions in accordance with the prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of income tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2012 was HK$504,624,000 (2011: HK$342,313,000).

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 2012 were HK$562,256,000 (2011: HK$594,721,000) and HK$375,979,000 (2011: HK$371,353,000), respectively, details of which are set out in note 43 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

(a) the piped gas operation segment engages in the distribution and sale of piped natural gas, the provision of natural gas transmission, 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 construction of sewage and water treatment plants and other infrastructural facilities, the provision of construction services for comprehensive renovation projects, 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;

(d) the expressway and toll road operations segment engages in the operation of the Capital Airport Expressway, which connects the Capital Airport and the city centre of Beijing, and the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC; and

(e) the corporate and others segment comprises the construction of broadband infrastructure, the sale of software, the provision of Internet services and IT technical support and consultation services, property investment and corporate income and expense items.

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

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

4. OPERATING SEGMENT INFORMATION (Continued)

Group

Year ended 31 December 2012

	Piped gas operation *HK$'000*	Brewery operation *HK$'000*	Sewage and water treatment operations *HK$'000*	Expressway and toll road operations *HK$'000*	Corporate and others *HK$'000*	Inter-segment elimination *HK$'000*	Consolidated *HK$'000*
Segment revenue	20,644,716	14,442,726	185,549	150,022	146,636	-	35,569,649
Cost of sales	(17,974,593)	(9,942,636)	(4,841)	(213,293)	(72,241)	-	(28,207,604)
Gross profit	2,670,123	4,500,090	180,708	(63,271)	74,395	-	7,362,045
Profit/(loss) from operating activities	1,303,135	1,236,166*	184,384	(98,111)	523,831	-	3,149,405
Finance costs	(34,666)	(207,542)	(159)	(5,114)	(749,155)	-	(996,636)
Share of profits and losses of:							
Jointly-controlled entities	(343)	-	-	-	-	-	(343)
Associates	1,696,913	(1,553)	330,999	-	23,136	-	2,049,495
Profit/(loss) before tax	2,965,039	1,027,071	515,224	(103,225)	(202,188)	-	4,201,921
Income tax	(175,598)	(270,541)	(45,647)	(243)	(76,924)	-	(568,953)
Profit/(loss) for the year	2,789,441	756,530	469,577	(103,468)	(279,112)	-	3,632,968
Segment profit/(loss) attributable to shareholders of the Company	2,787,827	348,860	469,577	(99,330)	(236,551)	-	3,270,383
Segment assets	44,520,555	23,973,359	7,032,770	1,991,483	16,262,690	(4,272,906)	89,507,951
Segment liabilities	13,641,443	10,949,960	1,002,626	539,759	20,007,383	(4,272,906)	41,868,265
Other segment information:							
Depreciation	814,466	964,540	1,672	10,939	8,715	-	1,800,332
Amortisation of operating concessions	-	-	-	52,810	-	-	52,810
Amortisation of other intangible assets	9,849	-	-	-	139	-	9,988
Impairment/provision/(reversal of impairment/provision) against segment assets, net **	(40,211)	7,916	-	19	142,251	-	109,975
Gain on disposal of interests in subsidiaries	-	-	-	-	601,976	-	601,976
Fair value gain on investment properties	-	-	-	-	14,282	-	14,282
Provision for major overhauls	-	-	-	42,933	-	-	42,933
Investments in jointly-controlled entities	136,706	-	-	-	-	-	136,706
Investments in associates	10,227,107	3,152	4,048,196	-	841,851	-	15,120,306
Capital expenditure ***	5,479,991	2,296,416	195	3,805	453,862	-	8,234,269

4. OPERATING SEGMENT INFORMATION (Continued)

Group (Continued)

Year ended 31 December 2011

	Piped gas operation HK$'000	Brewery operation HK$'000	Sewage and water treatment operations HK$'000	Expressway and toll road operations HK$'000	Corporate and others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Segment revenue	16,460,277	13,373,398	195,693	288,401	153,990	–	30,471,759
Cost of sales	(14,398,880)	(8,966,202)	(4,370)	(269,047)	(99,185)	–	(23,737,684)
Gross profit	2,061,397	4,407,196	191,323	19,354	54,805	–	6,734,075
Profit/(loss) from operating activities	1,169,923	1,842,623*	188,235	(21,559)	42,543	–	3,221,765
Finance costs	(44,652)	(184,275)	(210)	(12,905)	(404,601)	–	(646,643)
Share of profits and losses of:							
Jointly-controlled entities	1,300,189	–	–	–	–	–	1,300,189
Associates	66,872	(2,946)	265,020	–	44,446	–	373,392
Profit/(loss) before tax	2,492,332	1,655,402	453,045	(34,464)	(317,612)	–	4,248,703
Income tax	(204,952)	(293,547)	(42,002)	(1,832)	(41,123)	–	(583,456)
Profit/(loss) for the year	2,287,380	1,361,855	411,043	(36,296)	(358,735)	–	3,665,247
Segment profit/(loss) attributable to shareholders of the Company	2,265,506	441,889	411,043	(16,038)	(326,520)	–	2,775,880
Segment assets	37,513,058	21,565,474	7,230,730	2,016,084	13,178,337	(4,148,250)	77,355,433
Segment liabilities	9,285,421	9,500,248	1,509,017	460,848	15,551,420	(4,148,250)	32,158,704
Other segment information:							
Depreciation	698,147	953,738	1,523	10,074	5,735	–	1,669,217
Amortisation of operating concessions	–	–	–	90,672	–	–	90,672
Amortisation of other intangible assets	12,817	–	–	–	1,151	–	13,968
Impairment/provision/(reversal of impairment/provision) against segment assets, net **	(117,728)	6,775	(49,874)	–	16,697	–	(144,130)
Fair value gain on investment properties	–	–	–	21,496	–	–	21,496
Provision for major overhauls	–	–	–	43,554	–	–	43,554
Investments in jointly-controlled entities	59,889	–	–	–	150,989	–	210,878
Investments in associates	7,944,268	4,705	3,877,993	–	747,020	–	12,573,986
Capital expenditure ***	1,927,988	2,024,721	871	25,935	366,580	–	4,346,095

4. OPERATING SEGMENT INFORMATION (Continued)

* The amount included a fair value gain on the derivative component of convertible bonds of HK$13,973,000 (2011: HK$239,130,000), which was wholly attributable to non-controlling shareholders of the relevant subsidiary and therefore did not affect the profit for the year attributable to shareholders of the Company.

** These amounts are recognised in the consolidated income statement and included impairment/provision/(reversal of impairment/provision) against items of property, plant and equipment, receivables under service concession arrangements, inventories, trade and bills receivables and other receivables.

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

Geographical information

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

Information about major customers

During each of the years ended 31 December 2012 and 2011, none of the Group's individual customers contributed 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents: (1) the aggregate of the invoiced value of goods sold, net of value-added tax, consumption tax and government surcharges, and after allowances for returns and trade discounts; (2) the aggregate of toll revenue, net of business tax and government surcharges; (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.

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

An analysis of the Group's revenue, other income and gains, net is as follows:

	2012 HK$'000	2011 HK$'000
Revenue		
Piped gas operation	**20,644,716**	16,460,277
Brewery operation	**14,442,726**	13,373,398
Sewage and water treatment operations[δ]	**185,549**	195,693
Expressway and toll road operations	**150,022**	288,401
Corporate and others	**146,636**	153,990
	35,569,649	30,471,759
Other income		
Bank interest income	**253,779**	151,231
Rental income	**14,627**	18,764
Service income	**30,147**	16,160
Government grants*	**210,492**	197,057
Transfer of assets from customers *(note 15)*	**131,601**	156,607
Others	**155,094**	102,267
	795,740	642,086
Gains, net		
Fair value gain on investment properties *(note 16)*	**14,282**	21,496
Gain on disposal of items of property, plant and equipment, net	**–**	127,317
Gain on deemed disposal of partial interest in an associate[@]	**–**	26,347
Gain on disposal of available-for-sale investments carried at fair value, net	**52,938**	–
Foreign exchange differences, net	**20,548**	55,679
	87,768	230,839
Other income and gains, net	**883,508**	872,925

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

δ Imputed interest income of HK$182,726,000 (2011: HK$192,786,000) on receivables under service concession arrangements during the year ended 31 December 2012 is included in the revenue derived from "Sewage and water treatment operations" disclosed above.

* The government grants represented government subsidies, corporate income tax and turnover tax refunds. Turnover tax includes value-added tax, city construction tax and education surcharge. The government grants are unconditional, except for certain grants which must be utilised for the development of the Company's subsidiaries.

@ The gain on deemed disposal of partial interest in an associate recognised during the year ended 31 December 2011 arose from the dilution of the Group's equity interest in BE Water, an associate of the Group, from 44.49% to 44.11% as a result of an issue of new shares by BE Water during that year.

6. GAIN ON DISPOSAL OF INTERESTS IN SUBSIDIARIES

The gain on disposal of interests in subsidiaries recognised during the year arose from the disposal of the Group's equity interest in Beijing Enterprises (Motorway) Limited ("BE Motorway", a then wholly-owned subsidiary of the Company which holds a 96% equity interest in Beijing Capital Expressway Development Co., Ltd. ("Capital Expressway Company")). Details of the operations of Capital Expressway Company and the disposal transaction are set out in notes 19(a)(i) and 47 to the financial statements, respectively.

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	**2012** ***HK$'000***	2011 *HK$'000*
Cost of inventories sold		**27,902,611**	23,167,686
Cost of services provided		**252,183**	479,326
Depreciation	*15*	**1,800,332**	1,669,217
Amortisation of prepaid land premiums	*17*	**33,221**	32,050
Amortisation of operating concessions*	*19*	**52,810**	90,672
Amortisation of computer software**	*20*	**9,988**	13,968
Research and development expenditure		**15,664**	19,729
Loss on remeasurement of pre-existing interest in a subsidiary		**–**	17,107
Loss on early redemption of convertible bonds		**30,663**	–
Loss/(gain) on disposal of items of property, plant and equipment, net		**61,792**	(127,317)
Minimum lease payments under operating leases:			
Land and buildings		**170,620**	192,153
Plant and machinery		**2,098**	5,712
		172,718	197,865

7. PROFIT FROM OPERATING ACTIVITIES (Continued)

	Notes	2012 HK$'000	2011 HK$'000
Auditors' remuneration		**8,800**	8,000
Employee benefit expense (including directors' remuneration — *note 9*):			
Salaries, allowances and benefits in kind		**3,503,680**	2,999,580
Net pension scheme contributions		**427,732**	333,033
Cost of defined benefit plans**	*40(a)*	**36,549**	30,914
		3,967,961	3,363,527
Provision for major overhauls	*41*	**42,933**	43,554
Impairment of items of property, plant and equipment, net***	*15*	**115,941**	11,000
Reversal of impairment of receivables under service concession arrangements	*19(d)*	**–**	(49,874)
Provision against inventories, net		**381**	10,861
Reversal of impairment of trade and bills receivables, net	*28(c)*	**(35,542)**	(112,926)
Net impairment/(reversal of impairment) of other receivables due from:	*29(c)*		
A related company		**–**	40,901
Others		**29,195**	(44,092)
		29,195	(3,191)
Net rental income on investment properties less direct operating expenses of HK$12,986,000 (2011: HK$1,370,000)		**(8,799)**	(12,449)

* The amortisations of operating concessions for the year are included in "Cost of sales" on the face of the consolidated income statement.

** The amortisation of computer software and the cost of defined benefit plans for the year are included in "Administrative expenses" on the face of the consolidated income statement.

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

8. FINANCE COSTS

	Notes	Group 2012 HK$'000	2011 HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years		**396,321**	294,502
Interest on guaranteed senior notes		**627,186**	273,767
Interest on convertible bonds	*39*	**64,819**	59,832
Imputed interest on convertible bonds	*39*	**3,481**	27,799
Imputed interest on an interest-free other loan from a non-controlling equity holder		**–**	8,390
Total interest expense		**1,091,807**	664,290
Increase in discounted amounts of provision for major overhauls arising from the passage of time	*41*	**5,004**	4,307
Total finance costs		**1,096,811**	668,597
Less: Interest included in construction in progress		**(100,175)**	(21,954)
		996,636	646,643

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2012 HK$'000	2011 HK$'000
Fees	**2,610**	2,471
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**18,909**	20,928
Pension scheme contributions	**21**	19
	18,930	20,947
	21,540	23,418

9. DIRECTORS' REMUNERATION (Continued)

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

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2012				
Executive directors:				
Mr. Wang Dong	150	3,690	–	3,840
Mr. Zhang Honghai	150	2,622	–	2,772
Mr. Lin Fusheng	150	3,283	–	3,433
Mr. Li Fucheng	400	–	–	400
Mr. Zhou Si	150	3,126	–	3,276
Mr. Hou Zibo	90	–	–	90
Mr. Guo Pujin	200	–	–	200
Mr. Liu Kai	120	–	–	120
Mr. Lei Zhengang	120	–	–	120
Mr. E Meng	120	2,211	–	2,331
Mr. Jiang Xinhao	120	2,211	–	2,331
Mr. Tam Chun Fai	120	1,766	21	1,907
	1,890	18,909	21	20,820
Independent non-executive directors:				
Mr. Wu Jiesi	180	–	–	180
Mr. Robert A. Theleen	180	–	–	180
Mr. Lam Hoi Ham	180	–	–	180
Mr. Fu Tingmei	180	–	–	180
	720	–	–	720
Total directors' remuneration	2,610	18,909	21	21,540

9. DIRECTORS' REMUNERATION (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2011				
Executive directors:				
Mr. Wang Dong	150	3,724	–	3,874
Mr. Zhang Honghai	150	3,134	–	3,284
Mr. Li Fucheng	400	–	–	400
Mr. Bai Jinrong	63	1,969	–	2,032
Mr. Zhou Si	150	3,158	–	3,308
Mr. Liu Kai	120	1,431	–	1,551
Mr. Guo Pujin	150	–	–	150
Mr. E Meng	120	2,205	–	2,325
Mr. Lei Zhengang	120	–	–	120
Mr. Jiang Xinhao	120	2,205	–	2,325
Mr. Tam Chun Fai	120	1,690	19	1,829
Mr. Lin Fusheng	88	1,412	–	1,500
	1,751	20,928	19	22,698
Independent non-executive directors:				
Mr. Wu Jiesi	180	–	–	180
Mr. Robert A. Theleen	180	–	–	180
Mr. Lam Hoi Ham	180	–	–	180
Mr. Fu Ting Mei	180	–	–	180
	720	–	–	720
Total directors' remuneration	2,471	20,928	19	23,418

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during each of the years ended 31 December 2012 and 2011 are directors of the Company, details of whose remuneration for these years are set out in note 9 to the financial statements.

11. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2012 as the Group did not generate any assessable profits in Hong Kong during the year (2011: 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 established in Mainland China enjoy PRC corporate income tax exemptions and reductions.

	Group	
	2012	2011
	HK$'000	*HK$'000*
Current — PRC:		
Mainland China	**654,047**	569,919
Underprovision in prior years	**2,985**	1,929
Deferred *(note 43)*	**(88,079)**	11,608
Total tax expense for the year	**568,953**	583,456

11. INCOME TAX (Continued)

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

Group — 2012

	Hong Kong		Mainland China		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Profit before tax	**487,280**		**3,714,641**		**4,201,921**	
Tax expense at the statutory tax rate	**80,402**	**16.5**	**928,660**	**25.0**	**1,009,062**	**24.0**
Lower tax rate for specific provinces or enacted by local authority	**-**	**-**	**(457,935)**	**(12.3)**	**(457,935)**	**(10.9)**
Adjustments in respect of current tax of previous periods	**-**	**-**	**2,985**	**0.1**	**2,985**	**0.1**
Profits and losses attributable to jointly-controlled entities and associates	**(53,264)**	**(10.9)**	**(265,181)**	**(7.2)**	**(318,445)**	**(7.6)**
Income not subject to tax	**(166,693)**	**(34.2)**	**(34,825)**	**(0.9)**	**(201,518)**	**(4.8)**
Expenses not deductible for tax	**120,982**	**24.8**	**108,124**	**2.9**	**229,106**	**5.4**
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**-**	**-**	**(12,730)**	**(0.3)**	**(12,730)**	**(0.3)**
Effect of withholding tax on the disposal of interest in a PRC subsidiary	**-**	**-**	**84,230**	**2.3**	**84,230**	**2.0**
Tax losses not recognised as deferred tax assets	**18,573**	**3.8**	**225,526**	**6.0**	**244,099**	**5.8**
Tax losses utilised from previous periods	**-**	**-**	**(9,901)**	**(0.3)**	**(9,901)**	**(0.2)**
Tax expense at the Group's effective tax rate	**-**	**-**	**568,953**	**15.3**	**568,953**	**13.5**

11. INCOME TAX (Continued)

Group — 2011

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

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 2012 includes a profit of HK$787,247,000 (2011: HK$104,673,000) which has been dealt with in the financial statements of the Company.

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

	2012	2011
	HK$'000	*HK$'000*
Amount of consolidated profit for the year attributable to shareholders of the Company dealt with in the financial statements of the Company	**787,247**	104,673
Final dividends from subsidiaries attributable to the profits of the previous financial year approved and payable during the year	**–**	1,042,344
Company's profit for the year *(note 36(b))*	**787,247**	1,147,017

13. DIVIDENDS

	2012	2011
	HK$'000	*HK$'000*
Interim — HK$0.25 (2011: HK$0.25) per ordinary share	**284,393**	284,393
Proposed final — HK$0.50 (2011: HK$0.45) per ordinary share	**572,286**	511,907
	856,679	796,300

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

14. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

The calculation of diluted earnings per share 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 at the beginning of the year, and the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options of the Company and the deemed conversion of those convertible bonds of the Group which are convertible into ordinary shares of the Company at the beginning of the year.

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

	2012	2011
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	**3,270,383**	2,775,880
Interest expense for the year relating to the liability component of the dilutive convertible bonds of the Group	**62,844**	52,683
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	**3,333,227**	2,828,563

	2012	2011
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**1,137,571,000**	1,137,500,120
Effect of dilution — weighted average number of ordinary shares:		
Share options	**–**	55,342
Convertible bonds	**50,000,000**	50,000,000
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**1,187,571,000**	1,187,555,462

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Land and buildings HK$'000 (notes (a) and (b))	Leasehold improvements HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (c))	Total HK$'000
Year ended 31 December 2012									
At 1 January 2012:									
Cost		**8,663,490**	**23,017**	**11,225,971**	**12,654,051**	**692,846**	**636,472**	**3,385,429**	**37,281,276**
Accumulated depreciation and impairment		**(1,673,133)**	**(7,975)**	**(1,905,493)**	**(6,516,251)**	**(429,564)**	**(285,642)**	**(146,034)**	**(10,964,092)**
Net carrying amount		**6,990,357**	**15,042**	**9,320,478**	**6,137,800**	**263,282**	**350,830**	**3,239,395**	**26,317,184**
Net carrying amount:									
At 1 January 2012		**6,990,357**	**15,042**	**9,320,478**	**6,137,800**	**263,282**	**350,830**	**3,239,395**	**26,317,184**
Acquisition of subsidiaries	46	**87,423**	**-**	**16,569**	**126,778**	**235**	**23,249**	**4,440**	**258,694**
Additions		**188,042**	**27**	**32,425**	**402,230**	**62,143**	**68,170**	**7,475,275**	**8,228,312**
Transfer of assets from customers	5	**-**	**-**	**91,048**	**40,553**	**-**	**-**	**-**	**131,601**
Transfer from construction in progress		**595,991**	**-**	**2,382,302**	**1,331,963**	**11,962**	**1,991**	**(4,324,209)**	**-**
Transfer from/(to) investment properties	16	**54,127**	**-**	**-**	**-**	**-**	**-**	**(14,037)**	**40,090**
Transfer to property held for sale		**-**	**-**	**-**	**-**	**-**	**-**	**(900)**	**(900)**
Transfer to assets of disposal groups held for sale	33	**(7,179)**	**-**	**-**	**(7,360)**	**(46)**	**(315)**	**-**	**(14,900)**
Depreciation provided during the year		**(239,299)**	**(2,559)**	**(415,396)**	**(999,663)**	**(56,259)**	**(87,156)**	**-**	**(1,800,332)**
Impairment during the year recognised in income statement		**-**	**-**	**-**	**-**	**-**	**-**	**(115,941)**	**(115,941)**
Disposal of a subsidiary	47	**(90,137)**	**-**	**-**	**(21,729)**	**(3,579)**	**(3,386)**	**(94)**	**(118,925)**
Disposals		**(40,051)**	**-**	**(379)**	**(75,654)**	**(290)**	**(3,041)**	**-**	**(119,415)**
Reclassification		**(159,414)**	**-**	**2,320**	**155,825**	**315**	**954**	**-**	**-**
At 31 December 2012		**7,379,860**	**12,510**	**11,429,367**	**7,090,743**	**277,763**	**351,296**	**6,263,929**	**32,805,468**
At 31 December 2012:									
Cost		**9,169,940**	**23,044**	**13,750,650**	**14,469,404**	**731,023**	**692,293**	**6,409,963**	**45,246,317**
Accumulated depreciation and impairment		**(1,790,080)**	**(10,534)**	**(2,321,283)**	**(7,378,661)**	**(453,260)**	**(340,997)**	**(146,034)**	**(12,440,849)**
Net carrying amount		**7,379,860**	**12,510**	**11,429,367**	**7,090,743**	**277,763**	**351,296**	**6,263,929**	**32,805,468**

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Notes	Land and buildings HK$'000 (notes (a) and (b))	Leasehold improvements HK$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (c))	Total HK$'000
Year ended 31 December 2011									
At 1 January 2011:									
Cost		7,060,544	27,814	9,237,111	10,801,302	581,805	527,027	3,092,457	31,328,060
Accumulated depreciation and impairment		(1,374,310)	(19,018)	(1,365,829)	(5,595,650)	(358,543)	(242,025)	(128,679)	(9,084,054)
Net carrying amount		5,686,234	8,796	7,871,282	5,205,652	223,262	285,002	2,963,778	22,244,006
Net carrying amount:									
At 1 January 2011		5,686,234	8,796	7,871,282	5,205,652	223,262	285,002	2,963,778	22,244,006
Acquisition of subsidiaries	46	127,133	–	379,276	108,634	4,237	13,171	109,731	742,182
Additions		200,594	10,001	10,465	262,683	80,427	86,901	3,676,490	4,327,561
Transfer of assets from customers	5	–	–	55,236	101,371	–	–	–	156,607
Transfer from construction in progress		992,394	5,777	1,022,302	1,158,909	18,340	7,448	(3,205,170)	–
Transfer to investment properties	16	(8,008)	–	–	–	–	–	(417,225)	(425,233)
Transfer to property held for sale		–	–	–	–	–	–	(26,946)	(26,946)
Depreciation provided during the year		(247,279)	(1,371)	(432,344)	(873,810)	(63,619)	(50,794)	–	(1,669,217)
Impairment during the year recognised in the income statement		–	–	–	–	–	–	(11,000)	(11,000)
Fair value gain on revaluation of a building upon transfer to investment properties		4,087	–	–	–	–	–	–	4,087
Disposals		(64,245)	(8,294)	–	(104,076)	(10,780)	(6,133)	–	(193,528)
Reclassification		(5,381)	–	–	5,497	(116)	–	–	–
Exchange realignment		304,828	133	414,261	272,940	11,531	15,235	149,737	1,168,665
At 31 December 2011		6,990,357	15,042	9,320,478	6,137,800	263,282	350,830	3,239,395	26,317,184
At 31 December 2011:									
Cost		8,663,490	23,017	11,225,971	12,654,051	692,846	636,472	3,385,429	37,281,276
Accumulated depreciation and impairment		(1,673,133)	(7,975)	(1,905,493)	(6,516,251)	(429,564)	(285,642)	(146,034)	(10,964,092)
Net carrying amount		6,990,357	15,042	9,320,478	6,137,800	263,282	350,830	3,239,395	26,317,184

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2012				
At 1 January 2012:				
Cost	**9,989**	**-**	**4,192**	**14,181**
Accumulated depreciation	**(666)**	**-**	**(1,143)**	**(1,809)**
Net carrying amount	**9,323**	**-**	**3,049**	**12,372**
Net carrying amount:				
At 1 January 2012	**9,323**	**-**	**3,049**	**12,372**
Depreciation provided during the year	**(1,998)**	**-**	**(838)**	**(2,836)**
At 31 December 2012	**7,325**	**-**	**2,211**	**9,536**
At 31 December 2012:				
Cost	**9,989**	**-**	**4,192**	**14,181**
Accumulated depreciation	**(2,664)**	**-**	**(1,981)**	**(4,645)**
Net carrying amount	**7,325**	**-**	**2,211**	**9,536**
Year ended 31 December 2011				
At 1 January 2011:				
Cost	8,427	5,577	2,276	16,280
Accumulated depreciation	(6,465)	(5,577)	(1,601)	(13,643)
Net carrying amount	1,962	–	675	2,637
Net carrying amount:				
At 1 January 2011	1,962	–	675	2,637
Additions	9,989	–	2,660	12,649
Depreciation provided during the year	(779)	–	(286)	(1,065)
Disposals	(1,849)	–	–	(1,849)
At 31 December 2011	9,323	–	3,049	12,372
At 31 December 2011:				
Cost	9,989	–	4,192	14,181
Accumulated depreciation	(666)	–	(1,143)	(1,809)
Net carrying amount	9,323	–	3,049	12,372

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

(a) Land and buildings of the Group included above as at 31 December 2012 are held under the following lease terms:

Group

	Hong Kong	Elsewhere	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
Long term leases	23,313	–	23,313
Medium term leases	–	9,146,627	9,146,627
	23,313	9,146,627	9,169,940

(b) At 31 December 2012, a building of the Group situated in Mainland China with a net carrying amount of HK$27,000,000 (2011: HK$27,805,000) was pledged to secure a bank loan granted to the Group (note 37(d)(i)).

(c) During the years ended 31 December 2012 and 2011, impairments of RMB93,912,000 (equivalent to HK$115,941,000) and RMB9,130,000 (equivalent to HK$11,000,000), respectively, were recognised in the consolidated income statement on certain construction in progress of a PRC subsidiary for the production of concentrating photovoltaic modules, in view of the downturn of the solar power generation industry. The assets impaired were reported in the corporate and others segment, which is set out in note 4.

16. INVESTMENT PROPERTIES

		Group		Company	
		2012	2011	**2012**	2011
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Carrying amount at 1 January		**681,096**	215,637	**49,136**	41,765
Acquisition of a subsidiary	*46*	**41,604**	–	**-**	–
Transfer from/(to) property, plant and equipment, net	*15*	**(40,090)**	425,233	**-**	–
Transfer to prepaid land premiums	*17*	**(31,748)**	–	**-**	–
Fair value gain on revaluation	*5*	**14,282**	21,496	**7,778**	7,371
Exchange realignment		**-**	18,730	**-**	–
Carrying amount at 31 December		**665,144**	681,096	**56,914**	49,136

16. INVESTMENT PROPERTIES (Continued)

Notes:

(a) The investment properties of the Group as at 31 December 2012 are held under the following lease terms:

Group

	Hong Kong *HK$'000*	**Elsewhere** *HK$'000*	**Total** *HK$'000*
Long term leases	21,550	–	21,550
Medium term leases	–	643,594	643,594
	21,550	643,594	665,144

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

(b) At 31 December 2012, the investment properties were revalued by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on an open market value basis using the direct comparison approach or income approach.

17. PREPAID LAND PREMIUMS

		Group	
		2012	2011
	Notes	***HK$'000***	*HK$'000*
Carrying amount at 1 January		**1,305,429**	1,261,046
Acquisition of subsidiaries	*46*	**22,298**	40,594
Additions		**357,583**	42,157
Transfer from investment properties	*16*	**31,748**	–
Amortisation provided during the year		**(33,221)**	(32,050)
Disposals		**–**	(68,162)
Exchange realignment		**–**	61,844
Carrying amount at 31 December		**1,683,837**	1,305,429
Portion classified as current assets		**(43,643)**	(30,165)
Non-current portion		**1,640,194**	1,275,264

All leasehold lands of the Group as at 31 December 2012 are situated in Mainland China and held under medium term leases.

18. GOODWILL

	Group	
	2012	2011
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**7,453,561**	7,245,773
Acquisition of subsidiaries *(note 46)*	**95,765**	187,394
Exchange realignment	**–**	20,394
At 31 December	**7,549,326**	7,453,561

Impairment testing of goodwill

The carrying amount of the goodwill has been allocated to the relevant business units of the individual operating segments of the Group for impairment testing, which is summarised as follows:

		Group	
		2012	2011
	Notes	***HK$'000***	*HK$'000*
Piped gas operation	*(i)*	**7,022,337**	6,926,572
Brewery operation	*(ii)*	**498,948**	498,948
Others		**28,041**	28,041
		7,549,326	7,453,561

(i) The recoverable amount of the piped gas operation has been determined by reference to a business valuation performed by CB Richard Ellis Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial forecast approved by senior management covering a period of five years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections for the first five-year period is 11% (2011: 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% (2011: 3%) is used for the perpetual period.

(ii) Goodwill attributable to brewery operation mainly arose from the Group's investments in Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), the recoverable amount of which was determined on the fair value less costs to sell basis by reference to the market value of the shares of Yanjing Brewery held by the Group as at 31 December 2012.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2012 (2011: Nil).

18. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Key assumptions used in value in use calculation

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

- Budgeted turnover

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

- Budgeted gross margins

  In respect of the relevant business units in the piped gas operation segment, the budgeted gross margins is based on the latest gas selling price up to the date of the valuation report.

- Discount rate

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

- Business environment

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

  — As the gas supply network has already been set up in most urban areas in Beijing, where the Group's piped gas operation is located, and due to the high degree of idiosyncratic features of the gas supply business, the high construction and fixed costs in establishing another gas supply network in these urban districts in Beijing are too huge for other operators to enter these regions. Therefore, in the opinion of the directors, the Group's piped gas operation can generate income perpetually.

19. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into certain service concession arrangements with certain governmental authorities in Mainland China on a BOT or a Transfer-Operate-Transfer ("TOT") basis in respect of its expressway and toll road operations and sewage and water treatment operations. These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 30 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	
	2012	2011
	HK$'000	*HK$'000*
	(note (a))	*(note (a))*
At 1 January:		
Cost	**2,529,816**	2,410,766
Accumulated amortisation	**(1,304,805)**	(1,154,864)
Net carrying amount	**1,225,011**	1,255,902
Net carrying amount:		
At 1 January	**1,225,011**	1,255,902
Amortisation provided during the year	**(52,810)**	(90,672)
Disposal of a subsidiary *(note 47)*	**(752,963)**	–
Exchange realignment	**–**	59,781
At 31 December	**419,238**	1,225,011
At 31 December:		
Cost	**1,777,107**	2,529,816
Accumulated amortisation	**(1,357,869)**	(1,304,805)
Net carrying amount	**419,238**	1,225,011

19. SERVICE CONCESSION ARRANGEMENTS (Continued)

Receivables under service concession arrangements

	Group 2012 HK$'000	2011 HK$'000
Receivables under service concession arrangements wholly attributable to sewage and water treatment operations	**1,512,623**	2,591,306
Impairment *(note (d))*	**–**	–
Receivables under service concession arrangements, net of impairment *(note (c))*	**1,512,623**	2,591,306
Portion classified as current assets	**(1,007,375)**	(1,003,260)
Non-current portion	**505,248**	1,588,046

Notes:

(a) The operating concessions of the Group are wholly attributable to expressway and toll road operations and details of the service concession arrangements are as follows:

(i) In connection with a group reorganisation undertaken by the Group prior to the listing of the Company's shares on the Main Board of the Stock Exchange in 1997, Capital Expressway Company (a then 96% indirectly-owned subsidiary of the Company) was established in the PRC with an initial term of 30 years commencing on 13 March 1997. Pursuant to the approval documents issued by the Beijing Municipal Government in March and April 1997, the right to operate the Capital Airport Expressway and the right to use the land on which the Capital Airport Expressway is adhered for a period of 30 years commencing on 1 January 1997 were injected into Capital Expressway Company as part of the capital contributions from one of its equity holders.

During the year, the entire equity interest of Capital Expressway Company was disposed of by the Group, details of which are disclosed in notes 6 and 47 to the financial statements.

(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.

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

The Group is currently negotiating with relevant government authorities in Shenzhen to work out a scheme relating to severance, compensation and all other matters to prepare for the cessation of the toll road operation of Shenzhen Guanshun, however, no concrete detail of the scheme has been reached as at the date of approval of these financial statements. In the opinion of the directors, no impairment provision against the operating concession in respect of the Shenzhen Shiguan Road and Bridge is considered necessary as at 31 December 2012.

19. SERVICE CONCESSION ARRANGEMENTS (Continued)

Notes: (Continued)

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

Pursuant to a concession agreement (the "Concession Agreement") dated 13 July 1998 entered into between the Company and 北京市自來水集團有限責任公司 ("Beijing Water", formerly known as 北京市自來水公司), 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 (the "No. 9 Water Plant") and sell purified water, for a period of 20 years commencing on 24 November 1998. Beijing Water had guaranteed the Company a net cash inflow of RMB210 million from the water purification and treatment business for each of the years in the concession period. The concession right so granted was subsequently transferred by the Company to Beijing Bei Kong Water Production Co., Ltd., a wholly-owned subsidiary set up by the Company for the purpose of holding this concession right and engaging in the water purification and treatment operations.

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

At 31 December 2012, the remaining term of this service concession arrangement was approximately 6 years.

As detailed in note 33 to the financial statements, pursuant to the Master Agreement (as defined in note 33), the Group agreed to pay any amount so received as water purification fee under the Concession Agreement to BE Water, after deducting all state and local taxes in the Mainland China and operating costs in respect of the operation of the No.9 Water Plant commencing from 1 January 2013 until 31 December 2018. Accordingly, the carrying amount of the Future Income (as defined in note 33) receivable by the Group under the Concession Agreement as at 31 December 2012 has been classified as a non-current asset held for sale in the consolidated statement of financial position.

The amount of HK$1,007,375,000 included in the current portion of "Receivables under service concession arrangements" as at 31 December 2012 represents the outstanding water purification fee receivable by the Company from Beijing Water prior to the transfer of the Future Income to BE Water.

(c) In respect of the Group's receivables under service concession arrangements, aged analysis of receivables under service concession arrangements are closely monitored in order to minimise any credit risk associated with the receivables.

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Billed:		
Within one year	**327,484**	323,369
One to two years	**1,685**	372,102
Two to three years	**372,102**	307,789
Over three years	**306,104**	–
	1,007,375	1,003,260
Unbilled	**505,248**	1,588,046
	1,512,623	2,591,306

19. SERVICE CONCESSION ARRANGEMENTS (Continued)

Notes: (Continued)

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**–**	48,665
Reversal of impairment during the year recognised in the income statement, net *(note 7)*	**–**	(49,874)
Exchange realignment	**–**	1,209
At 31 December	**–**	–

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	
	2012	2011
	HK$'000	*HK$'000*
Less than one year past due	**327,484**	323,369
One to two years past due	**1,685**	372,102
Two to three years past due	**372,102**	307,789
Over three years past due	**306,104**	–
	1,007,375	1,003,260

The above receivables were due from a government authority in Mainland China as grantor in respect of a water purification and treatment plant under a service concession arrangement. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

20. OTHER INTANGIBLE ASSETS

Group

	Patents *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
Year ended 31 December 2012			
At 1 January 2012:			
Cost	**6,793**	**76,607**	**83,400**
Accumulated amortisation and impairment	**(6,793)**	**(52,926)**	**(59,719)**
Net carrying amount	**–**	**23,681**	**23,681**
Net carrying amount:			
At 1 January 2012	**–**	**23,681**	**23,681**
Additions	**–**	**5,957**	**5,957**
Amortisation provided during the year	**–**	**(9,988)**	**(9,988)**
At 31 December 2012	**–**	**19,650**	**19,650**
At 31 December 2012:			
Cost	**–**	**48,800**	**48,800**
Accumulated amortisation	**–**	**(29,150)**	**(29,150)**
Net carrying amount	**–**	**19,650**	**19,650**
Year ended 31 December 2011			
At 1 January 2011:			
Cost	75,637	51,225	126,862
Accumulated amortisation and impairment	(75,637)	(37,017)	(112,654)
Net carrying amount	–	14,208	14,208
Net carrying amount:			
At 1 January 2011	–	14,208	14,208
Acquisition of subsidiaries *(note 46)*	–	3,835	3,835
Additions	–	18,534	18,534
Amortisation provided during the year	–	(13,968)	(13,968)
Exchange realignment	–	1,072	1,072
At 31 December 2011	–	23,681	23,681
At 31 December 2011:			
Cost	6,793	76,607	83,400
Accumulated amortisation and impairment	(6,793)	(52,926)	(59,719)
Net carrying amount	–	23,681	23,681

21. INTERESTS IN SUBSIDIARIES

	Notes	Company 2012 HK$'000	2011 HK$'000
Investments in subsidiaries, included in non-current assets:			
Unlisted shares or investments, at cost		**19,411,644**	19,939,346
Due from subsidiaries	*(a)*	**15,990,472**	15,541,865
Impairment of unlisted shares or investments	*(b)*	**(89,789)**	(89,789)
Impairment of amounts due from subsidiaries	*(c)*	**(214,547)**	(214,547)
		35,097,780	35,176,875
Due to subsidiaries, included in non-current liabilities	*(a)*	**(16,429,658)**	(11,005,121)
Total interests in subsidiaries		**18,668,122**	24,171,754

Notes:

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

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

(b) An impairment was recognised for certain unlisted shares or investments with an aggregate carrying amount of HK$197,000,000 (before deducting the impairment loss) (2011: HK$197,000,000) as at the end of the reporting period because these subsidiaries have been loss-making for some time.

(c) There was no movement in the provision for impairment of amounts due from subsidiaries during the years ended 31 December 2012 and 2011.

21. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

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

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
北京市燃氣集團有限責任公司 ("Beijing Gas") Ω	PRC/Mainland China	RMB3,983,630,000	–	100	Distribution and sale of piped gas
Beijing Yanjing Brewery Company Limited *	PRC/Mainland China	RMB2,522,587,229	–	45.99†	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan") #	PRC/Mainland China	RMB250,000,000	–	23.01†	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	–	39.57†	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司	PRC/Mainland China	RMB349,366,900	–	35.48†	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	–	35.29†	Production and sale of beer
燕京啤酒(赤峰)有限責任公司	PRC/Mainland China	RMB367,110,200	–	41.84†	Production and sale of beer
燕京啤酒(新疆)有限責任公司	PRC/Mainland China	RMB288,800,000	–	45.99†	Production and sale of beer
燕京啤酒(衡陽)有限公司	PRC/Mainland China	RMB310,660,000	–	44.31†	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	–	45.89†	Production and sale of beer
燕京啤酒(曲阜三孔)有限責任公司	PRC/Mainland China	RMB260,817,189	–	80.00	Production and sale of beer
燕京啤酒(四川)有限公司	PRC/Mainland China	RMB200,000,000	–	45.99†	Production and sale of beer
燕京啤酒(晉中)有限公司	PRC/Mainland China	RMB250,000,000	–	45.99†	Production and sale of beer
燕京啤酒(昆明)有限公司	PRC/Mainland China	RMB360,000,000	–	35.40†	Production and sale of beer
廣東燕京啤酒有限公司	PRC/Mainland China	RMB716,000,000	–	59.49	Production and sale of beer
新疆燕京農產品開發有限公司	PRC/Mainland China	RMB230,000,000	–	45.99†	Production and sale of raw materials
Beijing Bei Kong Water Production Co., Ltd. Ω	PRC/Mainland China	US$85,000,000	100	100	Water treatment
Shenzhen Guanshun Road & Bridge Co., Ltd.	PRC/Mainland China	RMB217,500,000	–	53.08	Operation of a toll road
Beijing Enterprises Holdings High-Tech Development Co., Ltd.	PRC/Mainland China	US$30,000,000	97.99	97.99	Investment holding

21. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(d) (Continued)

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

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

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

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

22. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

		Group		Company	
		2012	2011	**2012**	2011
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Share of net assets	*(a)*	**134,125**	208,292	**-**	–
Due from jointly-controlled entities	*(b)*	**2,581**	2,586	**2,581**	2,586
		136,706	210,878	**2,581**	2,586

Notes:

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

	2012	2011
	HK$'000	*HK$'000*
Share of the jointly-controlled entities' assets and liabilities		
Non-current assets	**94,938**	88,088
Current assets	**74,522**	124,416
Non-current liabilities	**(134)**	–
Current liabilities	**(35,201)**	(4,212)
Net assets	**134,125**	208,292

22. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Notes: (Continued)

(a) (Continued)

	2012	2011
	HK$'000	*HK$'000*
Share of the jointly-controlled entities' results		
Revenue	**1,096**	3,856,589
Other income	**–**	11,736
Total revenue	**1,096**	3,868,325
Total expenses	**(1,439)**	(2,127,837)
Profit/(loss) before tax	**(343)**	1,740,488
Income tax	**–**	(440,299)
Profit/(loss) for the year	**(343)**	1,300,189

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

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

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

			Percentage of			
Company name	**Place of registration and operations**	**Nominal value of registered capital**	**Ownership interest attributable to the Group**	**Voting power**	**Profit sharing**	**Principal activities**
烏審旗京鵬天然氣有限公司	PRC/Mainland China	RMB99,000,000	49	49	49	Sale of natural gas
北京中石化北燃清潔能源科技有限公司 Ω	PRC/Mainland China	RMB98,000,000	50	50	50	Sale of natural gas
北京華電北燃能源有限公司 Ω	PRC/Mainland China	RMB50,000,000	40	40	40	Supply of electricity

Ω Incorporated during the year.

The table above lists the jointly-controlled entities 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	
		2012	2011	**2012**	2011
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Investments in associates, included in non-current assets:					
Unlisted shares, at cost		**-**	–	**46,168**	46,168
Shares listed in Hong Kong, at cost		**-**	–	**46,814**	46,814
Share of net assets	*(a)*	**13,262,789**	12,188,939	**59,960**	–
Investment deposits		**1,490,154**	–	**-**	–
Due from associates	*(b)*	**303**	17,987	**303**	17,987
Goodwill on acquisition	*(c)*	**367,060**	367,060	**-**	–
		15,120,306	12,573,986	**153,245**	110,969
Dividend receivable from an associate, included in current assets	*29*	**843,733**	1,215,206	**-**	–
Total interests in associates		**15,964,039**	13,789,192	**153,245**	110,969

23. INTERESTS IN ASSOCIATES (Continued)

Notes:

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

	2012 HK$'000	2011 HK$'000
Share of the associates' assets and liabilities		
Non-current assets	**28,253,281**	23,561,871
Current assets	**8,758,011**	6,607,641
Non-current liabilities	**(10,434,377)**	(7,455,467)
Current liabilities	**(12,290,052)**	(9,782,092)
Non-controlling interests	**(1,024,074)**	(743,014)
Net assets	**13,262,789**	12,188,939
Share of the associates' results		
Revenue	**6,693,701**	1,692,358
Other income	**381,302**	378,090
Total revenue	**7,075,003**	2,070,448
Total expenses	**(4,360,364)**	(1,613,742)
Profit before tax	**2,714,639**	456,706
Income tax	**(665,144)**	(83,314)
Profit for the year	**2,049,495**	373,392

Significant increase in the Group's share of results of associates for the year ended 31 December 2012 was mainly due to the reclassification of the Group's investments in PetroChina Beijing Gas from a jointly-controlled entity to an associate at the end of 2011, as further detailed in note 22(a) to the financial statements.

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

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

	Group	
	2012 HK$'000	2011 HK$'000
Cost and net carrying amount:		
At 1 January	**367,060**	342,666
Acquisition of an additional interest in an associate	**–**	24,394
At 31 December	**367,060**	367,060

23. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

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

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Percentage of Ownership interest attributable to the Group	Percentage of Voting power	Percentage of Profit sharing	Principal activities
中石油北京天然氣管道有限公司 @	PRC/Mainland China	RMB10,240,000,000	40	40	40	Provision of natural gas transmission services
Beijing Enterprises Water Group Limited π	Bermuda/Hong Kong	HK$690,917,049	44.11	44.11	44.11	Investment holding
Beijing Development (Hong Kong) Limited Ω	Hong Kong	HK$677,460,150	42.87	42.87	42.87	Investment holding
北京機電院高技術股份有限公司 *	PRC/Mainland China	RMB135,872,209	38.27	38.27	38.27	Production and sale of mechanical and electrical equipment, and property investment

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

π 44.11% equity interest in BE Water is indirectly held by a wholly-owned subsidiary of the Company. Shares of BE Water are listed on the Main Board of the Stock Exchange. The market value of the shares of BE Water held by the Group as at 31 December 2012, based on its then published price quotation, amounted to approximately HK$6,095,102,000.

Ω 2.18% and 40.69% equity interests in Beijing Development are directly held by the Company and indirectly held by a wholly-owned subsidiary, respectively. Shares of Beijing Development are listed on the Main Board of the Stock Exchange. The market value of the shares of Beijing Development held by the Group as at 31 December 2012, based on its then published price quotation, amounted to approximately HK$461,830,000.

* 23.44% and 14.83% equity interests in 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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed equity investments, at fair value	**587,264**	409,135	**43,063**	43,063
Unlisted equity investments, at cost	**307,264**	519,635	**132,574**	132,574
Impairment	**(11,358)**	(11,358)	**–**	–
	883,170	917,412	**175,637**	175,637

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.

25. PROPERTY HELD FOR SALE

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

26. INVENTORIES

	Group	
	2012	2011
	HK$'000	*HK$'000*
Raw materials	**4,546,410**	4,153,245
Work in progress	**549,333**	475,989
Finished goods	**818,216**	656,377
	5,913,959	5,285,611

27. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group 2012 HK$'000	Group 2011 HK$'000
Amounts due from contract customers:		
Non-current portion	**769,559**	566,032
Current portion	**16,441**	46,631
	786,000	612,663
Amounts due to contract customers	**(177,874)**	(123,822)
	608,126	488,841
Contract costs incurred plus recognised profits less recognised losses to date	**1,062,319**	873,635
Less: Progress billings received and receivable	**(454,193)**	(384,794)
	608,126	488,841

28. TRADE AND BILLS RECEIVABLES

	Group 2012 HK$'000	Group 2011 HK$'000	Company 2012 HK$'000	Company 2011 HK$'000
Trade and bills receivables	**2,631,609**	1,864,047	**1,095**	1,086
Impairment *(note (c))*	**(228,455)**	(277,609)	**–**	–
	2,403,154	1,586,438	**1,095**	1,086

28. TRADE AND BILLS RECEIVABLES (Continued)

Notes:

(a) Included in the Group's trade and bills receivables as at 31 December 2012 was an aggregate amount of HK$33,765,000 (2011: HK$50,459,000) due from certain fellow subsidiaries of the Group arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the Group to its major customers.

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

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

	Group		**Company**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Billed:				
Within one year	**1,027,936**	535,180	**–**	–
One to two years	**24,639**	44,238	**–**	1,086
Two to three years	**13,269**	15,615	**1,095**	–
Over three years	**17,742**	124,980	**–**	–
	1,083,586	720,013	**1,095**	1,086
Unbilled	**1,319,568**	866,425	**–**	–
	2,403,154	1,586,438	**1,095**	1,086

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**277,609**	375,152
Reversal of impairment during the year recognised in the income statement, net *(note 7)*	**(35,542)**	(112,926)
Amount written off as uncollectible	**(13,612)**	(145)
Exchange realignment	**–**	15,528
At 31 December	**228,455**	277,609

28. TRADE AND BILLS RECEIVABLES (Continued)

Notes: (Continued)

(c) (Continued)

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$288,664,000 (2011: HK$337,818,000). 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**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Neither past due nor impaired	**680,329**	130,620	**–**	–
Less than one year past due	**347,606**	404,561	**–**	–
More than one year past due	**55,651**	184,832	**1,095**	1,086
	1,083,586	720,013	**1,095**	1,086

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.

(d) At 31 December 2012, trade receivables of the Group of HK$448,725,000 (2011: Nil) was pledged to secure a bank loan granted to the Group (note 37(d)(iii)).

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2012	2011	**2012**	2011
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments		**961,971**	117,654	**546**	450
Deposits and other debtors	*(a)*	**1,938,753**	1,086,863	**12,542**	8,634
Dividend receivable from an associate	*(b)*	**843,733**	1,215,206	**-**	–
Due from holding companies	*30*	**312,658**	280,768	**119,059**	87,169
Due from fellow subsidiaries	*30*	**1,147,320**	80,349	**1,129,919**	29,893
Due from related parties	*30*	**3,354**	9,700	**1,749**	1,735
		5,207,789	2,790,540	**1,263,815**	127,881
Impairment	*(c)*	**(75,556)**	(46,761)	**-**	–
		5,132,233	2,743,779	**1,263,815**	127,881
Portion classified as current assets		**(3,992,633)**	(2,313,196)	**(603,815)**	(127,881)
Non-current portion		**1,139,600**	430,583	**660,000**	–

Notes:

(a) The Group's deposits and other debtors as at 31 December 2012 included, inter alia, the following:

(i) certain deposits of HK$450,493,000 (2011: HK$314,720,000) in total paid for the construction of buildings and purchase of pipelines, equipment and machinery. The deposits are classified as non-current assets; and

(ii) investment deposits of HK$20,522,000 (2011: HK$29,714,000) in total paid for the incorporation or acquisition of subsidiaries in Mainland China. The deposits are classified as non-current assets.

The Group's deposits and other debtors as at 31 December 2011 also included, inter alia, a deposit of HK$85,774,000 paid for the purchase of a parcel of land located in Mainland China. The deposit was classified as a non-current asset.

(b) The balance represented the dividends declared to the Group by PetroChina Beijing Gas, an associate of the Group, in respect of its financial years ended 31 December 2012 and 2011, respectively.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) The movements in provision for impairment during the year are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**46,761**	116,115	**–**	95,202
Impairment/(reversal of impairment) during the year recognised in the income statement, net *(note 7)*	**29,195**	(3,191)	**–**	(27,953)
Amount written off as uncollectible	**(400)**	(67,262)	**–**	(67,249)
Exchange realignment	**–**	1,099	**–**	–
At 31 December	**75,556**	46,761	**–**	–

The above provision for impairment of deposits and other debtors of the Group represented provision for individually impaired deposits and other debtors with an aggregate carrying amount of HK$144,607,000 (2011: HK$115,412,000).

30. DUE FROM/TO HOLDING COMPANIES/FELLOW SUBSIDIARIES/ RELATED PARTIES

The amounts due from/to holding companies, fellow subsidiaries and related parties are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$1,100,000,000 due from a fellow subsidiary as at 31 December 2012 with respect to the disposal of interest in BE Motorway (notes 6 and 47), which will be settled in five equal semiannual instalments, i.e., HK$660,000,000 (due after one year) and HK$440,000,000 (due within one year) are classified as a non-current asset and a current asset, respectively.

The balances with fellow subsidiaries, associates and related companies of the Group included in trade and bills receivables, trade and bills payables, and other liabilities are disclosed in notes 28(a), 44 and 45 to the financial statements, respectively.

31. RESTRICTED CASH AND PLEDGED DEPOSITS

		Group	
		2012	2011
	Notes	***HK$'000***	*HK$'000*
Restricted cash	*(a)*	**29,583**	33,225
Pledged deposits	*(b)*	**31,370**	3,406
Restricted cash and pledged deposits		**60,953**	36,631

31. RESTRICTED CASH AND PLEDGED DEPOSITS (Continued)

Notes:

(a) Restricted cash of the Group mainly represented the proceeds of a government surcharge of HK$29,583,000 (2011: HK$29,583,000) collected by Beijing Gas, a wholly-owned subsidiary indirectly held by 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 45(i)).

(b) Bank balances of HK$31,370,000 (2011: HK$3,406,000) as at 31 December 2012 were pledged to secure certain trade finance facilities (note 44) granted to the Group.

32. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances other than time deposits	**5,474,868**	6,332,529	**209,895**	192,323
Time deposits	**6,823,049**	6,283,541	**4,333,348**	2,142,303
	12,297,917	12,616,070	**4,543,243**	2,334,626
Less: Restricted cash and pledged deposits *(note 31)*	**(60,953)**	(36,631)	**–**	–
Cash and cash equivalents	**12,236,964**	12,579,439	**4,543,243**	2,334,626

Notes:

(a) At 31 December 2012, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$6.7 billion (2011: HK$9.9 billion). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

33. NON-CURRENT ASSET AND ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

On 26 September 2012, the Company and two subsidiaries (collectively, the "Vendors") entered into a master agreement (the "Master Agreement") with BE Water and two of its subsidiaries (collectively, the "Purchasers"), pursuant to which the Vendors agreed to transfer the following assets to BE Water in exchange for a total of 776,810,838 new ordinary shares of BE Water at HK$1.62 per share:

(i) all water purification fee to be received by the Group from Beijing Water under the Concession Agreement (as defined in note 19(b) to the financial statements), and after deducting all state and local taxes in Mainland China and operating costs in respect of the operation of the No. 9 Water Plant commencing from 1 January 2013 until 31 December 2018 (the "Future Income");

(ii) the entire equity interest in 濰坊北控水務有限公司 ("BE Water (Weifang)"), which principally engages in centralised supply of drinking water; reuse of water; operation and management of water plant and sewage treatment plant; installation and maintenance of water facilities; sale of plumbing equipment; and sewage treatment services and utilisation;

(iii) the entire equity interest in Beijing Enterprises Water Company Limited ("BE Water (BVI)"), which holds 50.5% equity interest in BJA Holdings Company Limited ("BJA"). BJA is directly interested in 67% equity interest in Beijing Anling Water Technology Company Limited, a jointly-controlled entity of BJA principally engages in the construction and operations of Phase A of No. 10 water plant in Beijing; and

(iv) the 90% equity interest in 北控水務集團(海南)有限公司 ("BE Water (Hainan)"), which principally engages in water project and waste treatment (excluding dangerous wastes) project investments.

The Master Agreement was approved by the independent shareholders of BE Water at a special general meeting of BE Water held on 18 December 2012. Other than the transfer of equity interest in BE Water (Hainan) which is pending for the approval by the local government and is not yet completed as at the date of approval of these financial statements, the transfer of other assets under the Master Agreement were completed on 5 February 2013. Further details of the transaction are disclosed in note 56(a) to the financial statements.

At 31 December 2012, the carrying amount of the Future Income receivable by the Company under the Concession Agreement was classified as a non-current asset held for sale and BE Water (Weifang) and BE Water (BVI) were classified as disposal groups held for sale. As there are restrictions stipulated in the constitutional documents of BE Water (Hainan) with respect to the transfer of its equity interest, the equity interest in BE Water (Hainan) is not available for immediate sale as at 31 December 2012 and hence BE Water (Hainan) was not classified as a disposal group held for sale.

33. NON-CURRENT ASSET AND ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE (Continued)

The major classes of assets and liabilities classified as held for sale as at 31 December 2012 are as follows:

	2012
	HK$'000
Assets	
Property, plant and equipment	**14,900**
Investment in a jointly-controlled entity	**431,756**
Receivables under operating concession	**937,854**
Inventories	**94**
Prepayments, deposits and other receivables	**33**
Cash and bank balances	**664**
Non-current asset and assets of disposal groups classified as held for sale	**1,385,301**
Liabilities	
Trade payables	**(30)**
Other payables and accruals	**(140,457)**
Income tax payable	**(60)**
Liabilities directly associated with the assets of disposal groups classified as held for sale	**(140,547)**
Net assets directly associated with the non-current asset and disposal groups held for sale	**1,244,754**
Exchange fluctuation reserve of the disposal groups	**12,894**

34. SHARE CAPITAL

Shares

	2012	2011
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
1,137,571,000 ordinary shares of HK$0.10 each	**113,757**	113,757

A summary of the movements in the Company's issued share capital during the years ended 31 December 2012 and 2011 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 2011		1,137,371,000	113,737	20,733,395	20,847,132
Exercise of share options	*(a)*	300,000	30	4,896	4,926
Repurchase and cancellation of shares	*(b)*	(100,000)	(10)	–	(10)
At 31 December 2011, 1 January 2012 and 31 December 2012		1,137,571,000	113,757	20,738,291	20,852,048

34. SHARE CAPITAL (Continued)

Shares (Continued)

Notes:

(a) During the year ended 31 December 2011, subscription rights attaching to 300,000 share options were exercised at a subscription price of HK$12.55 per ordinary share, resulting in the issue of 300,000 ordinary shares of the Company for a total cash consideration of HK$3,764,000. At the time when the share options were exercised, the fair value of these share options in an aggregate amount of HK$1,162,000 previously recognised in the share option reserve was transferred to the share premium account. Further details of the share options are set out in note 35 to the financial statements.

(b) In January 2011, the Company repurchased a total of 100,000 ordinary shares of the Company on the Stock Exchange at a weighted average cost of HK$45.5 per share (the highest and lowest purchase prices per ordinary share were HK$46.1 and HK$45.0, respectively) and the total consideration paid amounted to approximately HK$4,560,000. These shares were cancelled by the Company in 2011 and the issued capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK$4,550,000 has been charged to the retained profits of the Company. Pursuant to Section 49H of the Hong Kong Companies Ordinance, an amount of HK$10,000 equivalent to the par value of the shares cancelled was transferred from the retained profits of the Company to the capital redemption reserve.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

35. 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.

35. SHARE OPTION SCHEME (Continued)

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.

At 1 January 2011, 300,000 share options, which were granted on 19 July 2006 at an exercise price of HK$12.55 per ordinary share of the Company, were outstanding and were fully exercised during the year ended 31 December 2011. The weighted average closing price of the ordinary shares of the Company immediately before the dates on which the 300,000 share options were exercised during the year ended 31 December 2011 was HK$40.6. There was no grant of share options during the year, and there was no share option outstanding under the Scheme as at 31 December 2012 and 2011.

36. RESERVES

(a) Group

(i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(ii) The capital redemption reserve represents the par value of ordinary shares of the Company which had been repurchased and cancelled.

(iii) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.

(iv) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries, jointly-controlled entities and associates. None of the Group's PRC reserve funds as at 31 December 2012 were distributable in the form of cash dividends.

36. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2011		20,733,395	228	1,162	13,220	39,209	17,561	25,364	20,830,139
Profit for the year	12	–	–	–	–	–	–	1,147,017	1,147,017
Other comprehensive loss for the year — Changes in fair value of available-for- sale investments		–	–	–	–	(61,982)	–	–	(61,982)
Total comprehensive income/(loss) for the year		–	–	–	–	(61,982)	–	1,147,017	1,085,035
Exercise of share options	*34(a)*	4,896	–	(1,162)	–	–	–	–	3,734
Repurchase and cancellation of shares	*34(b)*	–	10	–	–	–	–	(4,560)	(4,550)
Interim 2011 dividend	*13*	–	–	–	–	–	–	(284,393)	(284,393)
Proposed final 2011 dividend	*13*	–	–	–	–	–	–	(511,907)	(511,907)
At 31 December 2011 and 1 January 2012		20,738,291	238	–	13,220	(22,773)	17,561	371,521	21,118,058
Profit for the year and total comprehensive income for the year	*12*	–	–	–	–	–	–	787,247	787,247
Interim 2012 dividend	*13*	–	–	–	–	–	–	(284,393)	(284,393)
Proposed final 2012 dividend	*13*	–	–	–	–	–	–	(572,286)	(572,286)
At 31 December 2012		20,738,291	238	–	13,220	(22,773)	17,561	302,089	21,048,626

NOTES TO FINANCIAL STATEMENTS
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37. BANK AND OTHER BORROWINGS

	Group 2012 HK$'000	Group 2011 HK$'000	Company 2012 HK$'000	Company 2011 HK$'000
Bank loans:				
Secured	**1,040,536**	453,975	**–**	–
Unsecured	**8,901,850**	8,671,037	**2,976,750**	5,144,112
	9,942,386	9,125,012	**2,976,750**	5,144,112
Other loans, unsecured	**559,342**	650,054	**–**	–
Total bank and other borrowings	**10,501,728**	9,775,066	**2,976,750**	5,144,112
Analysed into:				
Bank loans repayable:				
Within one year	**6,171,467**	5,569,307	**–**	2,176,362
In the second year	**267,644**	193,563	**–**	–
In the third to fifth years, inclusive	**3,198,092**	3,265,724	**2,976,750**	2,967,750
Beyond five years	**305,183**	96,418	**–**	–
	9,942,386	9,125,012	**2,976,750**	5,144,112
Other loans repayable:				
Within one year	**105,475**	135,644	**–**	–
In the second year	**81,164**	77,989	**–**	–
In the third to fifth years, inclusive	**210,357**	226,804	**–**	–
Beyond five years	**162,346**	209,617	**–**	–
	559,342	650,054	**–**	–
Total bank and other borrowings	**10,501,728**	9,775,066	**2,976,750**	5,144,112
Portion classified as current liabilities	**(6,276,941)**	(5,704,951)	**–**	(2,176,362)
Non-current portion	**4,224,787**	4,070,115	**2,976,750**	2,967,750

37. 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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**2,976,750**	5,144,112	**2,976,750**	5,144,112
RMB	**7,185,417**	4,252,473	**–**	–
US$	**330,601**	368,848	**–**	–
Euro	**8,960**	9,633	**–**	–
	10,501,728	9,775,066	**2,976,750**	5,144,112

(b) Included in the Group's bank and other borrowings as at 31 December 2012 are:

(i) amortised cost of an interest-free loan of HK$143,117,000 (2011: HK$143,117,000) granted from a joint venture partner of a subsidiary; and

(ii) certain bank and other loans, with an aggregate carrying amount of HK$423,012,000 (2011: HK$480,259,000), 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$10,587,000 (2011: HK$11,145,000), these loans bear interest at rates ranging from 2% to 6.3% per annum.

(c) HK$1,469,138,000 (2011: HK$444,445,000) of the Group's unsecured bank loans as at 31 December 2012 were guaranteed by the joint venture partner of a PRC subsidiary of the Group.

(d) The Group's secured bank loans as at 31 December 2012 were secured by:

(i) a mortgage over a building of the Group with a net carrying amount of HK$27,000,000 (2011: HK$27,805,000) as at 31 December 2012 (note 15(b));

(ii) mortgages over the Group's concession right and receivables under a concession right of two waste power plants, respectively, which were under construction as at 31 December 2012 and 2011; and

(iii) a pledge over certain of the Group's trade receivables amounting to HK$448,725,000 (2011: Nil) (note 28(d)).

37. BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

(e) At 31 December 2012, the bank loans of the Group included a five-year HK$3 billion syndicated loan facility obtained by the Company in 2010, which bears interest at HIBOR+0.85% and is fully payable on 2 August 2015.

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

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

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

Within the best knowledge of the directors, neither of the above events took place during the year and as at the date of approval of these financial statements.

At 31 December 2011, the bank loans of the Group included a five-year HK$2.1 billion syndicated loan facility, which bore interest at HIBOR+0.285% and was fully repaid by the Company during the year ended 31 December 2012.

38. GUARANTEED SENIOR NOTES

On 25 April 2012 and 12 May 2011, Talent Yield Investments Limited and Mega Advance Investments Limited (wholly-owned subsidiaries of the Company) issued senior notes with aggregate principal amounts of US$800 million and US$1 billion, respectively, (collectively, the "Guaranteed Senior Notes") to certain institutional investors. Pursuant to the Guaranteed Senior Notes purchase agreements dated 19 April 2012 and 5 May 2011, respectively, the Guaranteed Senior Notes are guaranteed by the Company, of which, unless redeemed prior to their maturity pursuant to the terms thereof and of the indenture, (i) US$800,000,000, bearing interest at the rate of 4.5% per annum, will mature on 25 April 2022; (ii) US$600,000,000, bearing interest at the rate of 5% per annum, will mature on 12 May 2021; and (iii) US$400,000,000, bearing interest at the rate of 6.375% per annum, will mature on 12 May 2041. Further details of the Guaranteed Senior Notes are set out in the Company's announcements dated 19 April 2012 and 6 May 2011, respectively.

At 31 December 2012, the Guarantee Senior Notes are repayable beyond five years and are carried in the consolidated statement of financial position at their amortised cost.

39. CONVERTIBLE BONDS

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

Group

	Guaranteed Convertible Bonds *(note (a))*	**Yanjing Brewery Convertible Bonds** *(note (b))*
Issuance date	2/6/2009	15/10/2010
Maturity date	1/6/2014	14/10/2015
Original principal amount:		
HK$'000	2,175,000	N/A
RMB'000	N/A	429,804
Coupon rate	2.25%	0.5%-1.4%
Conversion price per ordinary share of:		
— The Company (HK$)	43.5	N/A
— Yanjing Brewery (RMB)	N/A	7.58

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

Group

	Guaranteed Convertible Bonds *HK$'000* *(note (a))*	**Yanjing Brewery Convertible Bonds** *HK$'000* *(note (b))*	**Total** *HK$'000*
Principal amount outstanding			
At 1 January 2011, 31 December 2011 and 1 January 2012	2,175,000	564,610	2,739,610
Conversion to ordinary shares of Yanjing Brewery	–	(180,394)	(180,394)
Redemption of convertible bonds	–	(281,281)	(281,281)
At 31 December 2012	2,175,000	102,935	2,277,935

39. CONVERTIBLE BONDS (Continued)

Group (Continued)

	Guaranteed Convertible Bonds HK$'000 (note (a))	Yanjing Brewery Convertible Bonds HK$'000 (note (b))	Total HK$'000
Liability component			
At 1 January 2011	2,147,554	502,935	2,650,489
Interest expense *(note 8)*	52,683	7,149	59,832
Imputed interest expense *(note 8)*	–	27,799	27,799
Interest paid	(48,938)	(2,963)	(51,901)
Conversion to ordinary shares of Yanjing Brewery	–	(12)	(12)
Exchange realignment	–	25,628	25,628
At 31 December 2011 and 1 January 2012	2,151,299	560,536	2,711,835
Interest expense *(note 8)*	62,844	1,975	64,819
Imputed interest expense *(note 8)*	–	3,481	3,481
Interest paid	(48,937)	(721)	(49,658)
Conversion to ordinary shares of Yanjing Brewery	–	(171,475)	(171,475)
Redemption of convertible bonds	–	(299,689)	(299,689)
At 31 December 2012	2,165,206	94,107	2,259,313

39. CONVERTIBLE BONDS (Continued)

Group (Continued)

	Guaranteed Convertible Bonds HK$'000 (note (a))	Yanjing Brewery Convertible Bonds HK$'000 (note (b))	Total HK$'000
Derivative component			
At 1 January 2011	–	292,384	292,384
Fair value gain on revaluation	–	(239,130)	(239,130)
Conversion to ordinary shares of Yanjiing Brewery	–	(2)	(2)
Exchange realignment	–	8,531	8,531
At 31 December 2011 and 1 January 2012	–	61,783	61,783
Fair value gain on revaluation	–	(13,973)	(13,973)
Conversion to ordinary shares of Yanjiing Brewery	–	(38,382)	(38,382)
At 31 December 2012	–	9,428	9,428

Notes:

(a) On 2 June 2009, Power Regal Group Limited ("Power Regal", a wholly-owned subsidiary of the Company) issued convertible bonds with an aggregate principal amount of HK$2.175 billion (the "Guaranteed Convertible Bonds") to certain institutional investors. Pursuant to the convertible bond subscription agreement dated 25 April 2009, the convertible bonds are guaranteed by the Company, bear interest at the rate of 2.25% per annum and are convertible into ordinary shares of the Company at an initial conversion price of HK$43.5 per share of the Company, subject to adjustments in certain events. The outstanding principal amount of the convertible bonds, if not converted, will be repaid on the maturity date of 2 June 2014 at 100% of the outstanding amount. Further details of the Guaranteed Convertible Bonds are set out in the Company's announcement dated 27 April 2009.

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

39. CONVERTIBLE BONDS (Continued)

Notes: (Continued)

(b) On 15 October 2010, Yanjing Brewery, a subsidiary held indirectly as to 45.99% by the Company, issued convertible bonds with an aggregate principal amount of RMB1.13 billion (the "Yanjing Brewery Convertible Bonds") to the then existing shareholders of Yanjing Brewery. The Yanjing Brewery Convertible Bonds are convertible, at the option of the bondholders, into fully-paid ordinary shares of Yanjing Brewery at an initial conversion price of RMB21.86 per share of Yanjing Brewery and the conversion period is from 15 October 2010 to 14 October 2015, both dates inclusive. The Yanjing Brewery Convertible Bonds bear interests at 0.5%, 0.7%, 0.9%, 1.1% and 1.4% per annum in each of the annual convertible period. Further details of the Yanjing Brewery Convertible Bonds are set out in the Company's announcement published in the Chinese website of the Stock Exchange on 12 October 2010.

On 10 February 2012, certain of the Yanjing Brewery Convertible Bonds with an aggregate principal amount of HK$281,281,000 were redeemed by Yanjing Brewery at a consideration of RMB267 million upon the exercise of the early redemption option by the convertible bondholders. Further details are set out in the announcement of Yanjing Brewery published in the website of the Shenzhen Stock Exchange on 10 February 2012.

On 26 March 2012 and 7 June 2012, the conversion price of the Yanjing Brewery Convertible Bonds was changed from RMB21.86 to RMB15.37 and from RMB15.37 to RMB7.58, respectively, further details of which are set out in the announcements of Yanjing Brewery published in the website of the Shenzhen Stock Exchange on 24 March 2012 and 31 May 2012, respectively.

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

The fair values of the derivative component of the Yanjing Brewery Convertible Bonds as at 31 December 2012 and 2011, and the date of issue were determined by reference to valuations performed by CB Richard Ellis Limited, independent professionally qualified valuers, using the Binomial Option Pricing Model. Details of the variables and assumptions used in the model are as follows:

	31 December 2012	**31 December 2011**	**Issue date**
Share price of Yanjing Brewery	RMB5.64	RMB13.49	RMB20.04
Exercise price	RMB7.58	RMB21.86	RMB21.86
Remaining life of the derivative	2.79 years	3.79 years	5 years
Risk-free rate	3.11%	3.02%	2.77%
Expected volatility	28.52%	38.79%	46.40%
Expected dividend yield	1.86%	1.86%	0.85%

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

40. DEFINED BENEFIT PLANS

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

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

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

Group

	2012				
	Supplemental post-retirement medical reimbursement plan	**Supplemental post-retirement allowance and beneficiary benefit plans**	**Internal retirement benefit plan**	**Total**	2011 Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Current service cost	**12,114**	**3,516**	**–**	**15,630**	11,729
Past service cost	**13,506**	**748**	**–**	**14,254**	16,768
Interest cost on benefit obligations	**10,056**	**5,198**	**442**	**15,696**	13,263
Net actuarial gain recognised during the year	**(7,662)**	**–**	**(1,369)**	**(9,031)**	(10,846)
Net benefit expense	**28,014**	**9,462**	**(927)**	**36,549**	30,914

(b) Benefit liabilities

Group

	2012				
	Supplemental post-retirement medical reimbursement plan	**Supplemental post-retirement allowance and beneficiary benefit plans**	**Internal retirement benefit plan**	**Total**	2011 Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Defined benefit obligations	**378,080**	**129,130**	**8,755**	**515,965**	356,937
Unrecognised past service cost	**(38,158)**	**–**	**–**	**(38,158)**	–
Unrecognised actuarial gains	**63,805**	**8,252**	**3,420**	**75,477**	168,615
Total benefit liabilities	**403,727**	**137,382**	**12,175**	**553,284**	525,552
Portion classified as current liabilities included in other payables and accruals *(note 45)*				**(8,817)**	(3,162)
Non-current portion				**544,467**	522,390

40. DEFINED BENEFIT PLANS (Continued)

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

Group

	Supplemental post-retirement medical reimbursement plan HK$'000	Supplemental post-retirement allowance and beneficiary benefit plans HK$'000	Internal retirement benefit plan HK$'000	Total HK$'000
At 1 January 2011	179,261	85,718	14,079	279,058
Current service cost	9,077	2,652	–	11,729
Past service cost	11,066	5,212	490	16,768
Interest cost	8,661	4,045	557	13,263
Benefits paid	(1,102)	(1,582)	(401)	(3,085)
Actuarial losses/(gains) on obligations	8,160	18,893	(3,173)	23,880
Exchange realignment	9,739	4,953	632	15,324
At 31 December 2011 and 1 January 2012	224,862	119,891	12,184	356,937
Current service cost	12,114	3,516	–	15,630
Past service cost	51,664	748	–	52,412
Interest cost	10,056	5,198	442	15,696
Benefits paid	(1,942)	(2,769)	(4,106)	(8,817)
Actuarial losses on obligations	81,327	2,547	233	84,107
At 31 December 2012	378,081	129,131	8,753	515,965

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

Group

Year	Supplemental post-retirement medical reimbursement plan HK$'000	Supplemental post-retirement allowance and beneficiary benefit plans HK$'000	Internal retirement benefit plan HK$'000	Total HK$'000
2012	378,081	129,131	8,753	515,965
2011	224,862	119,891	12,184	356,937
2010	179,261	85,718	14,079	279,058
2009	182,828	79,122	16,515	278,465
2008	228,375	101,830	10,866	341,071

40. DEFINED BENEFIT PLANS (Continued)

(d) Principal assumptions

The above obligations were determined based on actuarial valuations performed by an independent actuary, Towers Watson (2011: 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:

	2012	2011
Discount rate	**4.50%**	4.25%
Salary increase rate of internal retirees	**4.50%**	4.50%
Average salary increase rate of Beijing city	**12.00%**	12.00%
Healthcare cost inflation rate	**8.00%**	8.00%

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

Group

	Increase/(decrease)	
	2012	2011
	HK$'000	*HK$'000*
Effect on the aggregate of the past service cost and interest cost:		
One percentage point increase	**12,046**	8,613
One percentage point decrease	**(8,272)**	(5,901)
Effect on the defined benefit obligations:		
One percentage point increase	**97,944**	72,188
One percentage point decrease	**(70,796)**	(51,957)

41. PROVISION FOR MAJOR OVERHAULS

Pursuant to the service concession arrangements on the Group's expressway and toll road operations, the Group has contractual obligations to maintain the infrastructures it operates to a specified level of serviceability and/or to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession periods. These contractual obligations to maintain or restore the infrastructures, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs are collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis and revised where appropriate.

The movements in provision for major overhauls of the expressway and the toll road during the year are as follows:

		Group	
		2012	2011
	Notes	***HK$'000***	*HK$'000*
At 1 January		**196,157**	140,192
Additional provision	*7*	**42,933**	43,554
Increase in discounted amounts arising from the passage of time	*8*	**5,004**	4,307
Disposal of a subsidiary	*47*	**(214,680)**	–
Exchange realignment		**–**	8,104
At 31 December		**29,414**	196,157

42. OTHER NON-CURRENT LIABILITIES

	Group	
	2012	2011
	HK$'000	*HK$'000*
Other liabilities — non-current portion *(note 45)*	**128,585**	122,401
Deferred income *(note)*	**115,475**	116,919
	244,060	239,320

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

43. DEFERRED TAX

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Deferred tax assets	**562,256**	594,721
Deferred tax liabilities	**(375,979)**	(371,353)
	186,277	223,368

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

Group

		Attributable to											
	Notes	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Depreciation allowances in excess of related depreciation *HK$'000*	Other temporary differences related to property, plant and equipment *HK$'000*	Transfer of assets from customers *HK$'000*	Fair value adjustments on available-for-sale investments *HK$'000*	Impairment provision and accrued expenses *HK$'000*	Provision for bonus and defined benefit plans *HK$'000*	Provision for major overhauls *HK$'000*	Temporary differences related to service concession arrangements *HK$'000*	Losses available for offsetting future taxable profits *HK$'000* (note (a))	Withholding tax *HK$'000* (note (b))	Net deferred tax assets/ (liabilities) *HK$'000*
At 1 January 2011		92,536	(1,496)	29,428	(16,036)	–	221,769	134,150	88,939	(183,367)	12,852	(144,671)	234,104
Acquisition of subsidiaries	46	(5,007)	–	–	–	–	479	–	–	–	–	–	(4,528)
Deferred tax credited/(charged) to the income statement during the year	11	(20,553)	(223)	–	(34,314)	–	8,105	(14,339)	2,945	8,384	2,924	35,463	(11,608)
Exchange realignment		3,938	(80)	1,453	(1,640)	–	7,291	5,266	4,464	(15,347)	55	–	5,400
At 31 December 2011 and 1 January 2012		70,914	(1,799)	30,881	(51,990)	–	237,644	125,077	96,348	(190,330)	15,831	(109,208)	223,368
Acquisition of subsidiaries	46	(7,131)	–	–	–	–	(5,466)	–	–	–	–	–	(12,597)
Disposal of interests in subsidiaries	47	–	–	–	–	–	–	–	(90,240)	–	–	–	(90,240)
Deferred tax credited/(charged) to the income statement during the year	11	–	(52)	–	–	–	55,686	4,904	2,742	10,100	1,969	12,730	88,079
Deferred tax charged to equity during the year		–	–	–	–	(22,333)	–	–	–	–	–	–	(22,333)
At 31 December 2012		63,783	(1,851)	30,881	(51,990)	(22,333)	287,864	129,981	8,850	(180,230)	17,800	(96,478)	186,277

Notes:

(a) At 31 December 2012, deferred tax assets have not been recognised in respect of unused tax losses of HK$2,428,684,000 (2011: HK$1,681,104,000) as they have been arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, tax losses of HK$2,408,976,000 (2011: HK$1,661,396,000) will expire in one to five years.

43. 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 fully recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries, jointly-controlled entities and associates in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$6,943,379,000 (2011: HK$4,921,219,000) as at 31 December 2012.

(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.

44. 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	
	2012	2011
	HK$'000	*HK$'000*
Within one year	**2,546,259**	1,867,774
One to two years	**48,430**	21,463
Two to three years	**7,485**	3,947
Over three years	**14,317**	11,410
	2,616,491	1,904,594

Included in the Group's trade and bills payables as at 31 December 2012 are amounts of HK$14,177,000 (2011: HK$13,456,000) and HK$71,021,000 (2011: HK$25,760,000) due to related companies and an associate respectively, arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related companies and the jointly-controlled entity to their major customers.

Certain of the Group's bills payable as at 31 December 2012 are secured by a pledge over certain of the Group's bank balances with an aggregate amount of HK$31,370,000 (2011: HK$3,406,000) (note 31(b)).

45. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2012	2011	**2012**	2011
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Accruals		**132,475**	97,261	**50,748**	49,737
Defined benefit plans — current portion	*40(b)*	**8,817**	3,162	**-**	–
Other liabilities		**6,674,714**	4,189,787	**18,126**	27,079
Due to related parties	*30*	**264,421**	262,985	**8,523**	20,254
		7,080,427	4,553,195	**77,397**	97,070
Portion classified as current liabilities		**(6,951,842)**	(4,430,794)	**(77,397)**	(97,070)
Non-current portion	*42*	**128,585**	122,401	**-**	–

The Group's other liabilities as at 31 December 2012 included, inter alia, the following:

(i) an amount of HK$29,583,000 (2011: HK$29,583,000) 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; and

(ii) construction project costs of HK$114,358,000 (2011: HK$103,006,000) 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.

The Group's other liabilities as at 31 December 2011 included, inter alia, machinery purchase costs of HK$21,432,000 payable to an associate of the Group. The balance with the associate was unsecured, interest-free and had no fixed terms of repayment.

46. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year as at their respective dates of acquisition were as follows:

	Notes	**2012** ***HK$'000*** *(note (a))*	2011 *HK$'000* *(note (b))*
Net assets acquired:			
Property, plant and equipment	*15*	**258,694**	742,182
Investment properties	*16*	**41,604**	–
Prepaid land premiums	*17*	**22,298**	40,594
Other intangible assets	*20*	**–**	3,835
Investment in an associate		**725**	–
Deferred tax assets	*43*	**–**	479
Inventories		**5,399**	31,673
Amounts due from contract customers		**–**	52,924
Trade and bills receivables		**93,869**	73,769
Prepayments, deposits and other receivables		**32,111**	57,962
Income tax recoverable		**–**	14,742
Cash and cash equivalents		**40,923**	100,836
Trade and bills payables		**(103,755)**	(73,378)
Other payables and accruals		**(75,960)**	(49,462)
Income tax payables		**(2,488)**	(3,047)
Bank and other borrowings		**–**	(294,458)
Other non-current liabilities		**–**	(187,847)
Deferred tax liabilities	*43*	**(12,597)**	(5,007)
Non-controlling interests		**(15,144)**	(4,027)
		285,679	501,770
Goodwill on acquisition	*18*	**95,765**	187,394
		381,444	689,164
Satisfied by:			
Cash		**381,444**	545,542
Reclassification from an investment in a jointly-controlled entity to an investment in a subsidiary		**–**	143,622
		381,444	689,164
Revenue for the year since acquisition		**188,907**	279,988
Profit for the year since acquisition		**36,873**	25,171

46. BUSINESS COMBINATIONS (Continued)

The Group has elected to measure the non-controlling interests in the subsidiaries acquired at the non-controlling interests' proportionate share of the identifiable net assets of the subsidiaries acquired.

The fair values (and their respective gross contractual amounts) of the trade receivables and deposits and other receivables as at their respective dates of acquisition amounted to HK$93,869,000 and HK$21,090,000, respectively.

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

	2012	2011
	HK$'000	*HK$'000*
	(note (a))	*(note (b))*
Cash and cash equivalents acquired	**40,923**	100,836
Cash consideration	**(381,444)**	(545,542)
Cash consideration prepaid in prior year *(note (b)(ii))*	**–**	178,259
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(340,521)**	(266,447)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$3,640,849,000 (2011: HK$2,810,193,000) and the Group's revenue (comprising turnover and other income and gains, net) would have been HK$36,581,950,000 (2011: HK$31,474,547,000).

Notes:

(a) Business combinations during the year ended 31 December 2012 mainly included the following transactions:

(i) In February 2012, Beijing Gas acquired 95% equity interest in 北京京燃燃氣有限公司 ("Beijing Jingran", formerly known as 北京新奧燃氣有限公司) for a cash consideration of RMB38,760,000. Beijing Jingran is principally engaged in the provision of natural gas transmission service in Beijing;

(ii) In May 2012, Beijing Gas acquired the entire equity interest in 北京綠源達壓縮天然氣有限公司 ("Luyuanda") from 北京北燃實業有限公司 ("Beiran Enterprises", a fellow subsidiary of the Company) for a cash consideration of RMB235,000,000. Luyuanda is principally engaged in the operation of autogas filling stations (gas-oil mixture) and sales of natural gas in Beijing. In respect of this acquisition, a profit guarantee was given by Beiran Enterprises, pursuant to which the annual net profit of Luyuanda for each of the years ended 31 December 2012 and 2011 shall not be less than RMB17.85 million, with any shortfall, after adjusting by a formula, would be compensated by Beiran Enterprises to Beijing Gas. The guarantee was met by Luyuanda and hence there would not be any adjustment to the consideration given for the acquisition. This acquisition transaction constitutes a related party transaction under HKAS 24 and a connected transaction as defined in Chapter 14A of the Listing Rules; and

(iii) In May 2012, Beijing Gas acquired the entire equity interest in 北京世紀隆昌商貿有限公司 ("Shiji Longchang") for a cash consideration of RMB39,000,000. Shiji Longchang is principally engaged in the property investment and material trading in Beijing.

46. BUSINESS COMBINATIONS (Continued)

Notes: (Continued)

(b) Business combinations during the year ended 31 December 2011 mainly included the following transactions:

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

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

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

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

47. DISPOSAL OF SUBSIDIARIES

	Notes	2012 HK$'000 (note)	2011 HK$'000
Net assets disposed of:			
Property, plant and equipment	15	**118,925**	–
Operating concessions	19	**752,963**	–
Available-for-sale investments		**5,556**	–
Deferred tax assets	43	**90,240**	–
Inventories		**1,970**	–
Trade and bills receivables		**1,372**	–
Prepayments, deposits and other receivables		**3,022**	–
Cash and cash equivalents		**493,258**	–
Other payables and accruals		**(88,293)**	–
Income tax payables		**(1,647)**	–
Bank and other borrowings		**(9,573)**	–
Provision for major overhauls	41	**(214,680)**	–
Non-controlling interests		**(31,966)**	–
		1,121,147	–
Exchange fluctuation reserve realised		**(353,123)**	–
Gain on disposal of interests in subsidiaries	6	**601,976**	–
		1,370,000	–
Satisfied by cash		**1,370,000**	–

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

	2012 HK$'000	2011 HK$'000
Cash consideration	**1,370,000**	–
Cash and bank balances disposed of	**(493,258)**	–
Consideration receivable as at 31 December 2012 *(note 30)*	**(1,100,000)**	–
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	**(223,258)**	–

47. DISPOSAL OF SUBSIDIARIES (Continued)

Note: Pursuant to a share transfer agreement dated 15 November 2012 between the Company as the vendor and Shi Hong Investments Limited ("Shi Hong", an indirect wholly-owned subsidiary of BE Group BVI) as the purchaser, the Company agreed to sell the entire equity interest in BE Motorway to Shi Hong at a cash consideration of RMB1.114 billion (equivalent to approximately HK$1.37 billion). BE Motorway is an investment holding company, holding a 96% equity interest in Capital Expressway Company.

The cash consideration is to be settled by six instalments, with the first instalment of RMB219,547,500 (equivalent to approximately HK$270,000,000) to be settled upon completion of the transaction and the remaining five instalments of RMB178,890,500 (equivalent to approximately HK$220,000,000) each to be settled on the date which falls 6 months, 1 year, 1.5 years, 2 years and 2.5 years of the completion date of the transaction, respectively. At 31 December 2012, the first instalment had been settled.

48. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Apart from the transactions detailed in notes 6, 39, 46 and 47 to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2012 and 2011.

49. CONTINGENT LIABILITIES

At 31 December 2012, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantee in respect of a banking facility granted to a third party	**450,000**	–	**450,000**	–
Guarantees given in respect of the Guaranteed Senior Notes *(note 38)*	**–**	–	**13,844,616**	7,699,084
Guarantee given in respect of the Guaranteed Convertible Bonds *(note 39(a))*	**–**	–	**2,175,000**	2,175,000
	450,000	–	**16,469,616**	9,874,084

50. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Within one year	**2,521**	2,678
In the second to fifth years, inclusive	**232**	422
	2,753	3,100

At 31 December 2012, the Company did not have any non-cancellable operating lease arrangements as lessor (2011: Nil).

(b) As lessee

The Group leases certain of its land, office properties and staff quarters under operating lease arrangements, with the leases negotiated with original terms ranging from 2 to 30 years.

At 31 December 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**74,732**	91,882	**2,662**	11,700
In the second to fifth years, inclusive	**196,891**	177,364	**40,787**	341
After five years	**637,663**	661,546	**–**	–
	909,286	930,792	**43,449**	12,041

51. CAPITAL COMMITMENTS

At 31 December 2012, the Group had the following capital commitments as at the end of the reporting period:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Authorised, but not contracted for:		
Acquisition of interest in a subsidiary	**2,519**	44,444
Capital contribution to a subsidiary	**–**	140,107
	2,519	184,551
Contracted, but not provided for:		
Buildings	**155,989**	388,948
Plant and machinery	**1,132,390**	758,332
Capital contribution to an associate	**1,099,342**	1,590,198
	2,387,721	2,737,478
Total capital commitments	**2,390,240**	2,922,029

At 31 December 2012, the Company did not have any significant capital commitments (2011: Nil).

52. 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	2012 HK$'000	2011 HK$'000
Ultimate holding company				
BE Group	Interest expense	*(i)*	**–**	19,848
Joint venture partners of subsidiaries and their associates				
Yanjing Beer Group and its associates	Purchase of bottle labels[γ]	*(ii)*	**150,842**	149,537
	Purchase of bottle caps[γ]	*(ii)*	**99,346**	85,120
	Canning service fees paid[γ]	*(iii)*	**46,336**	36,718
	Comprehensive support service fees paid[γ]	*(iv)*	**19,191**	18,729
	Land rent expenses[γ]	*(v)*	**2,283**	2,228
	Trademark licensing fees paid[γ]	*(vi)*	**73,214**	69,845
	Less: Refund for advertising subsidies[γ]	*(vi)*	**(8,417)**	(7,951)
Fellow subsidiaries				
Beiran Enterprises and its subsidiaries	Sale of gas[#]	*(vii)*	**46,149**	244,228
	Engineering service income[#]	*(viii)*	**7,701**	–
	Comprehensive service income[#]	*(viii)*	**25,512**	24,737
	Sale of goods[#]	*(xi)*	**106,437**	96,530
	Engineering service expenses[#]	*(viii)*	**77,093**	78,301
	Building rental expenses[#]	*(x)*	**71,725**	78,455
	Purchase of goods[#]	*(x)*	**24,933**	82,300
北京京儀集團有限責任公司	Construction contract fee[α]	*(ix)*	**395,379**	–
Jointly-controlled entity/ associate				
PetroChina Beijing Gas*	Natural gas transmission fee expenses	*(vii)*	**4,289,601**	3,458,658

γ These related party transactions also constitute continuing connected transactions that are exempted from the reporting, announcement and independent shareholders' approval requirements as defined in Chapter 14A of the Listing Rules.

\# These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

α This related party transaction, together with the related party transaction as detailed in note 46(a)(ii), also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

* Became an associate in December 2011.

52. RELATED PARTY DISCLOSURES (Continued)

(a) (Continued)

Notes:

(i) The interest expense was charged on the borrowings from the ultimate holding company at a mutually-agreed rate.

(ii) 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.

(iii) 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.

(iv) The comprehensive support service fees paid included the following:

— fees for security and canteen services which were determined based on the annual cost of labour, depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and

— rental expenses, related to the premises occupied and used by Yanjing Brewery as its office, canteen and staff dormitories, which were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.

(v) The land rent expenses were charged at a mutually-agreed amount of RMB1,849,000 (2011: RMB1,849,000) per annum.

(vi) 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 at a rate of 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.

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

(viii) The service fees were determined by reference to the then prevailing market rates and set at prices not higher than the guidance prices set by the PRC government.

(ix) The construction contract fee was mutually agreed between two parties.

(x) The purchase prices of goods and the building rentals were determined by reference to the then prevailing market rates.

(xi) The selling prices of goods were determined on a cost-plus basis.

52. RELATED PARTY DISCLOSURES (Continued)

(b) Outstanding balances with related parties

(i) Details of the Group's balances with related parties included in trade and bills receivables, deposits and other debtors, and trade and bills payables and other payables and accruals are disclosed in notes 28(a), 29(a), 44 and 45 to the financial statements, respectively.

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

(iii) Details of the guarantees given by related parties in respect of the Group's bank and other borrowings are disclosed in note 37(c) to the financial statements.

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

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

(d) Compensation of key management personnel of the Group

	2012	2011
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind*	**22,884**	24,524
Pension scheme contributions	**21**	19
Total compensation paid to key management personnel	**22,905**	24,543

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

* The amount included salaries, allowances and benefits in kind of HK$3,975,000 (2011: HK$3,596,000) paid to senior management.

53. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain equity investments and the conversion option of the Yanjing Brewery Convertible Bonds being classified as available-for-sale investments and a financial liability at fair value through profit or loss, respectively, as disclosed in notes 24 and 39 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2012 and 2011 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other loans, the Guaranteed Senior Notes, convertible bonds and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, deposits and other receivables, trade and bills payables, other payables and accruals and amounts due from/to holding companies, fellow subsidiaries, an associate and related parties.

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

Interest rate risk

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

Banks loans, the Guaranteed Senior Notes, convertible bonds, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the income statement as earned/incurred.

54. 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 2012

	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	**60,953**	**–**	**–**	**–**	**–**	**–**	**60,953**	**0.35**
Cash and cash equivalents	**5,413,915**	**–**	**–**	**–**	**–**	**–**	**5,413,915**	**0.35**
Bank and other borrowings	**(5,545,157)**	**(312,935)**	**(3,097,092)**	**(127,750)**	**(117,873)**	**(366,860)**	**(9,567,667)**	**4.62**
Fixed rate:								
Cash and cash equivalents	**6,823,049**	**–**	**–**	**–**	**–**	**–**	**6,823,049**	**3.12**
Bank and other borrowings	**(696,409)**	**(28,917)**	**(28,880)**	**(856)**	**(856)**	**(6,483)**	**(762,401)**	**5.16**
Convertible bonds	**–**	**(2,165,206)**	**(94,107)**	**–**	**–**	**–**	**(2,259,313)**	**0.97**
Guaranteed Senior Notes	**–**	**–**	**–**	**–**	**–**	**(13,853,502)**	**(13,853,502)**	**5.08**

At 31 December 2011

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

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

At 31 December 2012, it was 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$22,698,000 (2011: HK$38,507,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for 2011.

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 the RMB/HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase (decrease) in profit before tax *HK$'000*	**Increase/ (decrease) in equity** *HK$'000*
2012		
If Hong Kong dollar weakens against RMB by 5%	235,626	2,669,556
If Hong Kong dollar strengthens against RMB by 5%	(235,626)	(2,669,556)
2011		
If Hong Kong dollar weakens against RMB by 5%	224,657	2,256,158
If Hong Kong dollar strengthens against RMB by 5%	(224,657)	(2,256,158)

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.

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

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

Despite the above, the Group is still exposed to credit risk arising from its piped gas operation, brewery operation and sewage and water treatment operations. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on individual customer's past history of making payments when they fall due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Various companies have different credit policies, depending on markets and businesses in which they operate. Aged analyses of trade and bills receivables are prepared and closely monitored in order to minimise any credit risk associated with the receivables. Normally, the Group does not obtain collateral from customers. In respect of amounts due from contract customers for contract work arising from the Group's sewage and water treatment operations, the Group transacts mainly with municipal government in different provinces in the PRC which do not have significant credit risk.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables under service concession arrangements and trade and bills receivables are set out in notes 19 and 28 to the financial statements, respectively.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from jointly-controlled entities and associates, deposits and other receivables and amounts due from holding companies, fellow subsidiaries and related parties, arises from default at the counterparty, with a maximum exposure to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of a financial guarantee, further details of which are disclosed in note 49 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank loans, other loans, the Guaranteed Senior Notes and convertible bonds. In addition, banking facilities have been put in place for contingency purposes.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of short term loans to cover expected cash demands, subject to approval by management of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

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

At 31 December 2012

	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	**-**	**6,439,283**	**302,685**	**3,082,200**	**110,471**	**87,569**	**872,995**	**10,895,203**
Other loans	**-**	**114,652**	**103,170**	**102,146**	**75,395**	**76,801**	**171,634**	**643,798**
Guaranteed Senior Notes	**-**	**707,620**	**707,620**	**707,620**	**707,620**	**707,620**	**21,111,099**	**24,649,199**
Convertible bonds	**-**	**49,496**	**2,200,155**	**61,154**	**-**	**-**	**-**	**2,310,805**
Trade and bills payables	**-**	**2,616,491**	**-**	**-**	**-**	**-**	**-**	**2,616,491**
Accruals and other liabilities	**-**	**6,563,129**	**244,060**	**-**	**-**	**-**	**-**	**6,807,189**
Due to related parties	**264,421**	**-**	**-**	**-**	**-**	**-**	**-**	**264,421**
	264,421	**16,490,671**	**3,557,690**	**3,953,120**	**893,486**	**871,990**	**22,155,728**	**48,187,106**

At 31 December 2011

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

54. 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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets:				
Non-current receivables under service concession arrangements	**505,248**	1,588,046	**505,248**	1,588,046
Non-current prepayments, deposits and other receivables	**479,660**	430,583	**479,660**	430,583
Financial liabilities:				
Non-current bank and other borrowings:				
Floating rate borrowings	**4,022,509**	3,805,251	**4,022,509**	3,805,251
Fixed rate borrowings	**65,994**	123,217	**53,763**	122,658
Interest-free borrowings *(note (ii))*	**136,281**	189,104	**120,600**	192,453
Convertible bonds	**2,268,741**	2,773,618	**2,266,557**	2,785,473
Guaranteed Senior Notes	**13,853,502**	7,699,084	**13,853,502**	7,699,084

Notes:

(i) The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 24 to the financial statements, certain available-for-sale investments of the Group are not stated at fair value but at cost less any accumulated impairment losses because fair values of which cannot be reasonably assessed and therefore, no disclosure of the fair values of these financial instruments is made.

(ii) The balance represented the non-current portion of an interest-free loan of HK$143,117,000 (2011: HK$143,117,000) obtained by the Group from a joint venture partner of a subsidiary and is repayable within 13 years (2011: 14 years) and an interest-free loan of HK$10,587,000 (2011: HK$11,145,000) obtained from an overseas government as further detailed in notes 37(b)(i) and (ii) to the financial statements, respectively.

54. 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 2012 and 2011.

Depending on the market conditions and funding arrangements, if at any time, repurchase of the Company's shares will lead to an enhancement of the net asset value per share and/or earnings per share of the Group, the directors will authorise such transactions.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings and the Guaranteed Senior Notes divided by the sum of total equity, interest-bearing bank borrowings and the Guaranteed Senior Notes. The gearing ratios as at the end of the reporting periods are as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Guaranteed Senior Notes	**13,853,502**	7,699,084
Interest-bearing bank borrowings	**9,926,734**	9,620,804
Total Guarantee Senior Notes and interest-bearing bank borrowings	**23,780,236**	17,319,888
Total equity	**47,639,686**	45,219,980
Total equity and interest-bearing bank borrowings and Guarantee Senior Notes	**71,419,922**	62,539,868
Gearing ratio	**33%**	28%

55. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 31 December 2012 amounted to HK$6,964,771,000 (2011: HK$7,211,311,000) and HK$69,180,636,000 (2011: HK$61,068,766,000), respectively.

56. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the following significant events took place:

(a) As mentioned in note 33 to the financial statements, the Group completed the sale of the following assets to BE Water on 5 February 2013:

(i) the Future Income generated from the Concession Agreement on the water purification and treatment operation of the Phase 1 of the No. 9 Water Plant for the six years ending 31 December 2018;

(ii) the entire equity interest in BE Water (Weifang) which is engaged in a service concession arrangement on water supply in Shandong Province, the PRC; and

(iii) the entire equity interest in BE Water BVI, an investment holding company holding an interest in a jointly-controlled entity which is engaged in a service concession arrangement on water supply in Beijing.

The total consideration of HK$1,066,540,000 in respect of the above disposal transactions was satisfied by way of the issuance of 658,357,748 ordinary shares of BE Water at HK$1.62 per share to BE Environmental, a wholly-owned subsidiary of the Company. The Group's equity interest in BE Water increased from 44.11% to 48.97% immediately after the disposal transactions.

On the other hand, as at the date of the approval of these financial statements, the disposal transaction in respect of the 90% equity interest in BE Water (Hainan) has not been completed.

Further details of the disposal transactions are set out in BE Water's circular and announcement dated 30 November 2012 and 5 February 2013, respectively.

(b) On 28 February 2013, 177,000,000 new ordinary shares of HK$1 each at a price of HK$1.13 per share and convertible bonds due 2018 in an aggregate principal amount of HK$300,580,000 at the initial conversion price of HK$1.13 were issued by Beijing Development to the Group. Upon the completion of the share allotment, the Group holds 54.71% gross equity interest in Beijing Development.

(c) During February and March 2013, a total of 7,000,916 new ordinary shares of the Company were issued as a result of the conversion of certain Guaranteed Convertible Bonds (as defined in note 39(a)) in an aggregate principal amount of HK$304,540,000 at the conversion price of HK$43.5 per share.

57. COMPARATIVE AMOUNTS

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

58. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2013.

FIVE YEAR FINANCIAL SUMMARY
31 December 2012

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 2011, is set out below:

RESULTS

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	19,704,247	24,208,430	27,612,778	30,471,759	**35,569,649**
Operating profit	2,289,768	2,521,232	2,429,459	2,575,122	**2,152,769**
Share of profits and losses of:					
Jointly-controlled entities	912,628	1,092,074	1,168,658	1,300,189	**(343)**
Associates	(146,811)	(7,920)	196,449	373,392	**2,049,495**
Profit before tax	3,055,585	3,605,386	3,794,566	4,248,703	**4,201,921**
Income tax	(359,297)	(558,997)	(684,850)	(583,456)	**(568,953)**
Profit for the year	2,696,288	3,046,389	3,109,716	3,665,247	**3,632,968**
ATTRIBUTABLE TO:					
Shareholders of the Company	2,281,828	2,398,883	2,639,278	2,775,880	**3,270,383**
Non-controlling interests	414,460	647,506	470,438	889,367	**362,585**
	2,696,288	3,046,389	3,109,716	3,665,247	**3,632,968**

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	51,696,742	59,105,310	67,028,794	77,355,433	**89,507,951**
Total liabilities	(15,386,272)	(20,088,309)	(26,092,533)	(32,158,704)	**(41,868,265)**
NET ASSETS	36,310,470	39,017,001	40,936,261	45,196,729	**47,639,686**
Equity attributable to shareholders of the Company	29,631,948	31,305,082	34,267,909	37,609,667	**39,609,465**
Non-controlling interests	6,678,522	7,711,919	6,668,352	7,587,062	**8,030,221**
TOTAL EQUITY	36,310,470	39,017,001	40,936,261	45,196,729	**47,639,686**

北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED