2006 annual report

10th Anniversary 北控十週年

北京控股有限公司 Beijing Enterprises Holdings Limited

CONTENTS

CORPORATE INFORMATION

GENERAL INFORMATION:

Registered Office

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

Website

http://www.behl.com.hk

Stock Code

392

Company Secretary

Mr. Tam Chun Fai *CPA CFA*

Share Registrars

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

DIRECTORS:

Executive Directors

Mr. Yi Xi Qun *(Chairman)*
Mr. Zhang Hong Hai *(Vice Chairman and CEO)*
Mr. Li Fu Cheng *(Vice Chairman)*
Mr. Bai Jin Rong *(Vice Chairman)*
Mr. Liu Kai *(Vice President)*
Mr. Guo Pu Jin
Mr. Zhou Si
Mr. E Meng *(Vice President)*
Mr. Zhao Chang Shan
Mr. Lei Zhen Gang

Independent Non-executive Directors

Mr. Lau Hon Chuen, Ambrose
Dr. Lee Tung Hai, Leo
Mr. Wang Xian Zhang
Mr. Wu Jiesi
Mr. Robert A. Theleen

CORPORATE INFORMATION

PROFESSIONALS:

Auditors

Ernst & Young

Legal Advisers

as to Hong Kong law:
Johnson Stokes & Master

as to PRC law:
Haiwen & Partners

as to US law:
Sullivan & Crommell

PRINCIPAL BANKERS:

In Hong Kong:

Bank of China (Hong Kong) Limited
Bank of Communications, Hong Kong Branch
Calyon, Hong Kong Branch
Hang Seng Bank
Mizuho Corporate Bank Ltd., Hong Kong Branch
Rabobank, Hong Kong Branch

In Mainland China:

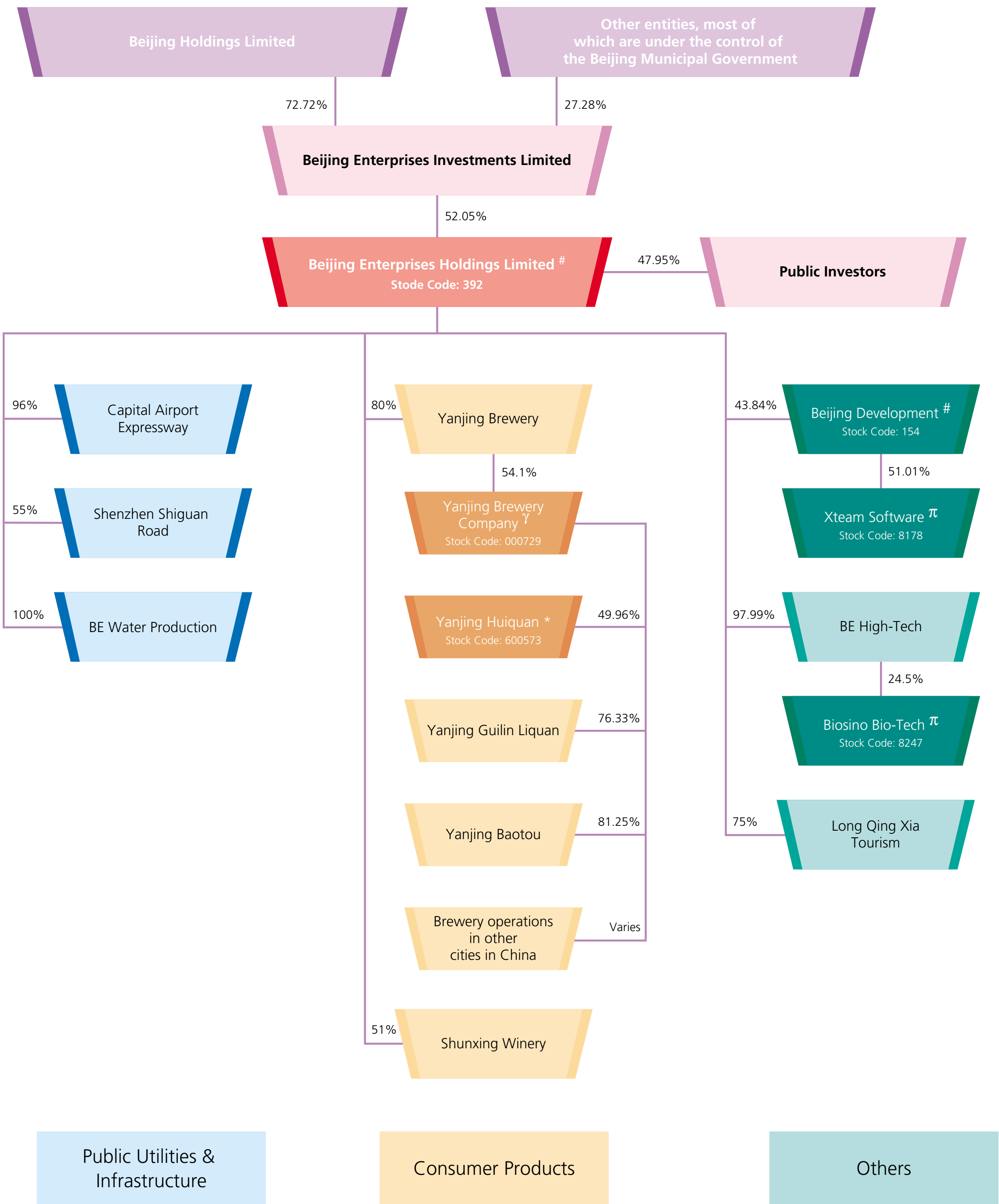
Agricultural Bank of China
Bank of China
China Construction Bank
Guangdong Development Bank
The Industrial and Commercial Bank of China

ADR Depository Bank:

The Bank of New York

CORPORATE STRUCTURE

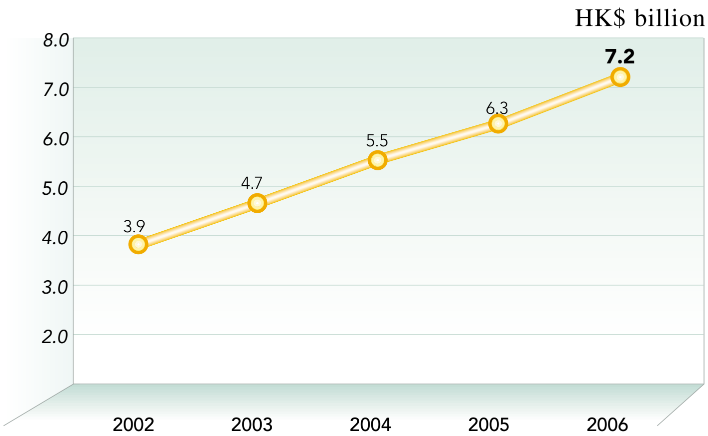
AS AT 3 APRIL 2007



*	*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 "Hong Kong Stock Exchange")*
π	*Listed on The Growth Enterprise Market of the Hong Kong Stock Exchange*

HIGHLIGHTS

Turnover of the continuing operations for the year amounted to HK$7.2 billion, representing an increase of 15.7% over last year.



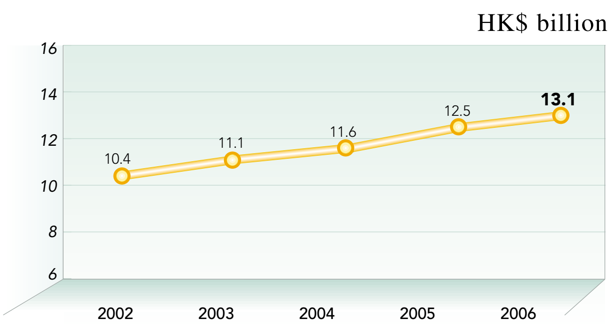
Profit attributable to shareholders of the Company amounted to HK$339 million.

Basic earnings per share amounted to HK$0.54.

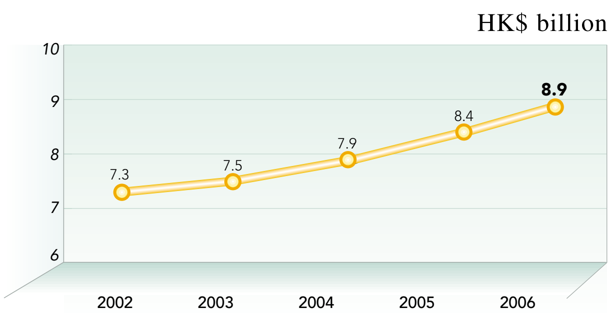
A final dividend of HK20 cents per share is proposed for 2006.

	2006 year end HK$billion	2005 year end HK$billion
Total assets	**17.3**	19.6
Net assets	**13.1**	12.5
Equity attributable to shareholders	**8.9**	8.4

Net Assets



Equity Attributable to Shareholders



CHAIRMAN'S STATEMENT

Yi Xi Qun

I am pleased to announce that Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (the "Group") have recorded turnover of approximately HK$7.25 billion in respect of its continuing operations for the year 2006, representing an increase of 15.7% as compared with 2005. Profit attributable to shareholders was HK$339 million. Basic earnings per share amounted to HK$0.54. The Board of Directors recommended paying a final dividend of HK20 cents per share.

The year 2006 marked an exceptional year for the Company. The Group experienced a temporary recession in its overall results due to the loss of the asset Beijing Yanjing Brewery Co., Ltd. ("Yanjing Brewery") incurred from the implementation of the share reform plan and the stagnant profit margin resulting from the vast maintenance fees of Beijing Capital Airport Expressway.

The Company adopted various corresponding measures to reduce the downward trend of its operating results and achieved moderate success. In particular, the synchronised implementation of share transfer of Beijing Wangfujing Department Store (Group) Co., Ltd. ("Wangfujing") not only eliminated costs generated from the share reform plan, but also partially offset the loss arising from the share reform of Yanjing Brewery with its exceptional gains. However, in order to settle the net cost of HK$258 million for the share reform of Yanjing Brewery attributable to the Company and certain provisions for goodwill and receivables with a one-off payment, the Company recorded a significant reduction in its overall earnings for the year 2006.

The drop in earnings in 2006 was a one-off downward adjustment. Without taking into account the exceptional items, including the HK$258 million exceptional net loss incurred from the share reform plan implemented by Yanjing Brewery and Fujian Yanjing Huiquan Brewery Co., Ltd., the HK$56.8 million vast maintenance fees of Beijing Capital Airport Expressway, and the intangible costs required to be amortised in accordance with the new accounting standards upon the launch of share option scheme for its employees, the net operating profit attributable to the Company in 2006 was HK$620 million, representing a continuous increase. The performance of the Company's existing businesses, such as water treatment and highways in particular, remained steady.

Concentrating on disposing various non-core businesses and low efficiency assets in the recent two years, the Group generated a cash inflow of approximately HK$1.48 billion. Under the current satisfactory financial position of the Group, the net cash position of its balance sheet, together with a net cash of approximately HK$2.77 billion held as at the balance sheet date, the launch of its new investment and acquisition activities in the core business was sufficiently funded.

CHAIRMAN'S STATEMENT

The management of the Company has fully deployed for the core tasks for the year 2007, the key points of which are summarised as follows:

Firstly, the Company will persist in the development targets of "establishing itself as a utilities conglomerate with urban energy services as its core business, and becoming the investment platform for the utilities sector of Beijing in the international capital market". With emphasis on its major operating business as its development principle, the Company will realise its strategic transition objective in accordance with its plans.

Secondly, we will continue to divest ourselves of non-core businesses and low-efficiency assets, and further concentrate on using resources efficiently by focusing on energy resources and infrastructure projects such as gas, toll roads and water treatment. The Company will promote investment activities in order to expand the scope of its core business.

Thirdly, we will strengthen the standardised planning and coordination of assets and business development within our management framework to further centralise our control and allocation of internal resources to fortify synergies between different units of operation. Business lines which can facilitate brand recognition will be the highlight of development. Aside from consolidating our profit bases, we will also enhance overall quality of asset and competitiveness and endeavour to maintain the stability and continuity of our business growth.

Fourthly, we will reinforce and improve investor relations, enhance our interaction with the capital market, and strive to build up a more open and proactive market image.

The year 2007 marks the tenth year since the company has been listed and is thus a significant year to promote the realisation of the Group's strategic reform. In the previous two years, we have launched and continue to carry out strategic reform. By positioning as "a utilities conglomerate with urban energy services as its core business", the Company started to dispose, integrate and gradually divest itself of non-core assets of the existing business, focusing on investments in the projects related to its competitive edges, such as gas, toll roads and water treatment. With its endeavours over the past few years, the bases of the principal businesses of the Company have been consolidated and the business lines gradually streamlined.

I would like to express my heartfelt gratitude to all members from our constituencies for their dedication and support in the past year!

Chairman

Hong Kong
3 April 2007

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Infrastructure and Public Utilities

The traffic volume of Beijing Capital Airport Expressway ("Airport Expressway") achieved a new record high of 50.96 million vehicles in 2006, average daily traffic flow of the year 2006 reached 140,000 vehicles which exceeded the designed capacity of 135,000 vehicles. If there is no expansion of Airport Expressway and increase of lanes using auto pass card (速通卡), growth of traffic volume will be constrained. The Northern Extension of the Airport Expressway (機場北線) is under trial run while its terms of operation are still pending for confirmation. In 2006, net profit attributable to the Group from Airport Expressway amounted to HK$208 million, almost the same as 2005. It was mainly due to the offset by a major overhaul and the write-off of the related fixed assets of amount over HK$56.80 million.

The traffic volume of Shenzhen Shiguan Road ("Shiguan Road") decreased by 2.6% to 9.80 million vehicles in 2006 when compared with 2005, which was mainly due to the continuous extension and completion of the road network in Baoan, Shenzhen as a result of the diversion of vehicles. In 2006, net profit attributable to the Group decreased by 8.44% to HK$19.09 million as compared with 2005.

In 2006, net profit attributable to the Group from water treatment concession increased 2.85% to approximately HK$132 million as compared with 2005. The cash return from this water treatment concession remained a major source of cash income of the Group.

Consumer Products

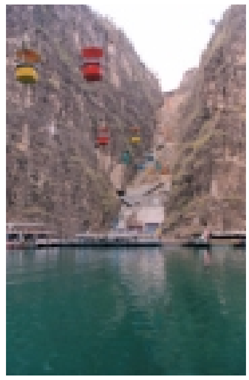
The sales volume of Beijing Yanjing Brewery Co., Ltd. ("Yanjing Brewery") increased from 3.13 million tons from 2005 to 3.57 million tons in 2006. The revenue also increased from HK$4.556 billion in 2005 to HK$5.477 billion in 2006. Currently, Yanjing Brewery has a market share of about 85% in Beijing and about 12% on nationwide basis. Net profit attributable to the Group of brewery operations decreased 22.89% to HK$103 million in 2006 when compared with 2005, which was mainly due to the dilution of the Group's interest in Beijing Yanjing Brewery Joint Stock Company Limited ("Beijing Yanjing") after the share reform of Beijing Yanjing of which the amount of HK$27 million has affected to the Group's attributable profit. Yanjing Brewery has successfully developed the premium beer market sector, the profit margin remained steady mainly due to the measures of effective cost control and adjusted products structure to enhance the revenue.

BUSINESS REVIEW *(continued)*

In addition, the cost of share reform of both Beijing Yanjing and its subsidiary Fujian Yanjing Huiquan Brewery Joint Stock Company Limited ("Yanjing Huiquan") offset against the gain due to investors fully conversion in shares of convertible bonds of Beijing Yanjing which generated an aggregate one-off net exceptional loss attributable to the Group of approximately HK$258 million.

Retail and Tourism Services

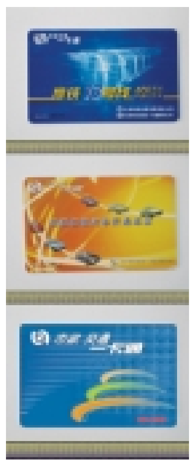
In 2006, the revenue of Wangfujing Department Stores (Group) Company Limited ("Wangfujing Department Stores") continued to increase significantly by about 33.5% to HK$6.323 billion compared with 2005. Profit attributable to the Group before disposal was HK$97 million.



The Group entered into a conditional sale and purchase agreement on 31 March 2006 to dispose the Group's entire 50.13% controlling interests in Wangfujing Department Stores. The transaction was completed in December 2006, when the Group completely ceased the retail service business.

For tourism business, as operating strategies was changed in line with the Group, this sector is going to be withdrawn entirely. Longqingxia tourism is the only business remained in this sector and its profit for year 2006 was immaterial and has no substantial influence to the Group.

Technology Business



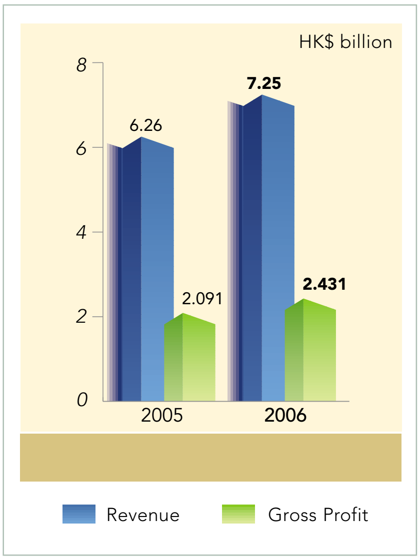
Beijing Development (Hong Kong) Limited is the Group's IT flagship. In 2006, its revenue increased 10.08% to HK$585 million compared with 2005. In 2006, net profit attributable to the Group was turnaround from loss to profit of approximately HK$6.74 million.

Ever Source Science & Technology Development Co., Limited ("Ever Source") engages in development and implementation of surface earth thermal energy. After five years development, surface earth thermal energy is widely used in building located in different geo-logical conditions and regions for various applications. At present, its products for surface earth thermal energy are under the protection of proprietary intellectual property rights and are standardised for production in large scale. Since 2005, Ever Source has been establishing regional energy service companies as franchised operations to promote the use of surface earth thermal energy as a top priority alternative energy resource in strategic way. Ever Source is transformed from project subcontractor to product supplier and technology service provider based on its integrated technology platform. As early stage of the adjustment of its operation model, the revenue of Ever Source was dropped. In 2005, net operating loss attributable to the Group by Ever Source amounted to approximately HK$30 million. Given the result of implementation as the strategy of using surface earth thermal energy as alternative energy was obvious, its business is expected to improve in the near future. In order to minimise the effect to the Group during the period of business adjustment, Ever Source has subcontracted the operation in 2006 and the Group no longer consolidated its operating results.

FINANCIAL REVIEW

Revenue

Revenue of the Group's continuing operations were approximately HK$7.25 billion in 2006 which increased by 15.7% compared with HK$6.26 billion in 2005. The growth was mainly driven by strong increase in sales recorded from the brewery operations other than Beijing in PRC and commencement of new brewery operations in Hebei and Shenyang by Yanjing Brewery.



Cost of sales

Cost of sales of the Group's continuing operations were approximately HK$4.815 billion in 2006 which increased by 15.4% compared with HK$4.172 billion in 2005. Increase in cost of sales of the Group was in line with the increase in revenue.

Gross profit

Gross profit of the Group's continuing operations in 2006 amounted to HK$2.431 billion which increased by HK$340 million compared with HK$2.091 billion in 2005. Overall gross profit margin was 33.6%, representing a slight improve compared with 33.4% in 2005.

Selling and distribution costs

Selling and distribution costs of the Group's continuing operations in 2006 were approximately HK$835 million which increased by HK$182 million compared with HK$653 million in 2005. It was mainly due to the commencement of new brewery operations in Hebei and Shenyang and the expansion of production capacity in certain brewery operations other than Beijing in PRC by Yanjing Brewery.

Administrative expenses

Administrative expenses of the Group's continuing operations in 2006 amounted to HK$858 million, increased by HK$146 million comparing to HK$712 million in 2005. It was mainly due to the expansion of production capacity in certain brewery operations other than Beijing in PRC and establishment of new brewery operations in Hebei and Shenyang by Yanjing Brewery.

Finance costs

Finance costs of the Group's continuing operations for the year 2006 amounted to HK$104 million which decreased by 20.9% compared to HK$131 million in 2005, it was mainly due to the full repayment of the outstanding syndicated loan at the beginning of 2006.

FINANCIAL REVIEW *(continued)*

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

The Group's share of profit of associates significantly increased by HK$40.55 million in 2006. It was mainly due to the exceptional gain from disposal of land by BMEI Co., Ltd. (北京機電院高技術股份有限公司). In addition, share of profit of jointly-controlled entities amounted to HK$0.69 million in 2006 which represented a turnaround from loss to profit as compared with the last year.

Tax

Tax expenditure of the Group's continuing operations rose from HK$137 million in 2005 to HK$170 million in 2006 which increased by 24.1%. After deducting non-taxable items of exceptional gains and losses, effective income tax rate of the Group slightly decreased from 22.4% in 2005 to 21.5% in 2006.

Net exceptional losses

During the year, the subsidiaries of the Group, Beijing Yanjing and Yanjing Huiquan, completed their share reform plans. The Group shared compensation to the A shares shareholders in the PRC of the aforementioned subsidiaries directly or indirectly resulting in a one-off exceptional loss of HK$486 million. At the same time, a one-off exceptional gain of HK$141 million was also recorded after investors had fully exercised the convertible bonds of Beijing Yanjing. After offset by the above two factors, the net loss attributable to the Group was approximately HK$258 million. In addition, the Group has completed the sale of equity interests in Wangfujing Department Stores at the end of the year and derived an exceptional gain of HK$142 million. The Group also made a one-off provision of HK$173 million for Siemens Communication Networks Ltd., Beijing, certain goodwill and receivables. In conclusion of the above, the Group had a total net exceptional loss of HK$289 million in 2006.

Profit for the year

As a result of the above factors, net profit for the year of the Group dropped significantly by HK$106 million from HK$715 million in 2005 to HK$608 million in 2006, representing a decrease of 14.9%.

Liquidity and Capital Resources

Up till now, the Company's working capital was mainly derived from cash of the Group's brewery, toll roads and water treatment operations as well as bank borrowings.

As at 31 December 2006, net current assets of the Group was HK$2.909 billion. Current assets mainly comprised cash, trade and bills receivables, inventories and other receivables. The Group's ratio of provision for bad debts of trade and bills receivables and inventories were extremely low in the past, which represents the strong cash-generating ability of its assets. Current liabilities mainly comprised trade and bills payables, other payables and short-term loans. The Group's trade and bills receivables, other receivables, trade and bills payables and other payables are mainly denominated in Renminbi. Due to the gradual and steady appreciation in Renminbi against Hong Kong dollars, the Group will record exchange gains when translate the net assets of subsidiaries.

FINANCIAL REVIEW *(continued)*

Cash and Cashflow

Currently, the Group's beers operation, toll roads and water treatment business generate large amount of cash flow annually. Disposal of non-core assets in 2006 also brought us a cash flow of over HK$1.0 billion.

The Group mainly uses its cash for purchasing additional production facilities and equipment for its brewery operation, repayment of loans and general working capital expenditure. As refer to the consolidated cashflow statement, cash and cash equivalents of the Company amounted to HK$2.77 billion as at 31 December 2006.

With solid and strong business backgrounds with stable operations, the Group is granted over HK$500 million banking facilities from related banks for working capital to support any ad-hoc operational needs.

For the year 2006, the Group has utilised an aggregate sum of HK$1.52 billion for investment in additional production facilities and equipments. In 2006, the Group paid back net bank and other borrowings an aggregate sum of approximately HK$640 million.

DEBTS

As at 31 December 2006, the Group's outstanding bank and other borrowing was HK$1.901 billion, decreased significantly by HK$977 million compared with 2005. Outstanding amount with repayment terms less than one year amounts to HK$1.3 billion. Renminbi denominated loans are equivalent to HK$1.66 billion while the remaining loans are Hong Kong dollars denominated. As over 90% of the Group's income is settled by Renminbi, therefore, Renminbi denominated loans will not be exposed to exchange risk.

CAPITAL EXPENSES AND CONTINGENT LIABILITIES

As at 31 December 2006, the Group's committed capital expenditure amounted to HK$222 million, contingent liabilities amounted to HK$418 million.

PROSPECTS AND STRATEGIES

The Group has completed the disposal of controlling interests in Wangfujing Department Stores, the business and assets structure has become more simple and clear as compared with before. In the future, the Group will put emphasis on investing and operating of infrastructure and public utilities, with consumer products business which mainly on beer operation as side segment, aiming to become a limited conglomerate corporation focus on urban utilities and infrastructure business.

EXECUTIVE DIRECTORS

Mr. YI Xi Qun, aged 59, is the Chairman of the Company and Beijing Holdings Limited. He graduated from Beijing Chemical Institute in 1975 and later obtained a postgraduate degree in economics and management engineering from Tsinghua University. From 1986 to 1987, Mr. Yi was in charge of the Beijing Municipal Government Economic Structure Reform Committee and from 1987 to 1991, he served as the Chief Executive Officer of Xicheng District of Beijing. Since 1991, Mr. Yi has been an assistant to the Mayor of Beijing as well as Director of the Economic and Foreign Trade Commission of Beijing Municipality and the Management Committee of the Beijing Economic and Technology Development Zone. Mr. Yi has in-depth knowledge and a wealth of experience in macroeconomic and microeconomic management. Mr. Yi joined the Group in December 1999.

Mr. ZHANG Hong Hai, aged 54, is a Vice Chairman and the Chief Executive Officer of the Company. Mr. Zhang graduated from Beijing University in 1982 and subsequently obtained a postgraduate qualification in business studies at the International Business School of Hunan University and was awarded the title of Senior Economist. 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. He also served as Vice President of the Beijing Chinese Overseas Friendship Association. Mr. Zhang initially worked as Deputy General Manager and was then promoted to Vice Chairman and General Manager of Beijing International Trust Investment Limited during the period from 1990 to 1998, and has accumulated extensive experience in corporate management. Mr. Zhang joined the Group in December 2003.

Mr. LI Fu Cheng, aged 52, is a Vice Chairman of the Company. Since 1983, he has held the posts of Deputy Secretary and Secretary of the Yanjing Brewing Factory, and then the Chairman and General Manager of the Yanjing Group. Mr. Li has many years of experience in the brewery industry. Mr. Li joined the Group in April 1997.

Mr. BAI Jin Rong, aged 56, is a Vice Chairman of the Company. He is also the Vice Board Chairman and General Manager of Beijing Enterprises Group Holdings Company Limited and Chairman of Beijing Gas Group Co., Ltd. Mr. Bai graduated from Beijing Normal University in 1985 and had worked as the Deputy Director and Director of the Policy Research Office of Beijing Chemical Industry Group, the Deputy Director of the Beijing Economic Structure Reforms Committee, the Executive Director and Executive Vice President of the Company, the Deputy Director of Beijing State-owned Assets Supervision and Administration Commission. Mr. Bai has many years of experience in economics, finance and enterprise management. Mr. Bai rejoined the Group in June 2005.

Mr. GUO Ying Ming, aged 63, was an Executive Director of the Company. He graduated from the Beijing Foreign Trade Institute in 1967. Since February 1989, he has served as General Manager, Vice Chairman and Chairman of Beijing Holdings Limited. Prior to that, from 1985 to 1988, he held the posts of Chairman and General Manager of China Resource Products (U.S.A.) Limited, the strategic investment company of the Beijing Municipal Government in the USA. He has extensive experience in international economics, foreign trade and enterprise management. From April 1997 to February 2000, Mr. Guo was the Vice Chairman and President of the Company. Mr. Guo rejoined the Group in December 2002 and resigned in June 2006.

EXECUTIVE DIRECTORS *(continued)*

Mr. LIU Kai, aged 53, is an Executive Director and a Vice President of the Company. Mr. Liu is responsible for the general management of Beijing Enterprises Holdings Investment Management Co., Ltd. He graduated from Tsinghua University with a bachelor's degree in mechanical engineering in 1979, and later obtained a postgraduate degree in domestic economics and management from the State Administration Institute. Prior to joining the Company, Mr. Liu served as a Senior Executive of the Beijing Transportation Bureau and the Beijing Transportation Corporation. Mr. Liu has many years of experience in economics and management. Mr. Liu joined the Group in January 2001.

Mr. ZHENG Wan He, aged 54, was an Executive Director of the Company. Mr. Zheng graduated from the Beijing Economic Institute in 1982. Since November 1984, he has held various posts within Wangfujing Group including the Deputy General Manager of Beijing Wangfujing Department Store and later the Vice Chairman and General Manager of Beijing Wangfujing Department Store (Group) Co., Ltd. He has many years of experience in economics, retail business and enterprise management. Mr. Zheng is presently the Vice Chairman of China Department Stores Association and China Chain Stores Association and an executive member of China United Commerce Association. Mr. Zheng joined the Group in April 1997 and resigned in January 2007.

Mr. GUO Pu Jin, aged 53, is an 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 Company Limited. Mr. Guo has many years of experience in government affairs and corporate management in China. Mr. Guo joined the Group in April 2004.

Mr. ZHOU Si, aged 50, is an Executive Director of the Company. He is also the Deputy General Manager of Beijing Enterprises Group Holdings Company Limited. Mr. Zhou graduated from Beijing Normal University in 1978 and Tsinghua University in 1998. From 1984 to 2003, he was the Chief Officer of the General Planning Division and subsequently the Head and Deputy Director of the Planning Division of Beijing Municipal Management Commission. Since 2003, he has been the Managing Director of Beijing Gas Group Co., Ltd. He has extensive experience in economics, finance and enterprise management. Mr. Zhou joined the Group in June 2005.

Mr. E Meng, aged 48, is an Executive Director and a Vice President of the Company. Mr. E graduated from China Science and Technology University with a master's degree in engineering. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the Deputy Director of Beijing New Technology Development Zone and concurrently acting as the Director of the Department of Financial Auditing, the General Manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the Deputy Director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E has extensive experience in economics, finance and enterprise management. Mr. E joined the Group in November 1997.

Mr. ZHAO Chang Shan, aged 42, a master degree holder in economics and senior engineer, is an Executive Director of the Company. Since November 2003, he has been the Vice Board Chairman and General Manager of Beijing Holdings Limited, the holding company of the Company. Mr. Zhao graduated from the Engineering Faculty of Wuhan University of Science and Technology in 1986 and from 1998 to 2000 he studied for a MBA degree at Guanghua School of Management, Beijing University. He has obtained extensive experience of civil work, economics and corporate management through his work with Wuhan Iron and Steel (Group) Corporation, The Ministry of Metallurgical Industry, Beijing Municipal Government as well as Xuanwu District Government in Beijing. Mr. Zhao joined the Group in June 2006.

EXECUTIVE DIRECTORS *(continued)*

Mr. LEI Zhen Gang, aged 53, a PRC senior accountant, is an Executive Director of the Company and also the Vice General Manager and Chief Financial Controller of Beijing Enterprises Group Holdings Company Limited. Mr. Lei obtained a postgraduate qualification from the Capital University of Economics and Business and has extensive experience of corporate finance and management through his work with Beijing Light Industrial Corporation as the Chief Accountant and Beijing Holdings Limited as the Vice General Manager and Chief Financial Controller. Mr. Lei joined the Group in June 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAU Hon Chuen, Ambrose, aged 59, holds a bachelor of law degree from the University of London and is a Solicitor of the Supreme Court of Hong Kong, a China-Appointed Attesting Officer and a Notary Public. Mr. Lau is also a member of the National Committee of the Chinese People's Political Consultative Conference and the Selection Committee For the First Government of the Hong Kong Special Administrative Region ("HKSAR") and a Non-official Justice of the Peace. He was the President of the Law Society of Hong Kong from 1992 to 1993. Mr. Lau was a member of the Preparatory Committee for the HKSAR and the Legislative Council of Hong Kong. Mr. Lau joined the Group in April 1997.

Dr. LEE Tung Hai, Leo, *GBS, LLD, JP*, aged 85, is the Chairman of Tung Tai Group of Companies and an independent non-executive director or a non-executive director of several publicly listed companies in Hong Kong. He is a member of a number of public services committees and heads many social service organisations, including as an Adviser of the Advisory Board of Tung Wah Group of Hospitals, Chairman of Association of Chairmen of the Tung Wah Group of Hospitals, Chairman of Friends of Hong Kong Association and Vice President of China Overseas Friendship Association. He served as a Standing Committee member of the eighth and ninth Chinese People's Political Consultative Conference National Committee; an Adviser on Hong Kong Affairs to the Hong Kong & Macau Affairs Office of the State Council and Xinhua News Agency, Hong Kong Branch; a member of the Preparatory Committee for the Hong Kong Special Administrative Region; and a member of the Selection Committee of the First Government of the Hong Kong Special Administrative Region. Dr Lee has been honoured with awards by different governments, including Cavaliere di Gran Croce of Italy, O.B.E. of Great Britain, Chevalier Legion d'Honneur of France, Commandeur de I'Ordre de Leopold II of Belgium and Gold Bauhinia Star of the Hong Kong Special Administrative Region Government of the People's Republic of China. Dr. Lee has extensive experience in business management. Dr. Lee joined the Group in April 1997.

Mr. WANG Xian Zhang, aged 64, graduated from the Northeast Finance & Economics University, China in 1965. He has been involved in the insurance industry since 1970, and was Chairman of the Board and President of China Life Insurance Company Limited, Vice Chairman and Vice President of The People's Insurance Company of China, Vice Chairman and President of China Insurance H.K. (Holdings) Company Limited, Chairman of The Ming An Insurance Company (Hong Kong), Limited, Chairman of China Reinsurance Company (Hong Kong) Limited, a Director of several financial institutions such as Bank of China, CITIC Ka Wah Bank Limited, Top Glory Insurance Co. (Bermuda) Ltd. Mr. Wang is now President of the Insurance Association of China and Vice President of the Insurance Institute of China. Mr. Wang joined the Group in April 1997.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

Mr. WU Jiesi, aged 55, holds a doctorate degree in Economics. 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. At present, he is the managing director and chief executive officer of Hopson Development Holdings Limited, an independent non-executive director of China Insurance International Holdings Company Limited, a non-executive director of China Water Affairs Group Limited and an independent director of China Merchants Bank Co., Ltd. He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

Mr. Robert A. THELEEN, aged 61, is the Chairman, founder and Co-Chief Executive Officer of China Vest, Ltd., a Shanghai-based Merchant Bank. Mr. Theleen was a pioneer in the private equity investment industry in China where, in 1982, he launched one of the first venture capital funds investing in China. Mr. Theleen is also a Trustee of the Asia Foundation and an active member of the business community in Shanghai where he resides. He was educated at Duquesne University and at the American School of Management in the United States where he obtained his master's degree in business administration in 1970. He is also a member of the Advisory Board of the Hopkins-Nanjing Center in Nanjing, China. Mr. Theleen joined the Group in July 2004.

SENIOR MANAGEMENT

Mr. JIANG Xin Hao, aged 42, is a Vice President of the Company. Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, and then in 1992 with a master's degree in law. Mr. Jiang was a lecturer at Beijing University between 1992 and 1995. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Vice President of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a Manager of the investment development department of Beijing Holdings Limited and a General Manager of Beijing BHL Investment Center between May 2000 and February 2005. He served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. Mr. Jiang has many years of experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

Mr. TAM Chun Fai Jimmy, aged 45, is the Financial Controller and the Company Secretary of the Company. 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.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2006.

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. During the year, the Group withdrew from the retail operation and property construction and development operation that were operated by Beijing Wangfujing Department Store (Group) Co., Ltd. ("Wangfujing"), further details of which are included in note 12 to the financial statements. There were no other significant changes 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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 158.

An interim dividend of HK$0.10 per ordinary share was paid on 9 November 2006. The directors recommend the payment of a final dividend of HK$0.20 per ordinary share in respect of the year to shareholders on the register of members on 21 June 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

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 restated and reclassified as appropriate, is set out on pages 159 to 160. 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 16 and 17 to the financial statements, respectively.

SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the share options of the Company and the Group and the Group's convertible bonds during the year, together with the reasons therefor, are set out in notes 36 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 purchased, redeemed or sold 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 37(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, 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$619,665,000, of which HK$124,500,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$4,839,497,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Yi Xi Qun *(Chairman)*	
Mr. Zhang Hong Hai *(Vice Chairman and Chief Executive Officer)*	
Mr. Li Fu Cheng *(Vice Chairman)*	
Mr. Bai Jin Rong *(Vice Chairman)*	
Mr. Guo Ying Ming	(resigned on 27 June 2006)
Mr. Liu Kai *(Vice President)*	
Mr. Zheng Wan He	
Mr. Guo Pu Jin	
Mr. Zhou Si	
Mr. E Meng *(Vice President)*	
Mr. Zhao Chang Shan	(appointed on 27 June 2006)
Mr. Lei Zhen Gang	(appointed on 27 June 2006)

Independent non-executive directors:

Mr. Lau Hon Chuen, Ambrose
Dr. Lee Tung Hai, Leo
Mr. Wang Xian Zhang
Mr. Wu Jiesi
Mr. Robert A. Theleen

Subsequent to the balance sheet date, on 5 January 2007, Mr. Zheng Wan He resigned as a director of the Company.

REPORT OF THE DIRECTORS

DIRECTORS *(continued)*

In accordance with articles 96 and 105(A) of the Company's articles of association and the recommendation of the board of directors, Messrs. Li Fu Cheng, Lau Hon Chuen, Ambrose, Liu Kai, Wu Jiesi, Zhao Chang Shan and Lei Zhen Gang 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 five independent directors of the Company, 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 of the Company and the senior management of the Group are set out on pages 13 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Yi Xi Qun has a service contract with the Company for a term of five years commencing on 1 June 2003 with an unexpired period of approximately 17 months as at 31 December 2006. This service contract, which was entered into before 1 February 2004, is exempt from the shareholders' approval requirement under Rule 13.68 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which has taken effect since 1 February 2004.

Each of Messrs. Zhang Hong Hai, Liu Kai and E Meng has a service contract with the Company for a term of three years commencing on 3 December 2006, 16 January 2007 and 17 June 2005, respectively, with respective unexpired periods of approximately 32 months, 33 months and 15 months as at the date of this report.

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on pages 24 to 27 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 2006, the interests and short positions of the directors and the chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

Long positions in underlying shares of the Company and its associated corporations:

The interests of the directors in the share options of the Company and Beijing Development (Hong Kong) Limited ("Beijing Development", a company which ceased to be a subsidiary of the Company and became an associate of the Company in December 2006) are separately disclosed in note 36 to the financial statements.

Long positions in shares of associated corporations:

Name of directors	Name of associated corporation	Number of ordinary shares held	Percentage of the associated corporation's issued share capital
Mr. Li Fu Cheng	Beijing Yanjing Brewery Company Limited ("Yanjing Brewery") @	38,898#	0.0035%
Mr. E Meng	Beijing Development@*	901,000#	0.1433%

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

* This corporation ceased to be a subsidiary of the Company and became an associate of the Company in December 2006.

All interests are directly beneficially owned by the directors.

Save as disclosed above, as at 31 December 2006, none of the directors or the chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR CONVERTIBLE BONDS

Pursuant to the share reform plan implemented by Yanjing Brewery during the year, Mr. Li Fu Cheng, a director of the Company, received 8,270 shares of Yanjing Brewery as compensation based upon the 30,628 shares of Yanjing Brewery that he owned prior to the completion of the share reform plan of Yanjing Brewery.

Apart from the foregoing and save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 36 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

At 31 December 2006, 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	16.07%
Beijing Enterprises Investments Limited ("BEIL")	223,950,000	100,050,000 (a)	324,000,000	52.05%
Beijing Holdings Limited ("BHL")	–	324,000,000 (b)	324,000,000	52.05%
Deutsche Bank Aktiengesellschaft	64,744,500	40,737,480 (c)	105,481,980	16.94%
JP Morgan Chase & Co.	1,000	31,211,923 (d)	31,212,923	5.01%
Merrill Lynch & Co., Inc.	–	43,607,435 (e)	43,607,435	7.01%
T. Rowe Price Associates, Inc and its affiliates	–	37,838,000 (f)	37,838,000	6.08%

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

Notes:

(a) The interest disclosed includes the shares owned by Modern Orient Limited. Modern Orient Limited is held directly as to 100% by 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 indirectly as to 72.72% by BHL. Accordingly, BHL is deemed to be interested in the shares owned by BEIL and Modern Orient Limited.

(c) The interest disclosed includes 5,434,000 shares held as an investment manager and 35,303,480 shares held as a person having a security interest in the shares.

(d) The interest disclosed includes 2,562,000 shares held as an investment manager and 28,649,923 shares held as a custodian corporation/approved lending agent.

(e) The interest disclosed is held through corporations controlled by Merrill Lynch & Co., Inc.

(f) The interest disclosed is held as an investment manager.

Short 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**
BEIL	60,000,000	–	60,000,000	9.64%
BHL	–	60,000,000(a)	60,000,000	9.64%
Deutsche Bank Aktiengesellschaft	341,000	25,136,275(b)	25,477,275	4.09%

Notes:

(a) The interest disclosed includes the shares owned by BEIL. BHL, the holding company of BEIL, is deemed to be interested in the shares owned by BEIL.

(b) The interest disclosed is held for a person having a security interest in the shares.

Lending pool:

Name	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
JP Morgan Chase & Co.	28,649,923	4.60%

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in notes 31 and 53 to the financial statements.

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

EVENTS AFTER THE BALANCE SHEET DATE

Details of the significant events after the balance sheet date of the Group are set out in note 54 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

ON BEHALF OF THE BOARD

Chairman

Hong Kong
3 April 2007

CORPORATE GOVERNANCE REPORT

GENERAL

Saved as disclosed below, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2006.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company (the "Directors"). All the members of the board of Directors (the "Board") have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2006. The Model Code also applies to other specified senior management of the Company.

BOARD OF DIRECTORS

Composition and role

The Board comprises of ten Executive Directors and five Independent Non-executive Directors. The principal focus of the Board is on the overall strategic development of the Group, while the management is principally responsible for the Group's business operations. The Board also monitors the financial performance and the internal controls of the Group's business operations.

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

During the year, three Board meetings were held. This deviates from code provision A.1.1. The Directors consider it is more efficient to hold Board meetings to address emerging issues as appropriate. Sufficient measures have been taken to ensure that there is efficient communication among the Directors.

BOARD OF DIRECTORS *(continued)*

The individual attendance of each director is set out below:

Name of Director	Board Meetings
Mr. Yi Xi Qun	3/3
Mr. Zhang Hong Hai	3/3
Mr. Li Fu Cheng	3/3
Mr. Bai Jin Rong	3/3
Mr. Guo Ying Ming (resigned on 27 June 2006)	1/1
Mr. Liu Kai	3/3
Mr. Zheng Wan He (resigned on 5 January 2007)	3/3
Mr. Guo Pu Jin	3/3
Mr. Zhou Si	2/3
Mr. E Meng	3/3
Mr. Zhao Chang Shan* (appointed on 27 June 2006)	2/2
Mr. Lei Zhen Gang* (appointed on 27 June 2006)	1/2
Mr. Lau Hon Chuen, Ambrose	2/2
Dr. Lee Tung Hai, Leo	2/2
Mr. Wang Xian Zhang	2/2
Mr. Wu Jiesi	1/2
Mr. Robert A. Theleen	1/2

* These Directors were appointed during the second half of the year 2006 and accordingly were only entitled to attend two Board meetings during the year ended 31 December 2006.

Chairman and Chief Executive Officer

The chairman of the Company is Mr. Yi Xi Qun and the chief executive officer of the Company is Mr. Zhang Hong Hai. The Company has complied with code provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Non-executive Directors

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

REMUNERATION COMMITTEE

The Remuneration Committee was established in 2006 and the current members include:

Mr. Wu Jiesi – Committee Chairman
Dr. Lee Tung Hai, Leo
Mr. Liu Kai

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

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

COMPENSATION POLICY

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

AUDITORS' REMUNERATION

For the year ended 31 December 2006, the auditors of the Company only provided audit services to the Company.

AUDIT COMMITTEE

The current members of the Audit Committee are:

Dr. Lee Tung Hai, Leo – Committee Chairman
Mr. Wang Xian Zhang
Mr. Wu Jiesi

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 Company has adopted the written terms of reference which describe the authority and duties of the Audit Committee in accordance with code provision C.3.3. A copy of the terms of reference is posted on the Company's website.

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

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the accounts for the year ended 31 December 2006. During the year ended 31 December 2006, two Audit Committee meetings were held and the individual attendance of each member is set out below:

Name of director	Number of meetings attended
Dr. Lee Tung Hai, Leo	2/2
Mr. Wang Xian Zhang	2/2
Mr. Wu Jiesi	2/2

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledged responsibility for reviewing the accounts of the Company prepared by the Executive Board for the year ended 31 December 2006 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 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

During the year under review, the Board has conducted an annual review of the effectiveness of the system of internal control of the Group. The review has covered all material controls, including financial, operational and compliance controls and risk management functions.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

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

We have audited the financial statements of Beijing Enterprises Holdings Limited set out on pages 30 to 158, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 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 Ordinances.

Ernst & Young

Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
3 April 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CONTINUING OPERATIONS:			
REVENUE	*4*	7,246,920	6,263,153
Cost of sales		(4,815,447)	(4,172,152)
Gross profit		2,431,473	2,091,001
Gain on deemed disposal of interests in subsidiaries	*5*	146,957	14,498
Other income and gains, net	*4*	294,430	305,982
Selling and distribution costs		(834,775)	(652,723)
Administrative expenses		(858,241)	(712,488)
Dilution losses on share reforms of subsidiaries	*6*	(485,827)	–
Other operating expenses, net		(231,440)	(193,923)
PROFIT FROM OPERATING ACTIVITIES	*7*	462,577	852,347
Finance costs	*8*	(103,711)	(131,105)
Share of profits and losses of:			
Jointly-controlled entities	*22(a)*	688	(12,712)
Associates	*23(a)*	64,644	24,095
PROFIT BEFORE TAX		424,198	732,625
TAX	*11*	(169,823)	(136,877)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		254,375	595,748
DISCONTINUED OPERATIONS:			
Profit for the year from discontinued operations	*7, 12*	353,875	119,061
PROFIT FOR THE YEAR		608,250	714,809
ATTRIBUTABLE TO:			
Shareholders of the Company:			
Continuing operations		100,216	469,999
Discontinued operations	*12*	238,452	100,423
	13	338,668	570,422
Minority interests		269,582	144,387
		608,250	714,809

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
DIVIDENDS	*14*		
Interim		**62,250**	62,250
Proposed final		**124,500**	124,500
		186,750	186,750
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*15*		
Basic			
– For profit for the year		**HK$0.54**	HK$0.92
– For profit from continuing operations		**HK$0.16**	HK$0.76
Diluted			
– For profit for the year		**HK$0.54**	HK$0.90
– For profit from continuing operations		**HK$0.16**	HK$0.74

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	16	7,681,882	8,037,017
Investment properties	17	272,904	446,820
Prepaid land premiums	18	302,757	377,320
Goodwill	19	44,177	275,777
Other intangible assets	20	1,450,584	1,517,866
Interests in jointly-controlled entities	22	1,921	182,918
Interests in associates	23	519,854	248,849
Trade and bills receivables	29	–	33,202
Prepayments, deposits and other receivables	30	130,008	313,782
Pledged deposits	24	2,200	34,684
Available-for-sale investments	25	352,914	510,037
Deferred tax assets	41	663	67,772
Total non-current assets		10,759,864	12,046,044
Current assets:			
Prepaid land premiums	18	8,086	12,684
Properties under development		–	322,301
Properties held for sale	26	–	39,406
Inventories	27	1,648,707	1,574,923
Amounts due from customers for contract work	28	–	25,238
Trade and bills receivables	29	458,313	928,709
Prepayments, deposits and other receivables	30	1,644,518	1,055,066
Financial assets at fair value through profit or loss	32	9,706	45,551
Taxes recoverable		27,258	37,415
Pledged deposits	24	59,305	15,557
Cash and cash equivalents	33	2,708,395	3,508,055
		6,564,288	7,564,905
Non-current assets classified as held for sale	34	–	19,319
Total current assets		6,564,288	7,584,224
TOTAL ASSETS		17,324,152	19,630,268

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company:			
Issued capital	35	62,250	62,250
Reserves	37(a)	8,683,955	8,256,191
Proposed final dividend	14	124,500	124,500
		8,870,705	8,442,941
Minority interests		4,189,100	4,064,052
TOTAL EQUITY		13,059,805	12,506,993
Non-current liabilities:			
Bank and other borrowings	38	566,998	373,311
Convertible bonds	39	464	548,785
Other long term liabilities	40	21,570	32,682
Deferred tax liabilities	41	20,512	168,527
Total non-current liabilities		609,544	1,123,305
Current liabilities:			
Trade and bills payables	42	733,615	1,165,555
Amounts due to customers for contract work	28	–	48,580
Other payables and accruals	43	1,036,140	1,839,417
Taxes payable	44	551,098	395,132
Bank and other borrowings	38	1,333,950	2,505,132
		3,654,803	5,953,816
Liabilities directly associated with non-current assets classified as held for sale	34	–	46,154
Total current liabilities		3,654,803	5,999,970
TOTAL LIABILITIES		4,264,347	7,123,275
TOTAL EQUITY AND LIABILITIES		17,324,152	19,630,268

Yi Xi Qun
Director

Zhang Hong Hai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Notes	Attributable to shareholders of the Company												
		Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000 *(note 37(a) (iii))*	Share option reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 *(note 37(a) (ii))*	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005		62,250	4,839,497	(210,685)	–	–	–	32,287	620,601	2,412,648	124,500	7,881,098	3,720,099	11,601,197
Exchange realignment		–	–	–	–	–	–	141,984	–	–	–	141,984	72,145	214,129
Fair value gain on revaluation of building upon transfer to investment properties		–	–	–	–	12,332	–	–	–	–	–	12,332	380	12,712
Gain on minority interests on deemed capital contribution		–	–	33,589	–	–	–	–	–	–	–	33,589	(33,589)	–
Total income and expense for the year recognised directly in equity		–	–	33,589	–	12,332	–	141,984	–	–	–	187,905	38,936	226,841
Profit for the year		–	–	–	–	–	–	–	–	570,422	–	570,422	144,387	714,809
Total income and expense for the year		–	–	33,589	–	12,332	–	141,984	–	570,422	–	758,327	183,323	941,650
Capital contributions from minority shareholders		–	–	–	–	–	–	–	–	–	–	–	69,996	69,996
Deemed capital contribution in respect of an interest-free loan from a minority shareholder		–	–	–	–	–	–	–	–	–	–	–	82,767	82,767
Acquisition of interests in subsidiaries		–	–	–	–	–	–	–	–	–	–	–	457,884	457,884
Acquisition of minority interests		–	–	–	–	–	–	–	–	–	–	–	(2,490)	(2,490)
Disposal of interests in subsidiaries		–	–	(136,328)	–	–	–	(4,932)	(21,458)	157,786	–	(4,932)	(361,386)	(366,318)
Deemed disposal of interest in a subsidiary		–	–	15,980	–	–	–	–	(1,667)	(14,313)	–	–	(14,498)	(14,498)
Disposal of interests in jointly-controlled entities		–	–	(2,277)	–	–	–	(5,434)	(6,579)	9,488	–	(4,802)	–	(4,802)
Goodwill released upon disposal of interest in a subsidiary		–	–	79,457	–	–	–	–	–	(79,457)	–	–	–	–
Goodwill released upon disposal of an interest in a jointly-controlled entity		–	–	118,431	–	–	–	–	–	(118,431)	–	–	–	–
Final 2004 dividend declared		–	–	–	–	–	–	–	–	–	(124,500)	(124,500)	–	(124,500)
Interim 2005 dividend	*14*	–	–	–	–	–	–	–	–	(62,250)	–	(62,250)	–	(62,250)
Proposed final 2005 dividend	*14*	–	–	–	–	–	–	–	–	(124,500)	124,500	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(71,643)	(71,643)
Transfer to reserves		–	–	17,099	–	–	–	(20)	121,360	(138,439)	–	–	–	–
At 31 December 2005		62,250	4,839,497*	(84,734)*	–*	12,332*	–*	163,885*	712,257*	2,612,954*	124,500	8,442,941	4,064,052	12,506,993

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

		Attributable to shareholders of the Company												
	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000 *(note 37(a) (iii))*	Share option reserve HK$''000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 *(note 37(a) (ii))*	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006		62,250	4,839,497	(84,734)	–	12,332	–	163,885	712,257	2,612,954	124,500	8,442,941	4,064,052	12,506,993
Exchange realignment		–	–	–	–	–	–	317,580	–	–	–	317,580	180,561	498,141
Changes in fair value of available-for-sale investments		–	–	–	–	–	313,491	–	–	–	–	313,491	312,240	625,731
Deferred tax debited to equity	*41*	–	–	–	–	–	(103,452)	–	–	–	–	(103,452)	(103,039)	(206,491)
Total income and expense for the year recognised directly in equity		–	–	–	–	–	210,039	317,580	–	–	–	527,619	389,762	917,381
Profit for the year		–	–	–	–	–	–	–	–	338,668	–	338,668	269,582	608,250
Total income and expense for the year		–	–	–	–	–	210,039	317,580	–	338,668	–	866,287	659,344	1,525,631
Capital contributions from minority shareholders		–	–	3,327	–	–	–	–	–	–	–	3,327	890,846	894,173
Disposal of interests in subsidiaries		–	–	333,233	–	(1,371)	(210,039)	(61,651)	(44,857)	(287,005)	–	(271,690)	(1,151,289)	(1,422,979)
Deemed disposal of interests in subsidiaries		–	–	156,080	–	(2,853)	–	(822)	(28,957)	(127,596)	–	(4,148)	(142,809)	(146,957)
Deconsolidation of subsidiaries		–	–	(27)	–	–	–	(1,809)	(4,089)	5,925	–	–	(454,807)	(454,807)
Share reform of subsidiaries	*6*	–	–	(200,323)	–	–	–	–	(47,853)	248,176	–	–	485,827	485,827
Share reform expenses		–	–	(3,451)	–	–	–	–	–	–	–	(3,451)	–	(3,451)
Issue of share options	*36*	–	–	–	21,279	–	–	–	–	–	–	21,279	–	21,279
Issue of share options by a subsidiary	*36*	–	–	2,910	–	–	–	–	–	–	–	2,910	2,304	5,214
Final 2005 dividend declared		–	–	–	–	–	–	–	–	–	(124,500)	(124,500)	–	(124,500)
Interim 2006 dividend	*14*	–	–	–	–	–	–	–	–	(62,250)	–	(62,250)	–	(62,250)
Proposed final 2006 dividend	*14*	–	–	–	–	–	–	–	–	(124,500)	124,500	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(164,368)	(164,368)
Transfer to reserves		–	–	8,231	–	(515)	–	–	117,685	(125,401)	–	–	–	–
At 31 December 2006		62,250	4,839,497*	215,246*	21,279*	7,593*	–*	417,183*	704,186*	2,478,971*	124,500	8,870,705	4,189,100	13,059,805

* These reserve accounts comprise the consolidated reserves of HK$8,683,955,000 (2005: HK$8,256,191,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		424,198	732,625
From discontinued operations	12(a)	701,851	157,270
Adjustments for:			
Finance costs	8	114,893	156,220
Fair value gains on investment properties, net	4	(4,580)	(13,635)
Excess over the cost of acquisition of subsidiaries and minority interests	4	(889)	(3,677)
Share of profits and losses of jointly-controlled entities and associates		(58,672)	5,099
Depreciation	7	705,779	594,861
Amortisation of operating concessions	7	106,415	102,605
Amortisation of management information systems	7	2,000	1,887
Amortisation of licences	7	449	1,491
Amortisation of deferred development costs	7	670	–
Impairment of items of property, plant and equipment	7	1,916	3,780
Impairment of goodwill	7	44,625	59,658
Impairment of licences	7	–	12,000
Impairment of deferred development costs	7	–	5,870
Impairment of available-for-sale investments	7	90,770	1,083
Impairment of an amount due from an associate	7	5,500	4,500
Impairment of trade and bills receivables	7	15,838	48,398
Impairment of other receivables	7	94,226	22,445
Provision/(write-back of provision) against inventories, net	7	3,459	(8,377)
Interest income	4	(82,177)	(73,165)
Investment income	4	(1,436)	(3,271)
(Gain)/loss on disposal of items of property, plant and equipment, net	7	(111,341)	5,556
Gain on disposal of investment properties	4	(3,189)	(2,466)
Gain on disposal of interests in subsidiaries, net	4	(141,469)	(81,097)
Gain on deemed disposal of interests in subsidiaries		(146,957)	(14,498)
Dilution losses on share reforms of subsidiaries		485,827	–
Gain on disposal of interests in jointly-controlled entities	4	–	(120,273)
Loss on deemed disposal of an interest in a jointly-controlled entity	7	–	316
Loss on deemed disposal of an interest in an associate	7	499	927
Gain on disposal of available-for-sale investments	4	(47,676)	(1,514)
Gain on disposal of financial assets at fair value through profit or loss, net	4	(2,563)	(2,074)
Fair value (gains)/losses on financial assets at fair value through profit or loss, net	7	(8,919)	4,132
Employee share option benefits		26,493	–
Operating profit before working capital change		2,215,540	1,596,676

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit before working capital changes	2,215,540	1,596,676
(Increase)/decrease in prepaid land premiums	(22,986)	64,049
(Increase)/decrease in properties under development	322,301	(190,269)
(Increase)/decrease in properties held for sale	(239,497)	23,584
Increase in inventories	(336,792)	(211,671)
Increase in amounts due from customers for contract work	(5,133)	(8,323)
(Increase)/decrease in trade and bills receivables	76,322	(143,136)
Increase in prepayments, deposits and other receivables	(676,865)	(88,085)
Purchases of financial assets at fair value through profit or loss	(38,140)	(6,871)
Proceeds from disposal of financial assets at fair value through profit or loss	74,545	9,464
(Increase)/decrease in taxes recoverable	2,228	(17,355)
Increase in trade and bills payables	555,282	340,926
Increase/(decrease) in amounts due to customers for contract work	1,924	(3,190)
Increase in other payables and accruals	524,490	379,659
Increase in other taxes payable	29,791	49,008
Increase in other long term liabilities	7,147	24,216
Exchange adjustments	3,751	10,981
Cash generated from operations	2,493,908	1,829,663
Dividends received from jointly-controlled entities and associates	2,761	25,405
Hong Kong profits tax paid	(4,605)	(590)
Mainland China income tax paid	(236,538)	(201,078)
Overseas income tax paid	(1,490)	(1,097)
Net cash inflow from operating activities	2,254,036	1,652,303

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	*16*	(1,520,316)	(1,366,308)
Proceeds from disposal of items of property, plant and equipment		248,384	52,895
Proceeds from disposal of investment properties		5,974	3,474
Purchases of other intangible assets	*20*	(1,639)	(2,668)
Share reform expenses		(3,451)	–
Acquisition of subsidiaries	*45*	(231,571)	(77,326)
Acquisition of minority interests		–	(1,874)
Disposal of subsidiaries	*46(a)*	(189,126)	80,675
Deconsolidation of subsidiaries	*46(b)*	(343,086)	–
Acquisition of and increase in investments in jointly-controlled entities and associates		(60,902)	(47,369)
Proceeds from disposal of interests in jointly-controlled entities and associates		1,462	392,277
Deposit paid for acquisition of interests in companies		–	(36,743)
Net (increase)/decrease in amounts due from/to and loans to jointly-controlled entities and associates		(49,657)	18,880
Purchases of available-for-sale investments		(350,682)	(133,891)
Proceeds from disposal of available-for-sale investments		134,013	1,814
Decrease in time deposits with maturity of more than three months when acquired		88,768	677,737
(Increase)/decrease in pledged deposits		(49,962)	3,670
Interest received		45,836	58,132
Investment income received		1,436	3,271
Net cash outflow from investing activities		(2,274,519)	(373,354)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from minority shareholders		336,073	19,917
New loans		3,038,791	2,500,426
Repayment of loans		(3,710,875)	(3,536,684)
Interest paid	*8*	(108,892)	(150,915)
Dividends paid		(186,750)	(186,750)
Dividends paid to minority shareholders		(164,368)	(71,643)
Net cash outflow from financing activities		(796,021)	(1,425,649)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(816,504)	(146,700)
Cash and cash equivalents at beginning of year		3,417,574	3,507,843
Effect of foreign exchange rate changes, net		105,612	56,431
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,706,682	3,417,574
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*33*	2,597,596	2,917,382
Cash equivalents	*33*	50,225	59,326
Time deposits	*33*	122,079	581,588
		2,769,900	3,558,296
Less: Pledged deposits	*24*	(61,505)	(50,241)
Time deposits with maturity of more than three months when acquired		(1,713)	(90,481)
		2,706,682	3,417,574

BALANCE SHEET

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	*16*	40,153	41,994
Investment properties	*17*	134,000	134,000
Interests in subsidiaries	*21*	4,838,397	5,059,879
Interests in jointly-controlled entities	*22*	338	(13,616)
Interests in associates	*23*	46,168	46,168
Prepayments, deposits and other receivables	*30*	67,558	139,944
Available-for-sale investments	*25*	132,747	141,437
Total non-current assets		5,259,361	5,549,806
Current assets:			
Trade and bills receivables	*29*	2,982	4,844
Prepayments, deposits and other receivables	*30*	443,451	236,080
Financial assets at fair value through profit or loss	*32*	9,706	34,629
Cash and cash equivalents	*33*	152,632	192,507
Total current assets		608,771	468,060
TOTAL ASSETS		5,868,132	6,017,866
EQUITY AND LIABILITIES			
Equity:			
Issued capital	*35*	62,250	62,250
Reserves	*37(b)*	5,355,941	5,059,078
Proposed final dividend	*14*	124,500	124,500
TOTAL EQUITY		5,542,691	5,245,828
Current liabilities:			
Bank and other borrowings	*38*	243,600	664,775
Other payables and accruals	*43*	73,569	97,617
Taxes payable	*44*	8,272	9,646
Total current liabilities		325,441	772,038
TOTAL LIABILITIES		325,441	772,038
TOTAL EQUITY AND LIABILITIES		5,868,132	6,017,866

Yi Xi Qun
Director

Zhang Hong Hai
Director

1. CORPORATE INFORMATION

Beijing Enterprises Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong.

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

- production, distribution and sale of consumer products, including beer and wine in Beijing and other provinces in the People's Republic of China (the "PRC")
- investment in transportation infrastructure, including the Capital Airport Expressway, which connects the Capital Airport and the city centre of Beijing, and the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC
- operation of water purification and treatment plants in Beijing and another city in the PRC
- the provision of retail services in Beijing and certain other cities in the PRC (discontinued during the year – *note 12*)
- property construction and development (discontinued during the year – *note 12*)
- the provision of telecommunications and information technology ("IT") related services
- the provision of tourism services in Longqingxia, a scenic area in Beijing
- restaurant operations in the PRC, Thailand, Indonesia, Singapore and Malaysia

As at 31 December 2006 and the date of approval of these financial statements, the immediate holding company of the Company is Beijing Enterprises Investments Limited, which is incorporated in the British Virgin Islands, and in the opinion of the directors, the ultimate holding company is Beijing Holdings Limited ("BHL"), which is incorporated in Hong Kong.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 and certain financial assets which have been measured at fair value; and (ii) non-current assets held for sale, which are stated at the lower of carrying amount and fair value 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 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. For the acquisition of minority interests, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill or in the income statement as an excess over cost of acquisition, where appropriate.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for, in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

- HKAS 21 Amendment — "Net Investment in a Foreign Operation"
- HKAS 27 Amendment — "Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005"
- HKAS 39 & HKFRS 4 Amendments — "Financial Guarantee Contracts"
- HKAS 39 Amendment — "Cash Flow Hedge Accounting of Forecast Intragroup Transactions"
- HKAS 39 Amendment — "The Fair Value Option"
- HK(IFRIC)-Int 4 — "Determining whether an Arrangement contains a Lease"

The principal changes in accounting policies are as follows:

(a) HKAS 21 "The Effects of Changes in Foreign Exchange Rates"

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS27 "Consolidated and Separate Financial Statements"

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the consolidated financial statements as described in note 2.4 "Summary of significant accounting policies" below. The adoption of this amendment has had no other effect on these financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) HKAS 39 "Financial Instruments: Recognition and Measurement"

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) HK(IFRIC)-Int 4 *"Determining whether an Arrangement contains a Lease"*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF 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.

- HKAS 1 Amendment "Capital Disclosures"
- HKFRS 7 "Financial Instruments: Disclosures"
- HKFRS 8 "Operating Segments"
- HK(IFRIC)-Int 7 "Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*"
- HK(IFRIC)-Int 8 "Scope of HKFRS 2"
- HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives"
- HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment"
- HK(IFRIC)-Int 11 "HKFRS 2 – Group and Treasury Share Transactions"
- HK(IFRIC)-Int 12 "Service Concession Arrangements"

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 "Segment Reporting".

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7, HKFRS 8 and HK(IFRIC)-Int 12 may result in new or amended disclosures and reclassification of certain assets, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity 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 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. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet 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 results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any accumulated impairment losses.

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 share of the post-acquisition results and reserves of associates 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 associates is determined based on the agreed profit sharing ratio. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. Goodwill arising on the acquisition of associates, which was not previously eliminated against the consolidated capital reserve, is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

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

(c) the party is an associate;

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

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

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

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

Goodwill

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

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

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

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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

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. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

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.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated capital reserve

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against the consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated capital reserve and is not recognised in the consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Excess over the cost of business combinations

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

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

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, goodwill, deferred tax assets, financial assets, properties under development, properties held for sale, inventories, amounts due from customers for contract work and non-current assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as 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 each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such 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, however 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 impairment loss is credited to the income statement in the period in which it arises.

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, it is not depreciated and is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", as further explained in the accounting policy for "Non-current assets 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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation of the expressway and related structures is calculated on the unit of usage basis whereby the annual depreciation amount is determined based on the actual traffic volume for the year to the projected total traffic volume of the expressway over the remaining unexpired lease terms.

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

Buildings	10 to 50 years
Leasehold improvements	Over the lease terms or 5 to 10 years, whichever is shorter
Plant and machinery	5 to 20 years
Furniture, fixtures and office equipment	5 to 10 years
Motor vehicles	5 to 10 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment 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 buildings, structures, plant and machinery and other property, plant and equipment under construction or installation and is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

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

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 took place.

(b) any resulting increase in the carrying amount is credited to the income statement, to the extent the increase reverses a previous impairment loss for that property, or restores the carrying amount of the property to an amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the property in prior years; 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.

When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the income statement.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset 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 and its sale must be highly probable.

Non-current assets (other than investment properties, deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and 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. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the buildings as a finance lease in property, plant and equipment.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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 balance sheet date.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Operating concessions

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

Management information systems

Management information systems 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.

Licences

Licences 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 5 to 10 years.

Research and development costs

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

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

Deferred development costs are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the commercial lives of the underlying products, subject to a maximum of 20 years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale investments are measured at fair value, with gains or losses recognised as movements in the investment revaluation reserve, until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in the investment revaluation reserve is included in the income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using 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 option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and bills receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale investments carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are recognised in the income statement and are not reversed.

Available-for-sale investments carried at fair value

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 transferred from the investment revaluation reserve to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) 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)*

Derecognition of financial assets *(continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, amounts due to customers for contract work, other payables and accruals, bank and other borrowings and other long term liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest 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 amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option 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.

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 first recognised.

Derecognition of financial liabilities

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

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

Properties under development

Properties under development represent properties under construction for future sale and are stated at cost less any accumulated impairment losses. Cost comprises the prepaid land premiums for land together with any other direct costs attributable to the development of the properties, borrowing costs and professional fees capitalised during the development period.

Properties under development which are expected to be completed within 12 months from the balance sheet date are classified as current assets.

Properties held for sale

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

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

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage-of-completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimate 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 customers for contract work.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to customers for contract work.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which 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 balance sheets, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 balance sheet date 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 is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- where the deferred tax liability arises from goodwill or 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 taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation/amortisation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

(b) toll revenue, rental and hotel income, on an accrual basis;

(c) from the sale of completed properties, upon execution of the sales agreements;

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

(e) from the rendering of services, when the services have been rendered;

(f) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payment transactions

The Company, Beijing Development (Hong Kong) Limited ("Beijing Development") and Xteam Software International Limited ("Xteam"), each 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, the Beijing Development group and the Xteam group, respectively. Employees (including directors) of the respective groups receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair values of the share options granted by the Company and Beijing Development during the year are determined by external valuers using the binomial lattice model and the Black-Scholes-Merton option pricing model, respectively, further details of which are given in note 36 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, Beijing Development and Xteam ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date 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 awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance 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. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, 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. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions ***(continued)***

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

The Group has adopted the transitional provisions of HKFRS 2 "Share-based Payment" in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on or before 31 December 2003 and to those granted on or after 1 January 2004.

Upon the exercise of share options, the resulting shares issued are recorded by the Company, Beijing Development or Xteam 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, Beijing Development or Xteam in the respective share premium accounts. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Pension costs

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

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

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme in Hong Kong (the "MPF Scheme") under the 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)*

Borrowing costs

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.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in the exchange fluctuation reserve relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, 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.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made judgements and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date. The major judgements and estimations 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:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

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 in aggregate carried as an asset in the consolidated balance sheet as at 31 December 2006 was HK$78,172,000 (2005: HK$275,777,000), details of which are set out in notes 19 and 23 to the financial statements.

Useful lives and residual values of property, plant and equipment

The Group's management determines the residual values, useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual residual values and useful lives 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 residual values or useful lives 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 therefore depreciation in the future periods.

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 calculated as the higher of its fair value less costs to sell and value in use, and such calculations involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

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 fair value of an investment is less than its cost; and the financial health of and the near term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas. The Group carefully evaluates tax implications of its transactions in accordance with 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.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers 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 on the recognition of deferred tax assets and tax in the periods in which such estimates have been changed.

Provision for impairment of trade and bills receivables

The Group's management determines the provision for impairment of trade and bills receivables. This estimate is based on the credit history of the customers and the current market condition 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.

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 each balance sheet date and makes provision against obsolete and slow-moving items. Management reassesses the estimation on each balance sheet date.

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.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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 business 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 business segments. Particulars of the business segments are summarised as follows:

(a) the brewery operation segment produces, distributes and sells brewery products;

(b) the retail operation segment operates department stores in Beijing and certain other cities in the PRC (discontinued during the year ended 31 December 2006 – *note 12*);

(c) 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 at Shenzhen Municipality, the PRC;

(d) the water treatment operation segment operates water treatment plants in Beijing and another city in the PRC and sells purified water; and

(e) the corporate and others segment mainly comprises the construction of broadband infrastructure, sale of software, the provision of Internet services and IT technical support and consultation services, the construction of geothermal energy systems and provision of related installation services, tourism operation, production, distribution and sale of wine, restaurant operation, property construction and development (discontinued during the year ended 31 December 2006 – *note 12*), property investments and corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

3. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005:

Group

Year ended 31 December 2006

	Continuing operations					Discontinued operations				
	Brewery operation HK$'000	Expressway and toll road operations HK$'000	Water treatment operation HK$'000	Corporate and others HK$'000	Total HK$'000	Retail operation HK$'000	Others HK$'000	Total HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment revenue:										
Sales to external customers	5,476,877	530,542	518,696	720,805	7,246,920	6,049,966	273,105	6,323,071	–	13,569,991
Intersegment sales	–	–	–	–	–	–	–	–	–	–
Other income and gains, net	114,128	2,457	2,108	45,321	164,014	261,713	6,151	267,864	–	431,878
Total	5,591,005	532,999	520,804	766,126	7,410,934	6,311,679	279,256	6,590,935	–	14,001,869
Segment results	444,365	282,534	169,468	(194,355)	702,012	455,016	(83,981)	371,035		1,073,047
Unallocated income and gains, net					277,373			348,658		626,031
Unallocated expenses					(516,808)			–		(516,808)
Profit from operating activities					462,577			719,693		1,182,270
Finance costs					(103,711)			(11,182)		(114,893)
Share of profits and losses of:										
Jointly-controlled entities	–	–	–	688	688	(5,647)	–	(5,647)		(4,959)
Associates	(3,966)	–	–	68,610	64,644	129	(1,142)	(1,013)		63,631
Profit before tax					424,198			701,851		1,126,049
Tax					(169,823)			(347,976)		(517,799)
Profit for the year					254,375			353,875		608,250

3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

Year ended 31 December 2006 (continued)

	Continuing operations					Discontinued operations				
	Brewery operation HK$'000	Expressway and toll road operations HK$'000	Water treatment operation HK$'000	Corporate and others HK$'000	Total HK$'000	Retail operation HK$'000	Others HK$'000	Total HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment assets	8,603,878	1,832,279	1,336,329	7,062,709	18,835,195	–	–	–	(5,153,985)	13,681,210
Share of net assets of:										
Jointly-controlled entities	–	–	–	5,591	5,591	–	–	–	–	5,591
Associates	10,781	3,214	–	468,911	482,906	–	–	–	–	482,906
	8,614,659	1,835,493	1,336,329	7,537,211	19,323,692	–	–	–	(5,153,985)	14,169,707
Unallocated assets					3,160,441			–	–	3,160,441
Total assets					22,484,133			–	(5,153,985)	17,330,148
Segment liabilities	2,212,125	352,577	463,382	4,119,828	7,147,912	–	–	–	(5,153,985)	1,993,927
Unallocated liabilities					2,276,416			–	–	2,276,416
Total liabilities					9,424,328			–	(5,153,985)	4,270,343
Other segment information:										
Depreciation	529,681	45,864	87	30,820	606,452	85,656	13,671	99,327	–	705,779
Amortisation of other intangible assets	–	31,768	73,099	4,667	109,534	–	–	–	–	109,534
Impairment losses on:										
Segment assets	10,780	–	–	144,742	155,522	6,584	–	6,584	–	162,106
Unallocated assets										90,770
Capital expenditures	1,069,336	157,464	12,587	33,096	1,272,483	249,472	–	249,472	–	1,521,955

3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

Year ended 31 December 2005 (Restated)

	Continuing operations					Discontinued operations				
	Brewery operation HK$'000	Expressway and toll road operations HK$'000	Water treatment operation HK$'000	Corporate and others HK$'000	Total HK$'000	Retail operation HK$'000	Others HK$'000	Total HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment revenue:										
Sales to external customers	4,556,142	477,440	506,638	722,933	6,263,153	4,510,210	227,250	4,737,460	–	11,000,613
Intersegment sales	–	–	–	–	–	–	–	–	–	–
Other income and gains, net	74,424	3,742	–	40,210	118,376	110,474	9,700	120,174	–	238,550
Total	4,630,566	481,182	506,638	763,143	6,381,529	4,620,684	236,950	4,857,634	–	11,239,163
Segment results	387,883	290,577	166,595	(182,992)	662,063	134,738	(21,385)	113,353		775,416
Unallocated income and gains, net					202,104			93,788		295,892
Unallocated expenses					(11,820)			(8,274)		(20,094)
Profit from operating activities					852,347			198,867		1,051,214
Finance costs					(131,105)			(25,115)		(156,220)
Share of profits and losses of:										
Jointly-controlled entities	–	–	–	(12,712)	(12,712)	(14,180)	–	(14,180)		(26,892)
Associates	(2,391)	(410)	–	26,896	24,095	(813)	(1,489)	(2,302)		21,793
Profit before tax					732,625			157,270		889,895
Tax					(136,877)			(38,209)		(175,086)
Profit for the year					595,748			119,061		714,809

3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

Year ended 31 December 2005 (Restated) (continued)

	Continuing operations					Discontinued operations				
	Brewery operation HK$'000	Expressway and toll road operations HK$'000	Water treatment operation HK$'000	Corporate and others HK$'000	Total HK$'000	Retail operation HK$'000	Others HK$'000	Total HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment assets	7,458,097	1,709,479	1,238,023	6,781,667	17,187,266	1,474,409	778,009	2,252,418	(4,434,091)	15,005,593
Share of net assets of:										
Jointly-controlled entities	–	–	–	58,330	58,330	138,098	–	138,098	–	196,428
Associates	11,395	3,090	–	190,456	204,941	25,188	23,077	48,265	–	253,206
	7,469,492	1,712,569	1,238,023	7,030,453	17,450,537	1,637,695	801,086	2,438,781	(4,434,091)	15,455,227
Unallocated assets					2,862,979			1,356,092	–	4,219,071
Total assets					20,313,516			3,794,873	(4,434,091)	19,674,298
Segment liabilities	1,777,389	465,648	458,244	3,562,754	6,264,035	622,744	943,481	1,566,225	(4,434,091)	3,396,169
Unallocated liabilities					3,131,996			639,140	–	3,771,136
Total liabilities					9,396,031			2,205,365	(4,434,091)	7,167,305
Other segment information:										
Depreciation	429,420	50,510	86	23,302	503,318	57,923	33,620	91,543	–	594,861
Amortisation of other intangible assets	–	31,346	71,259	3,378	105,983	–	–	–	–	105,983
Impairment losses on:										
Segment assets	–	–	–	81,308	81,308	–	–	–	–	81,308
Unallocated assets										1,083
Capital expenditures	1,056,158	9,751	6,304	147,772	1,219,985	149,295	–	149,295	–	1,369,280

3. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following table presents revenue, and certain asset and expenditure information for the Group's geographical segments:

Group

	Hong Kong		Mainland China		Overseas		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:										
Sales to external customers	3,366	13,008	13,336,583	10,799,561	230,042	188,044	–	–	13,569,991	11,000,613
Intersegment sales	1,237	4,642	–	–	32,422	40,381	(33,659)	(45,023)	–	–
Other income and gains, net	25,111	1,445	405,666	236,390	1,101	715	–	–	431,878	238,550
Total	29,714	19,095	13,742,249	11,035,951	263,565	229,140	(33,659)	(45,023)	14,001,869	11,239,163
Other segment information:										
Segment assets	5,467,225	4,861,816	13,367,970	14,514,771	–	63,097	(5,153,985)	(4,434,091)	13,681,210	15,005,593
Share of net assets of:										
Jointly-controlled entities	–	–	5,591	196,428	–	–	–	–	5,591	196,428
Associates	216,522	–	266,384	253,206	–	–	–	–	482,906	253,206
	5,683,747	4,861,816	13,639,945	14,964,405	–	63,097	(5,153,985)	(4,434,091)	14,169,707	15,455,227
Unallocated assets									3,160,441	4,219,071
Total assets									17,330,148	19,674,298
Capital expenditures	1,031	1,972	1,506,886	1,366,037	14,038	1,271	–	–	1,521,955	1,369,280

4. 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 revenue from toll revenue and the value of services rendered, net of business and consumption taxes and government surcharges; (3) an appropriate proportion of contract revenue of construction contracts, net of value-added tax, business tax and government surcharges; and (4) rental income.

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

	2006 HK$'000	2005 HK$'000 (Restated)
Revenue		
Brewery operation	5,476,877	4,556,142
Expressway and toll road operations	530,542	477,440
Water treatment operation	518,696	506,638
Corporate and others	720,805	722,933
Attributable to continuing operations reported in the consolidated income statement	7,246,920	6,263,153
Attributable to discontinued operations – *note 12(a)*	6,323,071	4,737,460
	13,569,991	11,000,613
Other income		
Bank interest income	45,836	58,132
Imputed interest income on interest-free other receivables	36,341	15,033
Compensation income	3,489	23,582
Rental income	61,224	44,633
Service income	21,162	15,866
Investment income, unlisted	1,436	3,271
Entrusted operating arrangement fee – *note 46(b)(i)*	12,516	–
Government grants*	81,023	63,438
Sale of raw materials	1,499	2,995
Indemnification from related companies recognised as income#	193,551	2,700
Others	103,570	58,321
	561,647	287,971

4. REVENUE, OTHER INCOME AND GAINS, NET *(continued)*

	2006 HK$'000	2005 HK$'000 (Restated)
Gains, net		
Fair value gains on investment properties, net – *note 17*	4,580	13,635
Excess over the costs of acquisition of subsidiaries and minority interests	889	3,677
Gain on disposal of items of property, plant and equipment, net	111,341	–
Gain on disposal of investment properties	3,189	2,466
Gain on disposal of interests in subsidiaries, net †	141,469	81,097
Gain on disposal of interests in jointly-controlled entities Ω	–	120,273
Gain on disposal of available-for-sale investments stated at cost	47,676	1,514
Gain on disposal of financial assets at fair value through profit or loss, net	2,563	2,074
Fair value gains on financial assets at fair value through profit or loss	8,919	–
Foreign exchange differences, net	28,679	7,237
	349,305	231,973
Other income and gains, net	910,952	519,944
Attributable to:		
Continuing operations reported in the consolidated income statement	294,430	305,982
Discontinued operations – *note 12(a)*	616,522	213,962
	910,952	519,944

* 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 indemnification from related companies recognised as income during the year ended 31 December 2006 represented the indemnification given by 北京控股集團有限公司 (Beijing Enterprises Group Company Limited) ("Beijing Enterprises Group", a state-owned enterprise established by The State-owned Assets Supervision and Administration Commission (the "SASAC") of the People's Government of Beijing Municipality in January 2005) to the Group for the tax liability incurred by 北京市京聯發投資管理中心 (Beijing Jing Lian Fa Investment Management Centre) ("Jing Lian Fa") on the disposal of its 49.52% equity interest in Beijing Wangfujing Department Store (Group) Co., Ltd. ("Wangfujing"). Further details of the disposal are set out in note 12 to the financial statements.

4. REVENUE, OTHER INCOME AND GAINS, NET *(continued)*

† The net gain on disposal of interests in subsidiaries recognised during the year ended 31 December 2006 was attributable to the disposal of the Group's entire 50.1% equity interests in Wangfujing, and the amount recognised during the year ended 31 December 2005 was mainly attributable to the disposal of all of the Group's equity interests in Beijing Enterprises (Dairy) Limited ("BE Dairy"), which held a 55% equity interest in Beijing Sanyuan Foods Co., Ltd. ("Sanyuan Foods"), and Beijing Western-Style Food Co., Ltd. during that year. Further details of the disposal of subsidiaries are set out in note 46(a) to the financial statements.

Ω The gain on disposal of interests in jointly-controlled entities recognised during the year ended 31 December 2005 arose from the disposal of all of the Group's equity interest in 北京秦昌玻璃有限公司 (Beijing Qin Chang Glass Company Limited) and Beijing Enterprises (Tourism) Limited ("BE Tourism"), which held a 75% equity interest in Beijing Badaling Tourism Co., Ltd. ("Badaling Tourism") during that year.

5. GAINS ON DEEMED DISPOSAL OF INTERESTS IN SUBSIDIARIES

The gains on deemed disposal of interests in subsidiaries recognised during the year included the following:

(i) a gain of HK$141,341,000 (2005: HK$14,498,000) arising from the dilution of the Group's effective equity interest in Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), an indirectly held subsidiary of the Company, from 54.46% (2005: 54.86%) to 50.47% (2005: 54.46%) upon the exercise of convertible bonds of Yanjing Brewery by certain bondholders in exchange for ordinary shares of Yanjing Brewery. Further details of the Group's convertible bonds are set out in note 39 to the financial statements; and

(ii) a gain of HK$5,616,000 arising from the dilution of the Group's effective equity interest in Beijing Development, a then indirectly held subsidiary of the Company, from 55.81% to 46.57% upon the issuance of new shares by Beijing Development in December 2006. Beijing Development ceased to be a subsidiary and became an associate of the Group thereafter.

6. DILUTION LOSSES ON SHARE REFORMS OF SUBSIDIARIES

The dilution losses on share reforms of subsidiaries recognised during the year ended 31 December 2006 comprised the following:

(i) a loss of approximately HK$436,881,000 arising from the dilution of interests in Yanjing Brewery, an indirectly held subsidiary of the Company with its shares listed on the Shenzhen Stock Exchange, as a result of the execution of a share reform plan by Yanjing Brewery in May 2006 under the requirements of the relevant PRC government authorities. Pursuant to the share reform plan of Yanjing Brewery, the Group was required to grant a certain portion of its shares in Yanjing Brewery to other shareholders who held the tradable shares in Yanjing Brewery for nil consideration to convert the non-tradable shares in Yanjing Brewery held by the Group into tradable shares. Accordingly, the equity interest in Yanjing Brewery held by its immediate holding company (owned as to 80% by the Company indirectly) was diluted from 63.09% to 54.10% and the loss resulted was accounted for as a dilution loss in the consolidated income statement for the year ended 31 December 2006; and

(ii) a loss of approximately HK$48,946,000 arising from the dilution of interests in Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan"), a directly held subsidiary of Yanjing Brewery with its shares listed on the Shanghai Stock Exchange, as a result of the execution of a share reform plan of Yanjing Huiquan in July 2006 under the requirements of the relevant PRC government authorities. Pursuant to the share reform plan of Yanjing Huiquan, Yanjing Brewery was required to grant a certain portion of its shares in Yanjing Huiquan to the other shareholders who held the tradable shares in Yanjing Huiquan for nil consideration to convert the non-tradable shares in Yanjing Huiquan held by Yanjing Brewery into tradable shares. Accordingly, the effective interest in Yanjing Huiquan held by Yanjing Brewery was diluted from 52.37% to 48.67% and the loss resulted was accounted for as a dilution loss in the consolidated income statement for the year ended 31 December 2006.

In addition, pursuant to the share reform plan, Yanjing Huiquan agreed to grant one additional share to shareholders of tradable shares for every 10 tradable shares held by each of them on the condition that (i) the growth rate of the audited profit for the year attributable to shareholders of Yanjing Huiquan for each of the year ended 31 December 2006 and years ending 31 December 2007 and 2008 is below 25%; or (ii) the audit opinion to be included in the auditors' report of Yanjing Huiquan for each of these years is a modified or qualified opinion.

Since the audited financial statements of Yanjing Huiquan are yet to be issued at the date of approval of these financial statements, in the opinion of the directors, the potential financial impact in respect of the above-mentioned arrangement cannot be reasonably estimated at this stage.

7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities (including those attributable to discontinued operations) is arrived at after charging/(crediting):

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold		9,632,535	7,499,733
Cost of properties sold		26,912	29,154
Cost of services provided		232,712	496,482
Depreciation	*16*	705,779	594,861
Amortisation of operating concessions*	*20*	106,415	102,605
Amortisation of management information systems*	*20*	2,000	1,887
Amortisation of licences*	*20*	449	1,491
Amortisation of deferred development costs*	*20*	670	–
Research and development expenditure:			
Current year expenditure		10,656	12,930
Less: Capitalised in deferred development costs	*20*	(1,639)	(2,197)
		9,017	10,733
Impairment arising during the year**	*20*	–	5,870
		9,017	16,603
Impairment of items of property, plant and equipment**	*16*	1,916	3,780
Impairment of goodwill**	*19(b)*	44,625	59,658
Impairment of licences**	*20*	–	12,000
Impairment of available-for-sale investments**		90,770	1,083
(Gain)/loss on disposal of items of property, plant and equipment, net		(111,341)	5,556
Loss on deemed disposal of an interest in a jointly-controlled entity		–	316
Loss on deemed disposal of interest in an associate		499	927
Minimum lease payments under operating leases of land and buildings		216,485	175,282
Amortisation of prepaid land premiums	*18*	13,928	12,028
Auditors' remuneration		8,950	7,700
Employee benefits expense (excluding directors' remuneration – *note 9*):			
Salaries, allowances and benefits in kind		1,121,828	893,723
Employee share option benefits		11,861	–
Net pension scheme contributions		110,272	83,063
		1,243,961	976,786

7. PROFIT FROM OPERATING ACTIVITIES *(continued)*

	2006 HK$'000	2005 HK$'000
Provision/(write-back of provision) against inventories, net	3,459	(8,377)
Impairment of an amount due from an associate	5,500	4,500
Impairment of trade and bills receivables	15,838	48,398
Impairment of other receivables due from:		
Related parties	60,517	–
Others	33,709	22,445
	94,226	22,445
Fair value (gains)/losses on financial assets at fair value through profit or loss, net	(8,919)	4,132
Net rental income	(55,092)	(40,382)

* The amortisations of operating concessions, management information systems, licences and deferred development costs for the year are included in "Cost of sales" on the face of the consolidated income statement.

** The impairments of deferred development costs, property, plant and equipment, goodwill, licences and available-for-sale investments for the year are included in "Other operating expenses, net" on the face of the consolidated income statement.

8. FINANCE COSTS

Group

	2006 HK$'000	2005 HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	104,028	140,185
Interest on convertible bonds	1,270	6,755
Interest on other loans	3,594	3,975
Imputed interest for an interest-free other loan from a minority shareholder	6,001	5,609
Total finance costs	114,893	156,524
Less: Interest capitalised in construction in progress	–	(304)
	114,893	156,220
Attributable to:		
Continuing operations reported in the consolidated income statement	103,711	131,105
Discontinued operations – *note 12(a)*	11,182	25,115
	114,893	156,220

9. DIRECTORS' REMUNERATION

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

Group

	2006 HK$'000	2005 HK$'000
Fees:		
Executive directors	1,050	560
Independent non-executive directors	560	550
	1,610	1,110
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	8,621	6,087
Employee share option benefits	14,632	–
Pension scheme contributions	446	335
	23,699	6,422
	25,309	7,532

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company and Beijing Development, further details of which are set out in note 36 to the financial statements. The fair values of such options, which have been recognised in the respective companies' income statements over the relevant vesting periods, were determined as at the respective dates of grant and the amounts included in the financial statements for the current year are included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2006 HK$'000	2005 HK$'000
Mr. Lau Hon Chuen, Ambrose	100	100
Dr. Lee Tung Hai, Leo	120	120
Mr. Wang Xian Zhang	120	120
Mr. Wu Jiesi	120	110
Mr. Robert A. Theleen	100	100
	560	550

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

9. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2006					
Mr. Yi Xi Qun	–	2,580	2,344	129	5,053
Mr. Zhang Hong Hai	–	1,947	2,285	117	4,349
Mr. Li Fu Cheng	300	–	1,623	–	1,923
Mr. Bai Jin Rong	–	832	1,623	–	2,455
Mr. Guo Ying Ming	–	–	–	–	–
Mr. Liu Kai	–	1,631	1,082	100	2,813
Mr. Zheng Wan He	300	–	–	–	300
Mr. Guo Pu Jin	150	–	1,082	–	1,232
Mr. Zhou Si	100	–	1,082	–	1,182
Mr. E Meng	–	1,631	1,347	100	3,078
Mr. Zhao Chang Shan	100	–	1,082	–	1,182
Mr. Lei Zhen Gang	100	–	1,082	–	1,182
	1,050	8,621	14,632	446	24,749

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2005					
Mr. Yi Xi Qun	–	2,341	–	97	2,438
Mr. Zhang Hong Hai	–	1,623	–	88	1,711
Mr. Li Fu Cheng	80	–	–	–	80
Mr. Bai Jin Rong	80	–	–	–	80
Mr. Guo Ying Ming	80	–	–	–	80
Mr. Liu Kai	–	1,359	–	75	1,434
Mr. Zheng Wan He	80	–	–	–	80
Mr. Li Man	80	–	–	–	80
Mr. Guo Pu Jin	80	–	–	–	80
Mr. Zhou Si	80	–	–	–	80
Mr. E Meng	–	764	–	75	839
	560	6,087	–	335	6,982

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 during the year included four (2005: four) directors. Details of the remuneration of the five highest paid employees for the year are set out below:

	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	9,280	7,387
Employee share option benefits	8,140	–
Pension scheme contributions	546	347
	17,966	7,734

The number of the five highest paid employees whose remuneration fell within the following bands is as follows:

	2006 Number of employees	2005 Number of employees
Nil – HK$1,000,000	–	1
HK$1,000,001 – HK$1,500,000	–	2
HK$1,500,001 – HK$2,000,000	–	1
HK$2,000,001 – HK$2,500,000	–	1
HK$2,500,001 – HK$3,000,000	2	–
HK$3,000,001 – HK$3,500,000	1	–
HK$4,000,001 – HK$4,500,000	1	–
HK$5,000,001 – HK$5,500,000	1	–
	5	5

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The income tax provision in respect of operations in Mainland China and overseas is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations in Mainland China, certain of the Company's subsidiaries enjoy income tax exemptions and reductions.

Group

	2006 HK$'000	2005 HK$'000
Current – PRC:		
Hong Kong	95	165
Mainland China	494,830	200,060
Underprovision/(overprovision) in prior years	130	(23,765)
Current – Overseas:		
Charge for the year	1,486	1,097
Underprovision in prior years	4	–
Deferred – *note 41*	21,254	(2,471)
Total tax charge for the year	517,799	175,086
Attributable to:		
Continuing operations reported in the consolidated income statement, as restated	169,823	136,877
Discontinued operations, as restated – *note 12(a)*	347,976	38,209
	517,799	175,086

11. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax (including those attributable to discontinued operations) using the statutory rates for the countries/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 – 2006

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	70,094		1,045,003		10,952		1,126,049	
Tax at the statutory tax rate	12,267	17.5	344,851	33.0	3,286	30.0	360,404	32.0
Lower tax rate for specific provinces or local authority	–	–	(187,172)	(17.9)	(1,440)	(13.1)	(188,612)	(16.7)
Adjustments in respect of current tax of previous periods	–	–	130	–	4	–	134	–
Profits and losses attributable to jointly-controlled entities and associates	9	–	(23,299)	(2.2)	25	0.2	(23,265)	(2.1)
Income not subject to tax	(71,835)	(102.5)	(72,272)	(6.9)	(492)	(4.5)	(144,599)	(12.8)
Expenses not deductible for tax	48,035	68.5	202,368	19.4	254	2.3	250,657	22.3
Tax losses not recognised as deferred tax assets	11,767	16.8	89,489	8.5	6	0.1	101,262	9.0
Tax losses utilised from previous periods	(148)	(0.2)	(914)	(0.1)	(153)	(1.4)	(1,215)	(0.1)
Others	–	–	163,033	15.6	–	–	163,033	14.4
Tax charge at the Group's effective rate	95	0.1	516,214	49.4	1,490	13.6	517,799	46.0

11. TAX *(continued)*

Group – 2005

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	78,289		801,937		9,669		889,895	
Tax at the statutory tax rate	13,701	17.5	264,639	33.0	2,901	30.0	281,241	31.6
Lower tax rate for specific provinces or local authority	–	–	(159,062)	(19.8)	(2,009)	(20.8)	(161,071)	(18.1)
Adjustments in respect of current tax of previous periods	425	0.5	(24,190)	(3.0)	–	–	(23,765)	(2.7)
Profits and losses attributable to jointly-controlled entities and associates	58	0.1	1,484	0.2	–	–	1,542	0.2
Income not subject to tax	(40,652)	(51.9)	(48,478)	(6.1)	(150)	(1.6)	(89,280)	(10.0)
Expenses not deductible for tax	19,480	24.9	55,762	6.9	1,405	14.5	76,647	8.6
Tax losses not recognised as deferred tax assets	7,578	9.7	86,492	10.8	36	0.4	94,106	10.6
Tax losses utilised from previous periods	–	–	(3,248)	(0.4)	(1,086)	(11.2)	(4,334)	(0.5)
Tax charge at the Group's effective rate	590	0.8	173,399	21.6	1,097	11.3	175,086	19.7

12. DISCONTINUED OPERATIONS

The Group's discontinued operations in the years ended 31 December 2006 and 2005 included the following:

(i) The retail and property construction and development operations operated by Wangfujing.

Pursuant to a share transfer agreement and two supplementary agreements (collectively the "Wangfujing Disposal Agreements") thereto dated 31 March 2006, 1 June 2006 and 2 July 2006, respectively, entered into between two wholly-owned subsidiaries of the Company, namely Jing Lian Fa and Beijing Enterprises Holdings Investment Management Co., Ltd. ("Investment Management"), Beijing Enterprises Group and 北京北控商業投資有限責任公司 (Beijing Beikong Commercial Investment Limited Company)("Beikong Commercial", a subsidiary of Beijing Enterprises Group), Jing Lian Fa and Investment Management sold their respective entire 49.52% and 0.61% equity interests in Wangfujing to Beikong Commercial for cash considerations of RMB978,000,000 and RMB22,000,000, respectively, during the year ended 31 December 2006.

The cash considerations of RMB1,000,000,000 in aggregate were originally to be settled in three instalments, which were due for settlement in 2006, 2007 and 2008 in accordance with the Wangfujing Disposal Agreements. However, the amounts were fully settled during the year ended 31 December 2006.

Approvals from the shareholders of the Company, the SASAC of the State Council and the China Securities Regulatory Commission regarding the transactions were obtained on 29 June 2006, 4 September 2006 and 16 October 2006, respectively. The share transfers were completed on 12 December 2006 and the Group no longer holds any interest in Wangfujing since then.

The Group's retail operation, being a major separate business segment of the Group, and the Group's property construction and development operation were solely undertaken by Wangfujing. Accordingly, the retail and property construction and development operations of the Group were discontinued upon the completion of the disposal transactions.

Pursuant to an undertaking letter dated 18 December 2006 given by Beijing Enterprises Group to the Company, Beijing Enterprises Group has undertaken to indemnify the Group for an amount equivalent to the tax liability of Jing Lian Fa arising from the disposal of its equity interest in Wangfujing. The indemnification, which would be executed if the relevant tax payment is required to be made by Jing Lian Fa, was recognised by the Group in the current year in an amount of HK$193,551,000 to match with the corresponding corporate income tax charge accrued by the Group in connection with the disposal of Wangfujing.

(ii) The dairy operations operated by Sanyuan Foods. The Group's equity interest in Sanyuan Foods was disposed of in January 2005 *(note 4)*.

12. DISCONTINUED OPERATIONS *(continued)*

(a) The results of the discontinued operations dealt with in the consolidated financial statements for the years ended 31 December 2006 and 2005 are summarised as follows:

Group

	2006			2005		
	Retail and other operations HK$'000	Dairy operation HK$'000	Total HK$'000	Retail and other operations HK$'000	Dairy operation HK$'000	Total HK$'000 (Restated)
Revenue	6,323,071	–	6,323,071	4,737,460	–	4,737,460
Other income and gains, net	475,053	–	475,053	133,975	–	133,975
Cost of sales and operating expenses	(6,219,900)	–	(6,219,900)	(4,752,555)	–	(4,752,555)
Profit from operating activities *(note 7)*	578,224	–	578,224	118,880	–	118,880
Finance costs	(11,182)	–	(11,182)	(25,115)	–	(25,115)
Share of profits and losses of:						
Jointly-controlled entities	(5,647)	–	(5,647)	(14,180)	–	(14,180)
Associates	(1,013)	–	(1,013)	(2,302)	–	(2,302)
Profit before tax of the discontinued operations	560,382	–	560,382	77,283	–	77,283
Gain on disposal of the discontinued operations	141,469	–	141,469	–	79,987	79,987
Profit before tax from the discontinued operations	701,851	–	701,851	77,283	79,987	157,270
Tax:						
Related to profit before tax of the discontinued operations	(154,425)	–	(154,425)	(38,209)	–	(38,209)
Related to gain on disposal of the discontinued operations	(193,551)	–	(193,551)	–	–	–
	(347,976)	–	(347,976)	(38,209)	–	(38,209)
Profit for the year from the discontinued operations	353,875	–	353,875	39,074	79,987	119,061

12. DISCONTINUED OPERATIONS *(continued)*

(b) The net cash flows of the discontinued operations dealt with in the consolidated financial statements for the years ended 31 December 2006 and 2005 are as follows:

Group

	2006 HK$'000	2005 HK$'000 (Restated)
Net cash inflow from operating activities	1,078,313	422,519
Net cash outflow from investing activities	(585,578)	(180,850)
Net cash outflow from financing activities	(413,103)	(147,649)
Net cash inflow attributable to the discontinued operations	79,632	94,020

(c) **Earnings per share from the discontinued operations**

	2006	2005 (Restated)
Basic and diluted from the discontinued operations	HK$0.38	HK$0.16

The calculation of basic and diluted earnings per share amounts from the discontinued operations is based on:

	2006	2005 (Restated)
Profit for the year attributable to shareholders of the Company from the discontinued operations	HK$238,452,000	HK$100,423,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 15)*	622,500,000	622,500,000
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation *(note 15)*	625,204,167	622,500,000

13. 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 2006 includes a profit of HK$462,334,000 (2005: a loss of HK$111,190,000) which has been dealt with in the financial statements of the Company *(note 37(b))*.

14. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim – HK$0.10 (2005: HK$0.10) per ordinary share	62,250	62,250
Proposed final – HK$0.20 (2005: HK$0.20) per ordinary share	124,500	124,500
	186,750	186,750

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

15. 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 is based on the profit for the year attributable to shareholders of the Company, adjusted to reflect the effect of the convertible bonds issued by Yanjing Brewery, where applicable (see below), on the profit for the year attributable to shareholders of the Company assuming the exercise or conversion of all outstanding convertible bonds issued by Yanjing Brewery 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 into ordinary shares. The exercise of the outstanding share options of each of Beijing Development and Xteam, both being subsidiaries of the Company before Beijing Development became an associate of the Company as detailed in notes 5 and 46 (b)(ii) to the financial statements, during the year ended 31 December 2006 did not have a diluting effect or had an anti-dilutive effect on the Group's basic earnings per share for the year. The exercise of the outstanding share options of the Company, Beijing Development and Xteam during the year ended 31 December 2005 did not have a diluting effect on the Group's basic earnings per share for that year.

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

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

	2006 HK$'000	2005 HK$'000 (Restated)
Earnings:		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation		
From continuing operations	100,216	469,999
From discontinued operations – *note 12(c)*	238,452	100,423
	338,668	570,422
Interest expense for the year relating to the liability component of the convertible bonds of Yanjing Brewery, net of current tax	–	4,526
Decrease in profit for the year of Yanjing Brewery attributable to the Group, as a result of the dilution of interest in Yanjing Brewery assuming the exercise of all the outstanding convertible bonds issued by Yanjing Brewery	–	(12,466)
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	338,668	562,482
Attributable to:		
Continuing operations	100,216	462,059
Discontinued operations – *note 12(c)*	238,452	100,423
	338,668	562,482
Number of ordinary shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	622,500,000	622,500,000
Effect of dilution of share options – weighted average number of ordinary shares	2,704,167	–
Weighted average number of ordinary shares used in the diluted earnings per share calculation	625,204,167	622,500,000

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Expressway and related structures HK$'000 (note (a))	Buildings HK$'000 (notes (a), (b) and (c))	Leasehold improvements HK$'000	Plant and machinery HK$'000 (note (b))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2006									
At 31 December 2005 and 1 January 2006:									
Cost		1,230,672	3,972,136	442,285	5,070,147	481,682	267,352	447,588	11,911,862
Accumulated depreciation and impairment		(204,423)	(778,587)	(273,703)	(2,228,280)	(256,995)	(132,857)	–	(3,874,845)
Net carrying amount		1,026,249	3,193,549	168,582	2,841,867	224,687	134,495	447,588	8,037,017
Net carrying amount:									
At 1 January 2006		1,026,249	3,193,549	168,582	2,841,867	224,687	134,495	447,588	8,037,017
Acquisition of subsidiaries	*45*	–	69,959	–	12,930	2,796	1,699	65	87,449
Additions		–	90,863	52,135	151,026	59,699	19,767	1,146,826	1,520,316
Transfer from construction in progress		128,496	278,673	30,299	357,008	11,365	4,603	(810,444)	–
Transfer to investment properties	*17*	–	(11,750)	–	–	–	–	–	(11,750)
Transfer from non-current assets held for sale	*34*	–	15,430	–	–	–	–	–	15,430
Depreciation provided for the year		(35,562)	(123,134)	(48,845)	(414,662)	(57,260)	(26,316)	–	(705,779)
Impairment during the year recognised in the income statement		–	(1,916)	–	–	–	–	–	(1,916)
Disposals		(28,899)	(24,501)	(882)	(3,286)	(5,765)	(4,846)	(69,128)	(137,307)
Disposal of subsidiaries	*46(a)*	–	(722,309)	(196,577)	(56,507)	(50,226)	(13,448)	(330,196)	(1,369,263)
Deconsolidation of subsidiaries	*46(b)*	–	(51,098)	(11,950)	(101)	(19,761)	(4,644)	–	(87,554)
Reclassifications		–	1,142	4,749	21,069	(31,478)	4,518	–	–
Exchange realignment		42,715	130,194	7,426	116,893	8,210	5,210	24,591	335,239
At 31 December 2006		1,132,999	2,845,102	4,937	3,026,237	142,267	121,038	409,302	7,681,882
At 31 December 2006:									
Cost		1,374,786	3,510,552	13,852	5,627,655	302,912	247,615	409,302	11,486,674
Accumulated depreciation and impairment		(241,787)	(665,450)	(8,915)	(2,601,418)	(160,645)	(126,577)	–	(3,804,792)
Net carrying amount		1,132,999	2,845,102	4,937	3,026,237	142,267	121,038	409,302	7,681,882

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group *(continued)*

	Notes	Expressway and related structures HK$'000 (note (a))	Buildings HK$'000 (notes (a), (b) and (c))	Leasehold improvements HK$'000	Plant and machinery HK$'000 (note (b))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2005									
At 1 January 2005:									
Cost		1,205,746	2,963,825	413,991	3,986,313	373,732	243,089	540,049	9,726,745
Accumulated depreciation and impairment		(167,671)	(685,981)	(306,648)	(1,906,982)	(201,795)	(119,097)	–	(3,388,174)
Net carrying amount		1,038,075	2,277,844	107,343	2,079,331	171,937	123,992	540,049	6,338,571
Net carrying amount:									
At 1 January 2005		1,038,075	2,277,844	107,343	2,079,331	171,937	123,992	540,049	6,338,571
Acquisition of subsidiaries	45	–	377,047	1,705	445,436	8,089	8,572	109,135	949,984
Additions		–	48,822	56,316	197,093	61,282	29,164	973,935	1,366,612
Transfer from construction in progress		–	625,748	49,177	458,739	32,829	3,737	(1,170,230)	–
Transfer to investment properties	17	–	(88,073)	–	–	–	–	–	(88,073)
Transfer to non-current assets held for sale	34	–	(15,222)	–	–	–	–	–	(15,222)
Depreciation provided for the year		(32,890)	(95,525)	(39,103)	(342,117)	(58,911)	(26,315)	–	(594,861)
Impairment during the year recognised in the income statement		–	(3,780)	–	–	–	–	–	(3,780)
Fair value gain on revaluation upon transfer to investment properties		–	12,712	–	–	–	–	–	12,712
Disposals		–	(11,303)	(9,433)	(7,070)	(9,756)	(5,590)	(15,299)	(58,451)
Disposal of subsidiaries	46(a)	–	(11,755)	–	(4,422)	(402)	(1,652)	–	(18,231)
Reclassifications		–	20,226	–	(36,403)	16,131	46	–	–
Exchange realignment		21,064	56,808	2,577	51,280	3,488	2,541	9,998	147,756
At 31 December 2005		1,026,249	3,193,549	168,582	2,841,867	224,687	134,495	447,588	8,037,017

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	Buildings HK$'000 *(notes (a) and (c))*	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2006					
At 31 December 2005 and 1 January 2006:					
Cost	43,611	5,038	5,747	2,056	56,452
Accumulated depreciation	(5,220)	(3,038)	(4,888)	(1,312)	(14,458)
Net carrying amount	38,391	2,000	859	744	41,994
Net carrying amount:					
At 1 January 2006	38,391	2,000	859	744	41,994
Additions	–	158	115	–	273
Depreciation provided for the year	(991)	(419)	(266)	(262)	(1,938)
Disposals	–	–	(176)	–	(176)
At 31 December 2006	37,400	1,739	532	482	40,153
At 31 December 2006:					
Cost	43,611	5,196	5,577	2,056	56,440
Accumulated depreciation	(6,211)	(3,457)	(5,045)	(1,574)	(16,287)
Net carrying amount	37,400	1,739	532	482	40,153
Year ended 31 December 2005					
At 1 January 2005:					
Cost	42,319	10,008	5,354	2,056	59,737
Accumulated depreciation	(4,248)	(9,206)	(4,565)	(1,050)	(19,069)
Net carrying amount	38,071	802	789	1,006	40,668
Net carrying amount:					
At 1 January 2005	38,071	802	789	1,006	40,668
Additions	1,292	1,961	393	–	3,646
Depreciation provided for the year	(972)	(148)	(323)	(262)	(1,705)
Disposals	–	(615)	–	–	(615)
At 31 December 2005	38,391	2,000	859	744	41,994

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Notes:

(a) The expressway and related structures, and buildings included above as at 31 December 2006 are held under the following lease terms:

Group

	Hong Kong	Elsewhere	Total
	HK$'000	HK$'000	HK$'000
Cost:			
Long term leases	45,734	–	45,734
Medium term leases	–	4,839,604	4,839,604
	45,734	4,839,604	4,885,338

The Company's buildings are all situated in Mainland China and are held under medium term leases.

(b) Certain of the above buildings, plant and machinery of the Group with an aggregate net carrying amount at the balance sheet date of HK$133,806,000 (2005: HK$275,857,000) were pledged to secure certain bank and other loans granted to the Group *(note 38(d))*.

(c) Certain buildings of the Group and the Company were reclassified from investment properties during the year ended 31 December 2000 at the then aggregate carrying amount of HK$41,000,000, as valued on 31 December 1999 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on the open market value basis. Had the carrying values of these buildings been carried at historical cost less accumulated depreciation, their net carrying amounts would have been HK$33,456,000 (2005: HK$34,380,000).

17. INVESTMENT PROPERTIES

	Notes	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Carrying amount at 1 January		446,820	342,722	134,000	134,000
Transfer from buildings	*16*	11,750	88,073	–	–
Disposals		(2,785)	(1,008)	–	–
Disposal of subsidiaries	*46(a)*	(148,640)	–	–	–
Deconsolidation of subsidiaries	*46(b)*	(48,390)	–	–	–
Fair value gains on revaluation, net		4,580	13,635	–	–
Exchange realignment		9,569	3,398	–	–
Carrying amount at 31 December		272,904	446,820	134,000	134,000

Notes:

(a) The investment properties of the Group as at 31 December 2006 are held under the following lease terms:

Group

	Hong Kong HK$'000	Elsewhere HK$'000	Total HK$'000
Long term leases	52,740	–	52,740
Medium term leases	9,100	211,064	220,164
	61,840	211,064	272,904

The Company's investment properties are all situated in Mainland China and are held under medium term leases.

(b) The investment properties are leased to third parties under operating leases, further summary details of which are included in note 51(a) to the financial statements. The gross rental income received and receivable by the Group and the Company and the related expenses in respect of these investment properties are summarised as follows:

	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Gross rental income	30,790	25,954	4,391	6,353
Direct expenses	(5,929)	(4,534)	(1,031)	(582)
Net rental income	24,861	21,420	3,360	5,771

(c) At 31 December 2006, the investment properties were revalued by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on an open market value basis using the Direct Comparison Approach or the Investment Approach.

18. PREPAID LAND PREMIUMS

Group

	Notes	2006 HK$'000	2005 HK$'000
Carrying amount at 1 January		**390,004**	438,369
Acquisition of subsidiaries	*45*	**169,949**	19,781
Additions		**38,071**	9,569
Transfer from/(to) non-current assets held for sale	*34*	**4,153**	(4,097)
Amortisation provided for the year		**(13,928)**	(12,028)
Disposals		**(1,157)**	(68,825)
Disposal of subsidiaries	*46(a)*	**(281,597)**	–
Deconsolidation of subsidiaries	*46(b)*	**(14,675)**	–
Exchange realignment		**20,023**	7,235
Carrying amount at 31 December		**310,843**	390,004
Portion classified as current assets		**(8,086)**	(12,684)
Non-current portion		**302,757**	377,320

All leasehold land of the Group as at 31 December 2006 are held under medium term leases.

19. GOODWILL

The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising on the acquisition of subsidiaries and minority interests, is as follows:

Group

	Notes	2006 HK$'000	2005 HK$'000
At 1 January:			
Cost		335,435	330,198
Accumulated impairment		(59,658)	–
Net carrying amount		275,777	330,198
Net carrying amount:			
At 1 January		275,777	330,198
Acquisition of subsidiaries	*45*	–	8,916
Acquisition of minority interests		3,168	3,061
Reclassification to interests in associates as a result of a subsidiary becoming an associate during the year	*23(c)*	(33,995)	–
Impairment during the year recognised in the income statement		(44,625)	(59,658)
Partial disposal of subsidiaries		–	(7,764)
Disposal of subsidiaries	*46(a)*	(35,901)	–
Deconsolidation of subsidiaries	*46(b)*	(123,019)	–
Exchange realignment		2,772	1,024
At 31 December		44,177	275,777
At 31 December:			
Cost		44,177	335,435
Accumulated impairment		–	(59,658)
Net carrying amount		44,177	275,777

Notes:

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

The amount of goodwill remaining in the consolidated capital reserve, arising on the acquisition of subsidiaries prior to 1 January 2001, was HK$26,062,000 as at 31 December 2006 (2005: HK$345,104,000). The amount of goodwill is stated at cost.

19. GOODWILL *(continued)*

Notes: (continued)

(b) Impairment testing of goodwill

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

Group

	Notes	2006 HK$'000	2005 HK$'000
Retail operation	*(i)*	–	34,520
Expressway and toll road operations	*(ii)*	21,687	21,687
Telecommunications and IT related services and products operation	*(iii)*	–	132,230
Geothermal energy systems operation	*(iv)*	–	44,625
Others		22,490	42,715
		44,177	275,777

Notes:

(i) The goodwill that has been allocated to the retail operation of the Group in the prior year was derecognised during the year upon the disposal of Wangfujing, details of which are set out in note 12 to the financial statements.

(ii) The recoverable amount of the relevant business unit in the expressway and toll road operations has been determined based on a value-in-use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering a period of approximately 15 years, which represents the remaining period of the operating right of the relevant business unit. The discount rate applied to cash flow projections is 13.5%, which is the average discount rate for the toll road industry in Mainland China.

(iii) The goodwill that has been allocated to the telecommunications and IT related services and products operation of the Group in the prior year comprised goodwill of HK$33,995,000 arising on the acquisition of Beijing Development by the Group in prior years and goodwill of HK$98,235,000 in aggregate arising on the acquisition of subsidiaries by the Beijing Development group itself. The goodwill was reallocated to interests in associates upon the dilution of the Group's equity interest in Beijing Development as a result of the issuance of new shares by Beijing Development in December 2006, further details of which are set out in note 46(b)(ii) to the financial statements.

(iv) The recoverable amount of the geothermal energy systems operation has been determined by reference to a business valuation performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on a value-in-use calculation using cash flow projections which are based on financial budgets approved by management covering a period of 5 years. The discount rate applied to the cash flow projections is 25%, which is determined by reference to the average discount rates for the relevant industries and the business risks of the relevant business units.

19. GOODWILL *(continued)*

Notes: (continued)

(b) Impairment testing of goodwill *(continued)*

During the year ended 31 December 2006, an impairment loss of HK$44,625,000 (2005: HK$59,658,000) has been recognised in the income statement for the goodwill attributable to the Group's geothermal energy systems operation as the senior management of the Group believes that the recoverable amount of the relevant business unit is less than the carrying amount with reference to the business valuation.

Based on the impairment testing of goodwill, in the opinion of the directors, no further impairment provision is considered necessary for the remaining balance of the Group's goodwill.

Key assumptions used in value-in-use calculations

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

- ***Budgeted turnover***

  The budgeted turnover is based on the following assumptions:

  – in respect of the relevant business unit in the expressway and toll road operations segment, based on the traffic and toll revenue forecast; and

  – in respect of the business units in other business segments, with reference to (i) the expected growth rate of the market in which the assessed entity operates and (ii) the expected market share of the assessed entity.

- ***Budgeted gross margins***

  The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements.

- ***Business environment***

  There have been no major changes in the existing political, legal and economic conditions in the PRC and other locations in which the assessed entity carried on its business.

20. OTHER INTANGIBLE ASSETS

Group

	Operating concessions HK$'000 (note)	Management Information systems HK$'000	Licences HK$'000	Deferred development costs* HK$'000	Total HK$'000
Year ended 31 December 2006					
At 31 December 2005 and 1 January 2006:					
Cost	**2,126,925**	**19,231**	**22,681**	**–**	**2,168,837**
Accumulated amortisation and impairment	**(627,231)**	**(8,012)**	**(15,728)**	**–**	**(650,971)**
Net carrying amount	**1,499,694**	**11,219**	**6,953**	**–**	**1,517,866**
Net carrying amount:					
At 1 January 2006	**1,499,694**	**11,219**	**6,953**	**–**	**1,517,866**
Additions	**–**	**–**	**–**	**1,639**	**1,639**
Amortisation provided for the year	**(106,415)**	**(2,000)**	**(449)**	**(670)**	**(109,534)**
Deconsolidation of subsidiaries – *note 46(b)*	**–**	**(9,667)**	**(6,565)**	**(955)**	**(17,187)**
Exchange realignment	**57,305**	**448**	**61**	**(14)**	**57,800**
At 31 December 2006	**1,450,584**	**–**	**–**	**–**	**1,450,584**
At 31 December 2006:					
Cost	**2,212,001**	**–**	**–**	**–**	**2,212,001**
Accumulated amortisation	**(761,417)**	**–**	**–**	**–**	**(761,417)**
Net carrying amount	**1,450,584**	**–**	**–**	**–**	**1,450,584**
Year ended 31 December 2005					
At 1 January 2005:					
Cost	2,027,321	18,868	21,994	16,936	2,085,119
Accumulated amortisation and impairment	(503,268)	(5,974)	(2,170)	(13,294)	(524,706)
Net carrying amount	1,524,053	12,894	19,824	3,642	1,560,413
Net carrying amount:					
At 1 January 2005	1,524,053	12,894	19,824	3,642	1,560,413
Acquisition of a subsidiary – *note 45*	47,596	–	–	–	47,596
Additions	–	–	471	2,197	2,668
Amortisation provided for the year	(102,605)	(1,887)	(1,491)	–	(105,983)
Impairment during the year recognised in the income statement	–	–	(12,000)	(5,870)	(17,870)
Exchange realignment	30,650	212	149	31	31,042
At 31 December 2005	1,499,694	11,219	6,953	–	1,517,866

* *Internally generated*

20. OTHER INTANGIBLE ASSETS *(continued)*

Note: **Operating concessions**

(i) Pursuant to a concession agreement dated 13 July 1998 entered into between the Company and 北京市自來水公司 (Beijing Municipal Water Company) ("Beijing Water"), the Company acquired at a consideration of RMB1.5 billion an operating right from Beijing Water to operate a water purification and treatment plant, No. 9 Phase I, in Beijing and sell purified water, for a period of 20 years commencing on 24 November 1998. Beijing Water has guaranteed the Company a net cash inflow of RMB210 million from the water purification and treatment business for each of the years in the concession period. The concession right so granted was subsequently transferred by the Company to Beijing Bei Kong Water Production Co., Ltd., a wholly-owned subsidiary set up by the Company for the purpose of holding this concession right and engaging in the water purification and treatment operation.

As at 31 December 2006, the remaining amortisation period of this operating concession is approximately 12 years.

(ii) Pursuant to a co-operative joint venture agreement dated 18 July 2001 entered into between Hong Kong Zhong Ji Facility Investment Co., Ltd., a 96.5% indirectly owned subsidiary of the Company, and 深圳市石觀公路有限公司 (Shenzhen Municipal Shiguan Road Company Limited) ("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 for 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.

As at 31 December 2006, the remaining amortisation period of this operating concession is approximately 15 years and 4 months.

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

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

As at 31 December 2006, the remaining amortisation period of this operating concession was approximately 31 years and 7 months.

21. INTERESTS IN SUBSIDIARIES

Company

	2006 HK$'000	2005 HK$'000
Unlisted shares or investments, at cost	4,150,940	3,711,852
Due from subsidiaries	2,164,148	2,480,986
Loans to a subsidiary	–	50,000
Due to subsidiaries	(1,035,517)	(741,785)
	5,279,571	5,501,053
Impairment	(441,174)	(441,174)
	4,838,397	5,059,879

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The loans to a subsidiary as at 31 December 2005 comprised two loans of HK$12 million and HK$38 million, respectively, which were unsecured, bore interest at a rate of 4% per annum and were fully repaid during the year. The carrying amounts of these balances approximate to their fair values.

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	Percentage of attributable equity interest held by Group	Principal activities
Beijing Yanjing Brewery Company Limited *	PRC/ Mainland China	RMB1,100,220,886	–	43.28†	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. #	PRC/ Mainland China	RMB250,000,000	–	21.06†	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司 (Baotou Yanjing Brewery Company Limited)	PRC/ Mainland China	RMB221,336,340	–	35.16†	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司 (Yanjing Brewery (Guilin Liquan) Company Limited)	PRC/ Mainland China	RMB197,139,900	–	33.04†	Production and sale of beer
燕京啤酒(桂林玉林)股份有限公司 (Yanjing Brewery (Guilin Yulin) Company Limited)	PRC/ Mainland China	RMB200,000,000	–	33.45†	Production and sale of beer

21. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
燕京啤酒(赤峰)有限責任公司 (Yanjing Brewery (Chifeng) Company Limited)	PRC/ Mainland China	RMB183,070,200	–	35.46†	Production and sale of beer
燕京啤酒(赤峰中京)有限責任公司 (Yanjing Brewery (Chifeng Zhongjing) Company Limited)	PRC/ Mainland China	RMB39,100,000	–	31.56†	Production and sale of beer
燕京啤酒(赤峰寶山)有限責任公司 (Yanjing Brewery (Chifeng Baoshan) Company Limited) δ	PRC/ Mainland China	RMB23,000,000	–	31.91†	Production and sale of beer
燕京啤酒(新疆)有限責任公司 (Yanjing Brewery (Xinjiang) Company Limited) δ	PRC/ Mainland China	RMB150,000,000	–	43.28†	Production and sale of beer
燕京啤酒(沈陽)有限責任公司 (Yanjing Brewery (Shenyang) Company Limited) δ	PRC/ Mainland China	RMB100,000,000	–	65.97	Production and sale of beer
燕京啤酒(贛州)有限責任公司 (Yanjing Brewery (Ganzhou) Company Limited)	PRC/ Mainland China	RMB86,880,000	–	41.50†	Production and sale of beer
燕京啤酒(衡陽)有限公司 (Yanjing Brewery (Hengyang) Company Limited)	PRC/ Mainland China	RMB180,660,000	–	40.57†	Production and sale of beer
湖南燕京啤酒有限公司 (Hunan Yanjing Brewery Company Limited)	PRC/ Mainland China	RMB95,000,000	–	40.09†	Production and sale of beer
江西燕京啤酒有限責任公司 (Jiangxi Yanjing Brewery Company Limited)	PRC/ Mainland China	RMB129,511,385	–	32.86†	Production and sale of beer

21. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
燕京啤酒(萊州)有限公司 (Yanjing Brewery (Laizhou) Company Limited)	PRC/ Mainland China	RMB187,053,800	–	69	Production and sale of beer
燕京啤酒(山東無名)股份有限公司(Yanjing Brewery (Shandong Wuming) Company Limited)	PRC/ Mainland China	RMB83,499,643	–	24.12†	Production and sale of beer
燕京啤酒(襄樊)有限公司 (Yanjing Brewery (Xiangfan) Company Limited)	PRC/ Mainland China	RMB170,700,000	–	42.27†	Production and sale of beer
福建燕京啤酒有限公司 (Fujian Yanjing Brewery Company Limited)	PRC/ Mainland China	RMB140,000,000	–	41.73†	Production and sale of beer
燕京啤酒(浙江仙都)有限公司 (Yanjing Brewery (Zhejiang Xiandu) Company Limited)	PRC/ Mainland China	RMB133,350,000	–	32.46†	Production and sale of beer
燕京啤酒(長沙)有限公司 (Yanjing Brewery (Changsha) Company Limited)	PRC/ Mainland China	RMB50,000,000	–	41.12†	Production and sale of beer
燕京啤酒(仙桃)有限公司 (Yanjing Brewery (Xiantao) Company Limited)	PRC/ Mainland China	RMB182,353,000	–	43.13†	Production and sale of beer
廣東燕京啤酒有限公司 (Guangdong Yanjing Brewery Company Limited)	PRC/ Mainland China	RMB100,000,000	–	57.46	Production and sale of beer
燕京啤酒(曲阜三孔)有限責任公司 (Yanjing Brewery (Qufu Sankong) Co., Ltd.)	PRC/ Mainland China	RMB230,769,230	–	55.55	Production and sale of beer
燕京惠泉啤酒(撫州)有限公司 (Yanjing Huiquan Brewery (Fuzhou) Co., Ltd.)	PRC/ Mainland China	RMB130,000,000	–	21.02†	Production and sale of beer

21. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
福建惠泉啤酒福鼎有限公司 (Fujian Huiquan Brewery Fuding Co., Ltd.)	PRC/ Mainland China	RMB80,000,000	–	17.90†	Production and sale of beer
北京燕京飲料有限公司 (Beijing Yanjing Beverage Company Limited)	PRC/ Mainland China	US$20,000,000	–	32.46†	Production and sale of beverages
Beijing Capital Expressway Development Co., Ltd.	PRC/ Mainland China	US$64,053,700	–	96	Operations of an expressway
Shenzhen Guanshun Road & Bridge Co., Ltd.	PRC/ Mainland China	RMB217,500,000	–	53.08	Operations of a toll road
Beijing Long Qing Xia Tourism Development Co., Ltd.	PRC/ Mainland China	RMB120,000,000	–	75	Operations of tourism businesses
Beijing Bei Kong Water Production Co., Ltd. Ω	PRC/ Mainland China	US$1,000,000	100	100	Operations of a water treatment plant
北京北控水務有限公司 (Beijing Beikong Waterworks Co., Ltd.)	PRC/ Mainland China	RMB100,000,000	–	99.9	Investment holding
Beijing Enterprises Holdings High-Tech Development Co., Ltd. ("High-Tech")	PRC/ Mainland China	US$30,000,000	97.99	97.99	Investment holding
Beijing Enterprises Holdings Investment Management Co., Ltd.	PRC/ Mainland China	HK$61,100,000	100	100	Provision of management and consultancy services
北京豐收葡萄酒有限公司 (Beijing Feng Shou Winery Co., Ltd.)	PRC/ Mainland China	US$2,700,000	51	51	Production and sale of wine
北京順興葡萄酒有限公司 (Beijing Shun Xing Winery Co., Ltd.)	PRC/ Mainland China	RMB11,880,000	51	51	Production and sale of wine

21. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
Beijing Enterprises (Properties) Limited	British Virgin Islands/ Hong Kong	US$160	100	100	Property investment
Helken Industries Limited	Hong Kong	HK$2	100	100	Property investment
北京燕京中發生物技術有限公司 (Beijing Yanjing Zhong Fa Biochemical Technology Company Limited)	PRC/ Mainland China	RMB40,000,000	–	34.62†	Production and sale of biochemical products

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

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

Shares of Yanjing Huiquan are listed on the Shanghai Stock Exchange. The equity interest in Yanjing Huiquan held by Yanjing Brewery was diluted from 52.37% to 48.67% upon the completion of the share reform plan of Yanjing Huiquan in July 2006 as detailed in note 5 to the financial statements. Nevertheless, Yanjing Huiquan continues to be treated as a subsidiary of the Group as Yanjing Brewery has the power to control over more than half of the voting rights of Yanjing Huiquan by virtue of an agreement with an independent shareholder of Yanjing Huiquan.

Ω This entity is registered as a wholly-foreign-owned enterprise under the PRC Law.

δ Acquired/incorporated during the year.

The principal subsidiaries disposed of by the Group during the year included Wangfujing and its subsidiaries, further details of the disposal transactions are included in notes 12 and 46(a) to the financial statements.

Certain subsidiaries of the Group have been deconsolidated during the year, further details of which are included in notes 5 and 46(b) to the financial statements.

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. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Notes	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Share of net assets	*(a)*	5,591	196,428	–	–
Due from jointly-controlled entities	*(b)*	500	21,564	338	516
Due to jointly-controlled entities	*(b)*	(4,170)	(35,074)	–	(14,132)
		1,921	182,918	338	(13,616)

Notes:

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

	2006 HK$'000	2005 HK$'000
Share of the jointly-controlled entities' assets and liabilities		
Non-current assets	142	196,449
Current assets	5,912	137,471
Non-current liabilities	–	(97,560)
Current liabilities	(463)	(47,117)
Losses in excess of investment costs not absorbed by the Group	–	7,185
Net assets	5,591	196,428
Share of the jointly-controlled entities' results		
Turnover	203,716	166,432
Other revenue	3,910	10,350
Total revenue	207,626	176,782
Total expenses	(211,959)	(199,551)
Loss before tax	(4,333)	(22,769)
Tax	(626)	(6,317)
Minority interests	–	2,194
Loss for the year	(4,959)	(26,892)
Attributable to:		
Continuing operations reported in the consolidated income statement	688	(12,712)
Discontinued operations – *note 12(a)*	(5,647)	(14,180)
	(4,959)	(26,892)

22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

Notes: (continued)

(b) The amounts due from/to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

(c) The principal jointly-controlled entities disposed of by the Group during the year included 北京王府井百貨商業物業管理有限公司 (Beijing Wang Fu Jing Retail Management Company Limited) and Beijing Wang Fu Jing Yokado Commercial Co., Ltd., which ceased to be jointly-controlled entities of the Group upon the disposal of the Group's equity interests in Wangfujing during the year, further details of which are included in note 12 to the financial statements.

Certain entities, including 北京教育信息網服務中心有限公司 (Beijing Education Information Network Service Centre Co., Ltd.) and 北京市政交通一卡通有限公司 (Beijing Municipal Administration & Communications Card Co., Ltd.), ceased to be jointly-controlled entities of the Group upon the deconsolidation of Beijing Development and its subsidiaries during the year, further details of which are included in notes 5 and 46(b)(ii) to the financial statements.

Particulars of the jointly-controlled entities of the Group as at 31 December 2006 are not presented in these financial statements as, in the opinion of the directors, these jointly-controlled entities do not principally affect the results of the Group for the year or form a substantial portion of the net assets of the Group. To give details of these jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

23. INTERESTS IN ASSOCIATES

		Group		Company	
		2006	2005	2006	2005
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Unlisted shares, at cost		–	–	46,168	46,168
Share of net assets	*(a)*	482,906	253,206	–	–
Due from associates	*(b)*	4,779	9,573	–	–
Due to associates	*(b)*	(1,826)	(8,956)	–	–
Goodwill on acquisition	*(c)*	33,995	–	–	–
		519,854	253,823	46,168	46,168
Impairment for amounts due from associates		–	(4,974)	–	–
		519,854	248,849	46,168	46,168

23. INTERESTS IN ASSOCIATES *(continued)*

Notes:

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

	2006 HK$'000	2005 HK$'000
Share of the associates' assets and liabilities		
Property, plant and equipment	158,267	181,888
Other non-current assets	207,005	73,546
Current assets	469,928	194,290
Non-current liabilities	(49,418)	(60,083)
Current liabilities	(251,443)	(132,884)
Minority interests	(51,433)	(3,551)
Net assets	482,906	253,206
Share of the associates' results		
Turnover	186,820	186,803
Other revenue	57,446	4,355
Total revenue	244,266	191,158
Total expenses	(180,391)	(168,162)
Profit before tax	63,875	22,996
Tax	(244)	(1,203)
Profit for the year	63,631	21,793
Attributable to:		
Continuing operations reported in the consolidated income statement	64,644	24,095
Discontinued operations – *note 12(a)*	(1,013)	(2,302)
	63,631	21,793

(b) The amounts due from/to associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

(c) The goodwill on acquisition included in the interests in associates of the Group as at 31 December 2006 represented the goodwill arising on the acquisition of Beijing Development by the Group in prior years and was reclassified from goodwill of the Group during the year when Beijing Development became an associate of the Group in December 2006, further details of which are set out in note 19(b)(iii) to the financial statements.

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

The amount of goodwill remaining in the consolidated capital reserve, arising on the acquisition of associates prior to 1 January 2001, was HK$74,236,000 as at 31 December 2006 (2005: HK$150,402,000). The amount of goodwill is stated at cost.

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 issued and paid-up capital/ registered capital	Percentage of Ownership interest attributable to the Group	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Beijing Development (Hong Kong) Limited Ω	Hong Kong	HK$591,981,150	46.57	46.57	46.57	Investment holding
Beijing Peking University WBL Biotech Co., Ltd. †	PRC/ Mainland China	RMB80,000,000	26.01	22.2	26.55	Production and sale of healthcare products
Biosino Bio-Technology and Science Incorporation ("BioSino") π	PRC/ Mainland China	RMB100,017,528	24.01	24.5	24.5	Production and sale of magnet diagnostic and pharmaceutical products
北京機電院高技術股份有限公司 (BMEI Co., Ltd.)*	PRC/ Mainland China	RMB135,872,209	38.27	38.27	38.27	Production and sale of mechanical and electrical equipment

Ω The interest in Beijng Development is indirectly held by the Company. Shares of Beijing Development are listed on the Main Board of the Stock Exchange. The fair value of the shares of Beijing Development held by the Group as at 31 December 2006, based on its then published price quotation, amounted to approximately HK$275,686,000.

† The interest in this associate is indirectly held by the Company.

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

* 23.44% and 14.83% equity interests of this associate are directly held by the Company and indirectly held by a wholly-owned subsidiary, respectively.

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

24. PLEDGED DEPOSITS

Group

	2006 HK$'000	2005 HK$'000
Pledged deposits – *note 33*	61,505	50,241
Portion classified as current assets	(59,305)	(15,557)
Non-current portion	2,200	34,684

(a) Short term pledged bank balances of HK$4,377,000 as at 31 December 2005 were pledged to banks to secure certain short term bank loans *(note 38(d))*.

(b) Short term pledged bank balances of HK$9,430,000 and long term pledged bank balances of HK$8,135,000 as at 31 December 2005 were pledged to banks as security for mortgage loans granted to certain purchasers of the Group's properties held for sale.

(c) Short term pledged bank balances of HK$57,982,000 (2005: HK$1,750,000) and long term pledged bank balances of HK$2,200,000 (2005: HK$26,549,000) were pledged to secure certain trade finance facilities granted to the Group *(note 42)*.

(d) Short term pledged bank balances of HK$1,323,000 (2005: Nil) were pledged to secure certain construction contracts of the Group.

25. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Listed equity investments in Hong Kong, at fair value	250	250	250	250
Unlisted equity investments, at cost	443,434	532,758	141,187	141,187
	443,684	533,008	141,437	141,437
Impairment	(90,770)	(22,971)	(8,690)	–
	352,914	510,037	132,747	141,437

Notes:

(a) During the year, the gross gain of the Group's available-for-sale investments recognised directly in the investment revaluation reserve amounted to HK$625,731,000 (2005: Nil) and the entire amount (2005: Nil) was removed from the investment revaluation reserve and recognised in the income statement for the year as part of the gain on disposal of interests in subsidiaries upon the disposal of Wangfujing during the year.

(b) Certain 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.

During the year, gain on disposal of available-for-sale investments stated at cost less any accumulated impairment losses recognised in the income statement amounted to HK$47,676,000 (2005: HK$1,514,000). The carrying amounts of these investments amounted to HK$86,337,000 (2005: HK$300,000) at the time of disposal.

26. PROPERTIES HELD FOR SALE

The carrying amount of the Group's properties held for sale that are carried at net realisable value as at 31 December 2005 was HK$28,713,000.

27. INVENTORIES

Group

	2006 HK$'000	2005 HK$'000
Raw materials	**1,411,423**	1,181,061
Work in progress	**119,348**	112,234
Finished goods	**117,936**	180,007
Trading stocks	**–**	101,621
	1,648,707	1,574,923

28. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

Group

	2006 HK$'000	2005 HK$'000
Amounts due from customers for contract work	**–**	25,238
Amounts due to customers for contract work	**–**	(48,580)
	–	(23,342)
Contract costs incurred plus recognised profits less recognised losses to date	**–**	67,695
Less: Progress billings received and receivable	**–**	(91,037)
	–	(23,342)

29. TRADE AND BILLS RECEIVABLES

The various group companies have different credit policies, depending on the requirements of their markets and the businesses which they operate. Certain customers are allowed to settle the construction contract sum by three annual instalments. 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 balance sheet date, based on the invoice date and net of impairment, is as follows:

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	439,738	769,933	2,982	4,844
One to two years	8,485	112,168	–	–
Two to three years	5,139	66,728	–	–
Over three years	4,951	13,082	–	–
	458,313	961,911	2,982	4,844
Portion classified as current assets	(458,313)	(928,709)	(2,982)	(4,844)
Non-current portion	–	33,202	–	–

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2006	2005	2006	2005
	Note	HK$'000	HK$'000	HK$'000	HK$'000
Prepayments		12,181	46,812	476	1,632
Deposits and other debtors		397,830	592,822	1,064	3,286
Due from holding companies	*31*	411,763	435,383	404,761	219,220
Due from fellow subsidiaries	*31*	26,010	29,108	26,010	29,108
Due from related companies	*31*	926,742	264,723	78,698	122,778
		1,774,526	1,368,848	511,009	376,024
Portion classified as current assets		(1,644,518)	(1,055,066)	(443,451)	(236,080)
Non-current portion		130,008	313,782	67,558	139,944

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

The Group's deposits and other debtors as at 31 December 2006 included the following:

(i) an aggregate amount of HK$101,472,000 (2005: HK$90,346,000) paid in advance to related companies arising from purchases of raw materials in the ordinary course of business of the Group. The balances with the related companies are unsecured and interest-free; and

(ii) the amortised cost of a loan advanced to 北京市八達嶺旅遊總公司 (Beijing Badaling Tourism Corporation) ("Badaling Tourism Corporation"), a company which previously had a beneficial interest in a fellow subsidiary of the Company at the date of advance, by the Group in March 2006. The amount, with an original principal of RMB64,000,000, is secured by a 75% equity interest in Badaling Tourism, a then fellow subsidiary of the Company which became a subsidiary of Badaling Tourism Corporation subsequent to the balance sheet date, bears interest at a rate of 3.5% per annum and is repayable in 16 equal quarterly instalments with the last instalment being due for repayment in 2010.

As at 31 December 2006, the outstanding loan to Badaling Tourism Corporation amounted to RMB52,670,000 with a corresponding amortised cost of HK$49,583,000, comprising the current and non-current portions of HK$16,266,000 and HK$33,317,000, respectively. Interest income of RMB1,773,000 (approximately HK$1,728,000) was recognised in the consolidated income statement during the year ended 31 December 2006.

31. DUE FROM/TO HOLDING COMPANIES/FELLOW SUBSIDIARIES/ RELATED COMPANIES

The amounts due from/to holding companies/fellow subsidiaries/related companies are unsecured, interest-free and have no fixed terms of repayment, except for the following:

			At amortised cost			
	Notes	Total at cost HK$'000	Overdue HK$'000	Due within one year HK$'000	Due after one year HK$'000	Total HK$'000
At 31 December 2006						
Holding companies						
BHL	*(i)*	213,654	71,218	70,935	67,557	209,710
Beijing Holdings (BVI) Limited	*(i)*	165,785	31,050	128,352	–	159,402
		379,439	102,268	199,287	67,557	369,112
Fellow subsidiary						
Canfort Investment Limited	*(i)*	26,733	11,457	14,552	–	26,009
Related company						
Jason New Resources Holdings Limited ("Jason New")	*(ii)*	78,810	15,378	30,588	29,133	75,099
Less: Impairment		(44,509)	(15,378)	(29,131)	–	(44,509)
		34,301	–	1,457	29,133	30,590
At 31 December 2005						
Holding companies						
BHL	*(i)*	205,128	–	68,104	126,619	194,723
Beijing Holdings (BVI) Limited	*(i)*	226,716	–	92,562	117,539	210,101
		431,844	–	160,666	244,158	404,824
Fellow subsidiary						
Canfort Investment Limited	*(i)*	25,705	–	10,495	13,326	23,821
Related company						
北京三元集團有限責任公司 ("San Yuan Group")	*(iii)*	106,991	40,580	60,419	–	100,999

31. DUE FROM/TO HOLDING COMPANIES/FELLOW SUBSIDIARIES/ RELATED COMPANIES *(continued)*

Notes:

(i) The amounts due from the holding companies and the fellow subsidiary represented the outstanding cash considerations in respect of their acquisitions of the Group's equity interests in certain subsidiaries and jointly-controlled entities during the year ended 31 December 2005. The considerations were repayable in a number of instalments in accordance with the relevant sale and purchase agreements. The overdue instalments as at 31 December 2006 remained unsettled as at the date of approval of these financial statements. Despite this, in the opinion of the directors, no impairment loss on these amounts is foreseen.

(ii) The amount due from Jason New represented the outstanding cash consideration in respect of its acquisition of the Group's 36.78% equity interest in Beijing Enterprises Ever Source Limited ("BEES"), a company which was deconsolidated as a result of an entrusted operating arrangement entered into between the Group and a related party during the year. The total consideration is repayable in six instalments. Further details of the transaction are set out in note 46(b)(i) to the financial statements.

(iii) The amount due from San Yuan Group, a related company, represented the outstanding cash consideration in respect of its acquisition of the Group's equity interest in BE Dairy during the year ended 31 December 2005. The amount due was repayable in three instalments. San Yuan Group ceased to be a related company of the Group during the year ended December 2006.

The balances with related companies of the Group included in deposits and other debtors and trade and bills payables are disclosed in notes 30 and 42 to the financial statements, respectively.

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Listed equity investments in Hong Kong	7,017	16,682	7,017	5,760
Unlisted fund	2,689	28,869	2,689	28,869
	9,706	45,551	9,706	34,629

33. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**2,597,596**	2,917,382	**8,813**	24,685
Cash equivalents	**50,225**	59,326	**50,225**	59,326
Time deposits	**122,079**	581,588	**93,594**	108,496
	2,769,900	3,558,296	**152,632**	192,507
Less: Pledged deposits – *note 24*	**(61,505)**	(50,241)	**–**	–
Cash and cash equivalents	**2,708,395**	3,508,055	**152,632**	192,507

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in RMB amounted to HK$2,543,520,000 (2005: HK$2,745,914,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

34. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DIRECTLY ASSOCIATED LIABILITIES

The non-current assets classified as held for sale as at 31 December 2005 were a building and a prepaid land premium of the Group in Mainland China with translated net carrying amounts of HK$15,222,000 *(note 16)* and HK$4,097,000 *(note 18)* at that date, respectively, that were originally to be sold by the Group to a third party for a total cash consideration of approximately HK$76,923,000 pursuant to a sale and purchase agreement entered into between the two parties. A deposit of approximately HK$46,154,000 had been received from the third party as at 31 December 2005.

The sales transaction was subsequently cancelled as mutually agreed between the two parties during the year ended 31 December 2006. As a result, the building and the prepaid land premium were reclassified to property, plant and equipment, and prepaid land premium, respectively, at their then respective translated net carrying amounts of approximately HK$15,430,000 *(note 16)* and HK$4,153,000 *(note 18)*, and the deposit received was refunded to the third party during the year.

35. SHARE CAPITAL

Shares

	Company 2006 HK$'000	2005 HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	200,000	200,000
Issued and fully paid:		
622,500,000 ordinary shares of HK$0.10 each	62,250	62,250

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 36 to the financial statements.

36. SHARE OPTION SCHEMES

The Company

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 options to subscribe for ordinary shares of the Company at HK$1 per grant of options.

36. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

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

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

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

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

36. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

The following set out the movements in the share options granted under the Scheme during the year ended 31 December 2006:

Name or category of participant	Number of share options At 1 January 2006	Granted during the year *(note)*	At 31 December 2006
Directors:			
Mr. Yi Xi Qun	–	650,000	650,000
Mr. Zhang Hong Hai	–	450,000	450,000
Mr. Li Fu Cheng	–	450,000	450,000
Mr. Bai Jin Rong	–	450,000	450,000
Mr. Liu Kai	–	300,000	300,000
Mr. Guo Pu Jin	–	300,000	300,000
Mr. Zhou Si	–	300,000	300,000
Mr. E Meng	–	300,000	300,000
Mr. Zhao Chang Shan	–	300,000	300,000
Mr. Lei Zhen Gang	–	300,000	300,000
	–	3,800,000	3,800,000
Other employees:			
In aggregate	–	2,100,000	2,100,000
	–	5,900,000	5,900,000

Note: These options were granted on 19 July 2006 at an exercise price of HK$12.55 per share of the Company. The exercise price was determined based on the average closing price on the previous five trading days before the date of grant. The cash consideration paid by each director and employee for the options granted was HK$1 per grant of options. The options may be exercised in two portions, with the first portion (representing 80% of the total options granted for each grantee) being vested on 19 January 2007 and exercisable at any time from that date; and the second portion (representing the remaining 20% of the total options granted for each grantee) being vested and exercisable upon the Company's full satisfaction of performance appraisal at the end of the grantee's contracts with the Company, save that such date shall not be later than 18 July 2011. All the options, if not otherwise exercised, will lapse on 18 July 2011.

36. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Notes: (continued)

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

The estimated fair value of the share options granted during the year was HK$23,600,000, of which the Group recognised in the income statement employee share option benefits of HK$21,279,000 during the year ended 31 December 2006. The fair value of the options granted was estimated as at the date of grant using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

- Share price as at the grant date of HK$12.35 per share, which was the closing price of the Company's shares on the Stock Exchange at 19 July 2006;
- Risk-free rate of 4.45% per annum, which was the yield of the 5-year Hong Kong Monetary Authority Exchange Fund Note in July 2006;
- Expected annualised share price volatility of 38.08%, of which reference was made to the volatility of the historical share price of the Company from 19 July 2005 to 18 July 2006;
- Dividend yield of 2.44%;
- Expected life of the options of 5 years; and
- The factor regarding the second portion of the options which is associated with the Company's full satisfaction of performance appraisal at the end of the grantees' contracts with the Company has not been quantified and considered in this valuation.

The expected volatility reflects the assumption that the volatility for 12 months is indicative of future trends, which may not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

No share options were exercised during the year and up to the date of approval of these financial statements. At 31 December 2006, the Company had 5,900,000 share options outstanding under the Scheme, which represented approximately 0.9% of the Company's shares in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 5,900,000 additional ordinary shares of the Company and additional share capital of HK$590,000 and share premium of HK$73,455,000 (before any issue expenses).

36. SHARE OPTION SCHEMES *(continued)*

Beijing Development

Beijing Development, previously a subsidiary of the Company whose shares are listed on the Main Board of the Stock Exchange and became an associate of the Company in December 2006 as detailed in notes 5 and 46(b)(ii) to the financial statements, operates a share option scheme (the "BDHK Scheme") to give executives and key employees of the Beijing Development group an interest in preserving and maximising its shareholders' value in the longer term, to enable Beijing Development and its relevant subsidiaries to attract and retain individuals with experience and ability and to reward individuals for future performance. Eligible participants of the BDHK Scheme include the executive directors and employees of Beijing Development or any of its subsidiaries. The BDHK Scheme became effective on 18 June 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the BDHK Scheme is an amount equivalent, upon their exercise, to 10% of the shares of Beijing Development in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the BDHK Scheme is limited to 25% of the aggregate number of shares for the time being issued and issuable under the BDHK Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of Beijing Development, and commences after a certain vesting period and ends on a date which is not later than five years from the date on which the offer of the share options is accepted or on the expiry date of the BDHK Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors of Beijing Development, but may not be less than the highest of (i) the closing price of Beijing Development's ordinary shares on the Stock Exchange on the date of the offer of the share options; (ii) the average closing price of Beijing Development's ordinary shares on the Stock Exchange on the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share of Beijing Development. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in Beijing Development's share capital.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

36. SHARE OPTION SCHEMES *(continued)*

Beijing Development *(continued)*

The following sets out the movements in the share options granted under the BDHK Scheme during the year ended 31 December 2006:

Name or category of participant	*Notes*	At 1 January 2006	Granted during the year	Lapsed/ forfeited during the year	At 31 December 2006
		Number of share options			
Directors of the Company:					
Mr. Zhang Hong Hai	*(c)*	–	4,000,000	–	4,000,000
Mr. E Meng	*(a)*	1,600,000	–	(1,600,000)	–
	(b)	1,200,000	–	–	1,200,000
	(c)	–	1,600,000	–	1,600,000
		2,800,000	1,600,000	(1,600,000)	2,800,000
Other employees:					
In aggregate	*(a)*	6,360,000	–	(6,360,000)	–
	(b)	18,900,000	–	(6,300,000)	12,600,000
	(c)	–	25,900,000	(100,000)	25,800,000
		25,260,000	25,900,000	(12,760,000)	38,400,000
		28,060,000	31,500,000	(14,360,000)	45,200,000

Notes:

(a) These options were granted on 19 June 2001 at an exercise price of HK$1.13 per share and all of them lapsed on 26 June 2006.

(b) These options were granted on 18 January 2002 at an exercise price of HK$1.00 per share. The options may be exercised in three equal portions. The first portion is exercisable at any time commencing on 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. Owing to the resignation of certain employees of Beijing Development during the year, the 6,300,000 share options granted to them were forfeited accordingly. All of the remaining options were subsequently exercised on 9 January 2007.

36. SHARE OPTION SCHEMES *(continued)*

Beijing Development *(continued)*

Notes: (continued)

(c) These options were granted and vested on 27 June 2006 at an exercise price of HK$1.00 per share. The closing price of Beijing Development's shares on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options was HK$0.84 per share. The options may be exercised at any time commencing on 27 June 2006 and, if not otherwise exercised, will lapse on 16 June 2011.

The estimated fair value of the 31,500,000 share options granted during the year was HK$5,214,000 which was fully recognised in the income statement of the Group as employee share option benefits during the year ended 31 December 2006. The fair value of the options as at the date of grant was estimated using the Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

- Weighted average share price of HK$0.753 per share, which was the closing price of Beijing Development at 27 June 2006;
- Risk-free rate of 4.68% to 4.71%, of which reference was made to the Hong Kong Monetary Authority Exchange Fund Notes with maturity similar to the expected life of the options;
- Expected volatility of 48.27% to 48.44%, of which reference was made to the volatility of Beijing Development's shares in periods of 24 to 30 months periods before the grant date of the options;
- Nil dividend yield; and
- Expected life of the options of 24 to 30 months.

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the volatility for 24 to 30 months is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

No share options were exercised during the year. At 31 December 2006, Beijing Development had 45,200,000 share options outstanding under the BDHK Scheme, which represented approximately 7.6% of Beijing Development's shares in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of Beijing Development, result in the issue of 45,200,000 additional ordinary shares of Beijing Development and additional share capital of HK$45,200,000. At the date of approval of these financial statements, 36,800,000 share options outstanding at 31 December 2006 were exercised, which increased the share capital of Beijing Development by HK$36,800,000.

36. SHARE OPTION SCHEMES *(continued)*

Xteam

(a) Pre-IPO share option scheme

Xteam, which ceased to be a subsidiary of the Company when its holding company, Beijing Development, became an associate of the Company in December 2006 as further detailed in note 5 to the financial statements and whose shares are listed on The Growth Enterprise Market of the Stock Exchange, adopted a Pre-IPO share option scheme (the "Xteam Pre-IPO Scheme") on 30 May 2001. The Xteam Pre-IPO Scheme was terminated on 11 December 2001 and no further options can be granted under the Xteam Pre-IPO Scheme. However, all options granted prior to the termination of the Xteam Pre-IPO Scheme will remain in full force and effect.

The following sets out the movements in the share options granted under the Xteam Pre-IPO Scheme during the year ended 31 December 2006:

	Number of share options		
Category of participant	**At 1 January 2006**	**Forfeited during the year**	**At 31 December 2006**
Other employees:			
In aggregate *(note)*	50,000,000	(50,000,000)	–

Note: These options were granted on 14 November 2001 at an exercise price of HK$0.266 per share of Xteam. The options are exercisable at any time commencing on 11 June 2002 and, if not otherwise exercised, will lapse on 13 November 2011. Owing to the resignation of certain employees of Xteam during the year, the 50,000,000 options granted to them were forfeited accordingly.

At 31 December 2006, Xteam did not have any share options outstanding under the Pre-IPO Share Option Scheme.

36. SHARE OPTION SCHEMES *(continued)*

Xteam *(continued)*

(b) Share option scheme

On 21 November 2001, Xteam adopted a share option scheme (the "Xteam Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Xteam group's operations. Eligible participants of the Xteam Scheme include the Xteam's executive and non-executive directors, full-time employees, advisers and consultants of the Xteam group. The Xteam Scheme became effective on 21 November 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and yet to be granted under the Xteam Scheme is currently limited to 30% of the shares of Xteam in issue at any time. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible participant in the Xteam Scheme in any 12-month period up to the date of the grant is limited to 1% of the aggregate number of issued share capital of Xteam from time to time.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of Xteam at their discretion, and commences on the date upon which the options are deemed to be granted and accepted.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the closing price of Xteam's ordinary shares on the Stock Exchange on the date of the offer of the share options; and (ii) the average closing price of Xteam's ordinary shares on the Stock Exchange on the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

36. SHARE OPTION SCHEMES *(continued)*

Xteam *(continued)*

(b) Share option scheme *(continued)*

The following sets out the movements in the share options granted under the Xteam Scheme during the year ended 31 December 2006:

	Number of share options		
Category of participant	**At 1 January 2006**	**Forfeited during the year**	**At 31 December 2006**
Other employees:			
In aggregate *(note)*	13,500,000	(4,700,000)	8,800,000
Advisers and consultants:			
In aggregate *(note)*	33,000,000	–	33,000,000
	46,500,000	(4,700,000)	41,800,000

Note: These options were granted on 19 December 2003 at an exercise price of HK$0.14 per share of Xteam. The options are exercisable at any time commencing on 19 December 2003 and, if not otherwise exercised, will lapse on 18 December 2013. Owing to the resignation of certain employees of Xteam during the year, the 4,700,000 share options granted to them were forfeited accordingly. No portion of the remaining share options was exercised during the year.

At 31 December 2006, Xteam had 41,800,000 share options outstanding under the Xteam Scheme, which represented approximately 1.1% of Xteam's shares in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of Xteam, result in the issue of 41,800,000 additional ordinary shares of Xteam and additional share capital of HK$418,000 and share premium of HK$5,434,000 (before issue expenses).

37. RESERVES

(a) Group

(i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 34 to 35 of the financial statements.

(ii) 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 of 31 December 2006 was distributable in the form of cash dividends.

(iii) Certain amounts of goodwill arising on the acquisition of subsidiaries and associates in prior years remain eliminated against the consolidated capital reserve as further explained in notes 19 and 23(c) the financial statements, respectively.

(b) Company

	Notes	**Share premium account** HK$'000	**Share option reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2005		4,839,497	–	517,521	5,357,018
Total income and expenses for the year – Loss for the year	*13*	–	–	(111,190)	(111,190)
Interim 2005 dividend	*14*	–	–	(62,250)	(62,250)
Proposed final 2005 dividend	*14*	–	–	(124,500)	(124,500)
At 31 December 2005 and 1 January 2006		4,839,497	–	219,581	5,059,078
Total income and expenses for the year – Profit for the year	*13*	–	–	462,334	462,334
Interim 2006 dividend	*14*	–	–	(62,250)	(62,250)
Proposed final 2006 dividend	*14*	–	–	(124,500)	(124,500)
Share options granted	*36*	–	21,279	–	21,279
At 31 December 2006		4,839,497	21,279	495,165	5,355,941

38. BANK AND OTHER BORROWINGS

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Bank overdrafts, unsecured	–	8,068	–	–
Bank loans:				
Secured	112,061	543,456	–	–
Unsecured	1,621,484	2,005,902	243,600	664,775
	1,733,545	2,549,358	243,600	664,775
Other loans, unsecured	167,403	321,017	–	–
Total bank and other borrowings	1,900,948	2,878,443	243,600	664,775
Bank overdrafts repayable on demand	–	8,068	–	–
Bank loans repayable:				
Within one year	1,297,038	2,335,132	243,600	664,775
In the second year	360,838	1,420	–	–
In the third to fifth years, inclusive	62,513	196,746	–	–
Beyond five years	13,156	16,060	–	–
	1,733,545	2,549,358	243,600	664,775
Other loans repayable:				
Within one year	36,912	161,932	–	–
In the second year	34,956	37,577	–	–
In the third to fifth years, inclusive	5,868	51,354	–	–
Beyond five years	89,667	70,154	–	–
	167,403	321,017	–	–
Total bank and other borrowings	1,900,948	2,878,443	243,600	664,775
Portion classified as current liabilities	(1,333,950)	(2,505,132)	(243,600)	(664,775)
Non-current portion	566,998	373,311	–	–

38. BANK AND OTHER BORROWINGS *(continued)*

Notes:

(a) The bank loans of the Group and the Company as at 31 December 2005 included a loan of US$70 million in relation to a five-year US$180 million syndicated loan facility obtained by the Company in 2001. The syndicated loan bore interest at LIBOR+0.6% and was fully repaid in 2006.

(b) The other loans of the Group include amortised cost of interest-free loans of HK$101,403,000 (2005: HK$99,384,000) granted from related companies. The remaining other loans of HK$66,000,000 (2005: HK$221,633,000) bear interest at a rate of 6% (2005: 5% to 9%) per annum.

(c) HK$185,000,000 (2005: HK$188,873,000) of the Group's unsecured bank loans at the balance sheet date were guaranteed by the joint venture partners of certain of the Group's PRC subsidiaries or their associates and a jointly-controlled entity.

(d) Certain of the Group's bank loans are secured by mortgages over the Group's buildings and plant and machinery with an aggregate net carrying amount at the balance sheet date of HK$133,806,000 (2005: HK$275,857,000) *(note 16(b))*.

In addition, certain of the Group's secured bank loans as at 31 December 2005 were secured by mortgages over certain of the Group's bank balances at that date of HK$4,377,000 in aggregate *(note 24(a))*.

39. CONVERTIBLE BONDS

On 16 October 2002, Yanjing Brewery, a subsidiary held indirectly as to 43.28% by the Company as at 31 December 2006 (2005: 54.46%), issued at face value five year 1.2% convertible bonds (the "Convertible Bonds") in an aggregate principal amount of RMB700,000,000 with a face value of RMB100 each.

The Convertible Bonds are convertible, at the option of the bondholders, into fully-paid ordinary shares of Yanjing Brewery at an original conversion price of RMB10.59 per share, which was adjusted to RMB7.06 per share as a result of a bonus issue made by Yanjing Brewery during the year ended 31 December 2005 and is subject to further adjustments in certain events. The conversion period for the Convertible Bonds is from 16 October 2003 to 16 October 2007 (the "Conversion Period"), both dates inclusive. Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds are redeemable at face value at the end of the Conversion Period, together with any accrued interest.

Yanjing Brewery has the right to redeem the Convertible Bonds, in whole or in part, during the Conversion Period, at a redemption price of RMB102 each, subject to adjustments in certain events, when the closing price of the ordinary shares of Yanjing Brewery is higher than the then conversion price of the Convertible Bonds by more than 30% for 20 consecutive days. On the other hand, the bondholders have the right to have Yanjing Brewery redeem the Convertible Bonds at the redemption price, subject to adjustments in certain events, when the closing price of ordinary shares of Yanjing Brewery is lower than the then conversion price of the Convertible Bonds by more than 30% for 20 consecutive days.

39. CONVERTIBLE BONDS *(continued)*

The Convertible Bonds are guaranteed by the Company, which was approved by the shareholders of the Company in an extraordinary general meeting held on 11 April 2002. 北京燕京啤酒集團公司 (Beijing Yanjing Beer Group Company) ("Yanjing Beer Group"), which has beneficial interests in Yanjing Brewery, has undertaken to counter-indemnify the Company in respect of any contingencies arising from the portion of the guarantee exceeding the Company's effective proportional equity interest of 43.28% in Yanjing Brewery.

The fair value of the liability component of the 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 Convertible Bonds is not material to the Group and accordingly, the whole amount of the Convertible Bonds is accounted for as a financial liability of the Group.

During the year ended 31 December 2006, 5,702,748 units (2005: 465,132 units and 63,020 units) of the Convertible Bonds issued by Yanjing Brewery with an aggregate principal amount of approximately HK$569,863,000 (2005: HK$50,079,000) were exercised by certain bondholders in exchange for ordinary shares of Yanjing Brewery at the conversion price of RMB7.06 per share (2005: respective conversion prices of RMB10.59 and RMB7.06 per share, (as adjusted to take into account the bonus issue made by Yanjing Brewery during the year ended 31 December 2005) and as a result of which, the Company's effective equity interest in Yanjing Brewery was diluted to 50.47% (2005: 54.46%) and a gain on deemed disposal of HK$141,341,000 (2005: HK$14,498,000) had been recognised in the consolidated income statement for the year *(note 5)*.

40. OTHER LONG TERM LIABILITIES

Group

	2006 HK$'000	2005 HK$'000
Deferred income *(note)*	–	15,559
Others	21,570	17,123
	21,570	32,682

Note: The Group received certain incentives from landlords of certain department stores' operating lease arrangements. Such incentives were included in deferred income in the balance sheet, and would be released and recognised in the income statement as a reduction in rental expenses on the straight-line basis over the relevant lease terms.

41. DEFERRED TAX

Net deferred tax assets/(liabilities) recognised in the consolidated balance sheet:

Group

	2006 HK$'000	2005 HK$'000
Deferred tax assets	663	67,772
Deferred tax liabilities	(20,512)	(168,527)
	(19,849)	(100,755)

41. DEFERRED TAX *(continued)*

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

Group

	Revaluation of properties HK$'000	Fair value adjustments arising on acquisition of subsidiaries HK$'000	Differences in depreciation allowances and related depreciation HK$'000	Changes in fair value of available-for-sale investments HK$'000	Impairment and general provision HK$'000	Total HK$'000
Net deferred tax assets/(liabilities) at 1 January 2005	(3,302)	(134,956)	3,353	–	33,917	(100,988)
Arising on acquisition of a subsidiary – *note 45*	–	–	(382)	–	–	(382)
Deferred tax credited/(charged) to income statement during the year – *note 11*	–	–	(2,469)	–	4,940	2,471
Exchange realignment	(68)	(2,790)	41	–	961	(1,856)
Net deferred tax assets/(liabilities) at 31 December 2005 and 1 January 2006	(3,370)	(137,746)	543	–	39,818	(100,755)
Arising on acquisition of a subsidiary – *note 45*	–	(50)	–	–	–	(50)
Deferred tax credited/(charged) to income statement during the year – *note 11*	–	(1,244)	3,137	–	(23,147)	(21,254)
Deferred tax debited to equity during the year	–	–	–	(206,491)	–	(206,491)
Disposal of subsidiaries – *note 46(a)*	3,505	143,371	(23,084)	211,860	(10,601)	325,051
Deconsolidation of subsidiaries – *note 46(b)*	–	–	–	–	(6,178)	(6,178)
Exchange realignment	(135)	(5,543)	104	(5,369)	771	(10,172)
Net deferred tax assets/(liabilities) at 31 December 2006	–	(1,212)	(19,300)	–	663	(19,849)

At 31 December 2006, deferred tax assets have not been recognised in respect of unused tax losses of HK$572,885,000 as they have 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.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

42. TRADE AND BILLS PAYABLES

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

Group

	2006 HK$'000	2005 HK$'000
Within one year	709,773	1,120,017
One to two years	15,451	25,677
Two to three years	1,948	7,313
Over three years	6,443	12,548
	733,615	1,165,555

Included in the Group's trade and bills payables at the balance sheet date are amounts of HK$240,986,000 (2005: HK$195,132,000) due to related companies 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 to their major customers.

Certain of the Group's bills payables at the balance sheet date are secured by mortgages over certain of the Group's bank balances with an aggregate amount of HK$60,182,000 (2005: HK$28,299,000) *(note 24(c))*.

43. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2006	2005	2006	2005
	Note	HK$'000	HK$'000	HK$'000	HK$'000
Accruals		210,190	295,874	46,715	47,081
Other liabilities		791,426	1,257,348	16,187	42,013
Due to a fellow subsidiary	*31*	9,968	8,523	9,968	8,523
Due to related companies	*31*	24,556	277,672	699	–
		1,036,140	1,839,417	73,569	97,617

44. TAXES PAYABLE

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Income/profits tax	354,492	170,427	–	–
Consumption tax	101,708	77,370	–	–
Value-added tax	63,425	96,580	–	–
Business tax	1,897	9,385	–	–
Others	29,576	41,370	8,272	9,646
	551,098	395,132	8,272	9,646

45. BUSINESS COMBINATIONS

The fair value of the identifiable assets, liabilities of the subsidiaries acquired during the year as at their respective dates of acquisition, which have no significant differences from their respective carrying amounts, is as follows:

	Notes	**2006** **HK$'000** *(note (a))*	2005 HK$'000 *(note (b))*
Net assets acquired:			
Property, plant and equipment	*16*	**87,449**	949,984
Prepaid land premiums	*18*	**169,949**	19,781
Operating concession	*20*	**–**	47,596
Non-current prepayment, deposits and other receivables		**–**	1,433
Available-for-sale investments		**–**	4,375
Inventories		**9,612**	118,347
Trade and bills receivables		**5,673**	15,200
Prepayments, deposits and other receivables		**221,634**	32,840
Cash and bank balances		**70,696**	76,916
Trade and bills payables		**(48,356)**	(59,836)
Other payables and accruals		**(193,270)**	(74,745)
Taxes payable		**(1,577)**	(3,143)
Bank and other borrowings		**(19,493)**	(149,237)
Deferred tax liabilities	*41*	**(50)**	(382)
Minority interests		**–**	(457,884)
		302,267	521,245
Goodwill arising on acquisition	*19*	**–**	8,916
		302,267	530,161
Satisfied by:			
Cash		**302,267**	128,862
Costs associated with the acquisition		**–**	425
Reclassification to interests in subsidiaries from interests in jointly-controlled entities		**–**	65,107
Reclassification to interests in subsidiaries from interests in associates		**–**	326,152
Promissory note		**–**	9,615
		302,267	530,161
Profit for the year since acquisition		**3,149**	9,783*

* The amounts disclosed above only included the profit for the year attributable to the additional interest of relevant companies acquired by the Group during the year ended 31 December 2005.

45. BUSINESS COMBINATIONS *(continued)*

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

	2006 HK$'000	2005 HK$'000
Cash and bank balances acquired	70,696	76,916
Cash paid for costs associated with the acquisitions and cash consideration paid for acquisitions in the current year	(302,267)	(129,287)
Cash consideration paid for acquisitions in the previous year	–	(86,670)
Investment deposit paid at beginning of year	–	61,715
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(231,571)	(77,326)

Notes:

(a) Pursuant to an equity transfer agreement dated 28 August 2006 entered into between Wangfujing and 北京王府井東安集團有限責任公司 (Beijing Wangfujing Dongan Group Co., Ltd.) ("Dongan Group", a related company in which the legal representative is a director of the Company), Wangfujing acquired a 100% equity interest in 北京長安商場有限責任公司 (Changan Department Store Company Limited) ("Chang An", a company operating a department store in Beijing, the PRC) from Dongan Group for a cash consideration of RMB310,128,000 (approximately HK$302,267,000). The acquisition was completed on 18 October 2006. Chang An ceased to be a subsidiary of the Group upon the disposal of Wangfujing by the Group during the year as detailed in note 12 to the financial statements.

(b) Business combinations in the year ended 31 December 2005 mainly included:

(i) the acquisition of an additional 14.2244% equity interest in Yanjing Huiquan by Yanjing Brewery, a then associate of the Group before the acquisition, on 25 March 2005. Upon completion of the acquisition, Yanjing Brewery had a 52.3724% equity interest in Yanjing Huiquan and Yanjing Huiquan became a subsidiary of the Group;

(ii) the acquisition of a 75% equity interest in LQX Tourism;

(iii) the acquisition of a 51% equity interest in 北京博大電信通網絡技術有限公司 by Beijing Development on 1 January 2005; and

(iv) the acquisition of a 51% equity interest in Asren Holdings Limited ("Asren") by Xteam on 7 December 2005, details of which are set out in note 47 to the financial statements.

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year, profit from continuing operations and profit from discontinued operations for the year ended 31 December 2006 would have been HK$338,668,000 (2005: HK$714,196,000), HK$100,216,000 (2005: HK$613,773,000, as restated) and HK$238,452,000 (2005: HK$100,423,000, as restated), respectively, and the Group's revenue (comprising turnover, other income and gains, net), revenue from continuing operations and revenue from discontinued operations for the year would have been HK$14,992,873,000 (2005: HK$11,603,641,000), HK$7,541,350,000 (2005: HK$6,732,206,000) and HK$7,451,523,000 (2005: HK$4,871,435,000), respectively.

46. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES

(a) Disposal of subsidiaries

	Notes	2006 HK$'000	2005 HK$'000
Net assets disposed of:			
Property, plant and equipment	16	1,369,263	18,231
Investment properties	17	148,640	–
Prepaid land premiums	18	281,597	–
Goodwill	19	35,901	–
Interests in jointly-controlled entities		152,311	–
Interests in associates		123,213	–
Pledged deposits		16,602	–
Available-for-sale investments		1,070,578	15
Deferred tax assets		30,815	–
Properties held for sale		278,903	–
Inventories		157,236	3,441
Trade and bills receivables		60,488	7,371
Prepayments, deposits and other receivables		165,232	29,468
Tax recoverable		7,929	107
Cash and bank balances		1,261,864	24,751
Trade and bills payables		(889,074)	(989)
Other payables and accruals		(1,275,198)	(32,053)
Taxes payable		(197,168)	(180)
Bank and other borrowings		(143,497)	–
Other long term liabilities		(18,259)	–
Deferred tax liabilities		(355,866)	–
Minority interests		(1,151,289)	(6,287)
Assets of a disposal group held for sale		–	1,304,733
Liabilities directly associated with assets of a disposal group held for sale		–	(493,795)
Assets and liabilities of a disposal group attributable to minority interests		–	(355,099)
		1,130,221	499,714
Exchange fluctuation reserve realised		(61,651)	(4,932)
Investment revaluation reserve realised		(210,039)	–
Gain on disposal of interests in subsidiaries, net	4	141,469	81,097
		1,000,000	575,879
Satisfied by cash consideration, at fair value		1,000,000	547,976
Reclassification to available-for-sale investments from interests in subsidiaries		–	27,903
		1,000,000	575,879

46. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES *(continued)*

(a) Disposal of subsidiaries *(continued)*

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

	2006 HK$'000	2005 HK$'000
Cash and bank balances disposed of	(1,261,864)	(24,751)
Cash and cash equivalents attributable to the discontinued operations	–	(134,597)
Cash consideration, at fair value	1,000,000	547,976
Amortised cost of outstanding cash consideration:		
At beginning of year	319,543	–
Increase in fair value of cash consideration arising from the passage of time	9,587	11,590
Impairment	(32,360)	–
Exchange realignment	11,687	–
At end of year	(235,719)	(319,543)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	(189,126)	80,675

46. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES *(continued)*

(b) Deconsolidation of subsidiaries

	Notes	2006 HK$'000	2005 HK$'000
Net assets deconsolidated:			
Property, plant and equipment	*16*	87,554	–
Investment properties	*17*	48,390	–
Prepaid land premiums	*18*	14,675	–
Goodwill	*19*	123,019	–
Other intangible assets	*20*	17,187	–
Interests in jointly-controlled entities		58,318	–
Interests in associates		6,827	–
Available-for-sale investments		1,160	–
Deferred tax assets		6,178	–
Inventories		111,925	–
Amounts due from customers for contract work		30,371	–
Trade and bills receivables		356,623	–
Prepayments, deposits and other receivables		196,966	–
Financial assets at fair value through profit or loss		10,922	–
Pledged deposits		22,096	–
Cash and bank balances		343,086	–
Trade and bills payables		(146,504)	–
Amounts due to customers for contract work		(50,504)	–
Other payables and accruals		(223,732)	–
Taxes payable		(6,408)	–
Bank and other borrowings		(254,026)	–
Minority interests		(454,807)	–
		299,316	–
Reclassification to available-for-sale investments from interests in subsidiaries – *note 46(b)(i)*		82,794	–
Reclassification to interests in associates from interests in subsidiaries – *note 46(b)(ii)*		216,522	–
		299,316	–

46. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES *(continued)*

(b) Deconsolidation of subsidiaries *(continued)*

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

	2006 HK$'000	2005 HK$'000
Cash and bank balances deconsolidated and net outflow of cash and cash equivalents in respect of the deconsolidation of subsidiaries	(343,086)	–

The subsidiaries which were deconsolidated during the year ended 31 December 2006 comprised BEES and its subsidiaries (the "Eversource Group") and Beijing Development and its subsidiaries. The reasons giving rise to the deconsolidation of these subsidiaries are set out as follows:

(i) On 19 October 2006, Beijing Enterprises Treasury Company Limited ("BJ Treasury"), a wholly-owned subsidiary of the Company and the immediate holding company of BEES, and Mr. Xu Shengheng ("Mr. Xu"), a director and substantial shareholder of BEES, entered into an entrusted operating agreement (the "Entrusted Operating Agreement"), pursuant to which, Mr. Xu was granted by BJ Treasury a right to operate and manage the geothermal energy system business undertaken by the Eversource Group for a period of three years from 1 January 2006 to 31 December 2008 (the "Entrusted Period"). During the Entrusted Period, the Group subordinated all its power over operating and financial polices and its entitlement to dividends, if any, of the Eversource Group to Mr. Xu whereas Mr. Xu shall be solely responsible for all profits and losses of the Eversource Group and pay a fixed fee of RMB12,516,000 (approximately HK$12,516,000) per annum to the Group. The Group lost its control over the Eversource Group upon the commencement of the entrusted operating arrangement on 1 January 2006 as it no longer has the power to govern the daily operating and financial policies of the Eversource Group from that date onwards. Accordingly, the Group deconsolidated the Eversource Group effective from 1 January 2006 and its then carrying amount of HK$82,794,000 was reclassified as an available-for-sale investment of the Group.

(ii) As detailed in note 5 to the financial statements, the Group's equity interest in Beijing Development was diluted from 55.81% to 46.57% and Beijing Development ceased to be a subsidiary of the Company and became an associate of the Company upon the completion of the issuance of new shares by Beijing Development in December 2006, at which time the Group deconsolidated Beijing Development and its subsidiaries.

47. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

Apart from the transactions detailed in notes 5, 6, 39 and 46 to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the year ended 31 December 2006.

In respect of the cash flows for the year ended 31 December 2005, on 7 December 2005, a wholly-owned subsidiary of X-team acquired a 51% equity interest in Asren from independent third parties. The purchase consideration for the acquisition of Asren was in the form of 84,134,616 new shares of Xteam at the market price of HK$0.058 per share of Xteam on 7 December 2005 and a promissory note amounting to HK$9,615,000 issued by the wholly-owned subsidiary to Xteam to Asren. Apart from the foregoing and save as disclosed in notes 5 and 39 to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the year ended 31 December 2005.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, convertible bonds, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are fair value and cash flow interest rate risks, foreign currency risk, commodity price risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that 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.

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

(ii) 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 PRC, the Group's balance sheet can be affected significantly by movements in the RMB/HK$ exchange rate.

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

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(iii) Commodity price risk

The Group's exposure to commodity price risk is minimal.

(iv) Credit risk

The Group is predominately engaged in cash income businesses like the operations of toll roads, water treatment, brewery sales and retail. Accordingly, the Group has very high debtor turnover rate and low credit risk.

There are no significant concentrations of credit risk within the Group.

(v) Liquidity risk

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

49. FINANCIAL INSTRUMENTS

Fair values

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	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets:				
Non-current trade and bills receivables	–	33,202	–	32,965
Non-current prepayments, deposits and other receivables	130,008	313,782	130,008	313,642
Non-current pledged deposits	2,200	34,684	2,151	33,542
Financial liabilities:				
Non-current bank and other borrowings:				
Floating rate borrowings	220,000	–	220,000	–
Fixed rate borrowings	249,507	279,773	245,964	278,456
Interest-free borrowings *(note (ii))*	97,491	93,538	94,674	93,538
Convertible bonds	464	548,785	464	568,706

(i) The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 25(b) 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$101,403,000 (2005: HK$99,384,000) obtained by the Group from a joint venture partner of a subsidiary and is repayable within 19 years (2005: 20 years).

49. FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments as at the balance sheet date that are exposed to interest rate risk:

At 31 December 2006

	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:								
Pledged deposits	38,636	2,200	–	–	–	–	40,836	0.72
Cash and cash equivalents	2,606,985	–	–	–	–	–	2,606,985	0.81
Bank and other borrowings	–	(210,000)	(10,000)	–	–	–	(220,000)	5.23
Fixed rate:								
Pledged deposits	20,669	–	–	–	–	–	20,669	1.71
Cash and cash equivalents	101,410	–	–	–	–	–	101,410	2.59
Bank and other borrowings	(1,330,038)	(183,838)	(50,837)	(838)	(838)	(13,156)	(1,579,545)	5.16
Convertible bonds	–	(464)	–	–	–	–	(464)	1.20

At 31 December 2005

	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:								
Pledged deposits	15,557	34,684	–	–	–	–	50,241	0.92
Cash and cash equivalents	2,926,467	–	–	–	–	–	2,926,467	0.97
Bank and other borrowings	(672,843)	–	–	–	–	–	(672,843)	4.95
Fixed rate:								
Cash and cash equivalents	581,588	–	–	–	–	–	581,588	1.36
Bank and other borrowings	(1,826,443)	(33,151)	(227,572)	(1,479)	(1,511)	(16,060)	(2,106,216)	5.05
Convertible bonds	–	(548,785)	–	–	–	–	(548,785)	1.20

50. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Guarantees given in respect of mortgage loans granted by banks to the Group's purchasers of properties held for sale	–	17,567	–	–
Guarantee given for banking facilities granted to a jointly-controlled entity	–	43,846	–	43,846
Guarantee given for banking facilities granted to a company which has been deconsolidated	200,000	–	–	–
Guarantee given for banking facilities granted to a related company	150,000	–	–	–
Guarantee given in respect of a specific performance of an infrastructure project to be undertaken by a jointly-controlled entity	68,456	–	68,456	–
Guarantee given for the Convertible Bonds issued by Yanjing Brewery – *note 39*	–	–	464	548,785
	418,456	61,413	68,920	592,631

At 31 December 2006, the above banking facilities granted to a company that has been deconsolidated and a related company subject to guarantees given to certain banks by the Group were utilised to the extent of approximately HK$155,000,000.

At 31 December 2005, the banking facilities granted to a jointly-controlled entity subject to a guarantee given to a bank by the Group were utilised to the extent of approximately HK$32,885,000.

51. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 17 to the financial statements) and certain portions of its buildings under operating lease arrangements, with leases negotiated for original terms ranging from 1 to 24 years. The terms of the leases generally require the tenants to pay security deposits.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

Group

	2006 HK$'000	2005 HK$'000
Within one year	796	27,683
In the second to fifth years, inclusive	2,695	67,868
After five years	11,660	35,491
	15,151	131,042

(b) As lessee

The Group leases certain of its office properties, department store premises, restaurant premises and staff quarters under operating lease arrangements, with leases negotiated with original terms ranging from 1 to 50 years.

At 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Within one year	70,927	185,789	2,912	2,912
In the second to fifth years, inclusive	107,278	644,481	971	3,883
After five years	641,448	2,300,509	–	–
	819,653	3,130,779	3,883	6,795

51. OPERATING LEASE ARRANGEMENTS *(continued)*

Significant decrease in the amounts of future minimum lease receivables and payments of the Group as at 31 December 2006 was attributable to the disposal of equity interest in Wangfujing by the Group during the year, which had significant operating lease arrangements as lessor and lessee in respect of its retail operation.

52. CAPITAL COMMITMENTS

The Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Buildings:				
Contracted, but not provided for	**139,836**	56,413	**–**	–
Plant and machinery:				
Contracted, but not provided for	**73,303**	91,608	**–**	–
Purchases of available-for-sale investments:				
Contracted, but not provided for	**–**	83,582	**–**	51,435
Total capital commitments	**213,139**	231,603	**–**	51,435

53. 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	2006 HK$'000	2005 HK$'000
The ultimate holding company and its associates				
BHL and its associates	Rental income	*(i)*	–	1,115
	Rental and related expenses	*(i)*	–	1,340
Joint venture partners of subsidiaries and their associates				
Yanjing Beer Group and its associates	Purchase of bottle labels	*(ii)*	49,406	61,072
	Purchase of bottle caps	*(ii)*	42,825	54,778
	Import of raw materials	*(iii)*	365,115	367,472
	Sale of beer	*(iv)*	8,171	9,299
	Canning service fees paid	*(v)*	18,277	20,211
	Comprehensive support service fees paid	*(vi)*	15,151	14,770
	Land rent expenses	*(vii)*	1,700	1,657
	Trademark licensing fees paid	*(viii)*	23,788	16,996
	Less: Refund for advertising subsidies	*(viii)*	(3,958)	(2,986)
Other related parties				
Dongan Group	Compensation income	*(ix)*	–	24,703
China Communications Construction Company Limited and its associates	Construction costs, maintenance service costs and dismantling costs for an expressway	*(x)*	91,019	–

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

53. RELATED PARTY DISCLOSURES *(continued)*

(a) *(continued)*

Notes:

(i) The rentals were determined by reference to the prevailing open market rentals at the time when the lease agreements were entered into.

(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 import of certain raw materials for the Group's brewery operations were procured by Yanjing Beer Group from overseas suppliers on behalf of Yanjing Brewery and its subsidiaries as the Group's brewery operations do not have the licence to import commodities from overseas suppliers. The purchase prices for the raw materials were charged at rates equal to the costs incurred by Yanjing Beer Group.

(iv) The selling price of the beer was determined by reference to the then prevailing market rates.

(v) 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.

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

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

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

(vii) The land rent expenses were charged at a mutually agreed amount of RMB1,744,000 (2005: RMB1,744,000) per annum.

(viii) The trademark licensing fees paid were for the use of the "Yanjing" trademark and were determined based on 1% of the annual sales of beer and mineral water products made by Yanjing Brewery and RMB0.008 per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Beer Group would refund 20% of the trademark licensing fees received from Yanjing Brewery to be used by Yanjing Brewery to develop and promote the "Yanjing" trademark.

(ix) The Compensation income was based on the loss suffered by the Group as a result of the reduction in the operating size of a development store at the request of Dongan Group, a related company in which the legal representative is a director of the Company.

(x) The construction costs, maintenance service costs and dismantling costs for an expressway were determined by reference to the then prevailing market rates.

53. RELATED PARTY DISCLOSURES *(continued)*

(b) Other transactions with related parties

(i) On 28 June 2006, BJ Treasury, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Jason New, a company wholly-owned by Mr. Xu and a substantial shareholder of BEES, a company which was deconsolidated effective from 1 January 2006 as a result of the entering of the Entrusted Operating Agreement as detailed in note 46(b)(i), to dispose of a 36.78% equity interest in BEES for a cash consideration of HK$99,290,000. The cash consideration is to be settled in six instalments, with the first instalment of HK$20,000,000, and the remaining five instalments of RMB15,858,000 each being due on 28 June 2006, 30 December 2006, 30 June 2007, 30 December 2007, 30 June 2008 and 30 December 2008, respectively.

(ii) On 28 June 2006, Beijing Enterprises Ever Source Technology Limited ("BEEST"), a wholly-owned subsidiary of BEES, entered into an equity transfer agreement with China Major Holdings Limited, a company beneficially owned by Mr. Xu and his spouse, to acquire a 49% equity interest in 北京永源熱泵有限責任公司 (Beijing Ever Source Hot Pumps Co., Ltd.) ("BEHP") for a cash consideration of RMB15,000,000 (approximately HK$14,423,000). Upon the completion of the transaction, BEHP became a subsidiary of BEES. BEEST and BEHP, being subsidiaries of BEES, were deconsolidated effective from 1 January 2006 as a result of the entering of the Entrusted Operating Agreement as detailed in note 46(b)(i).

(c) Outstanding balances with related parties

(i) Details of the Group's balances with related parties included in deposits and other debtors and trade and bills payables are disclosed in notes 30 and 42 to the financial statements, respectively.

(ii) Details of the balances with jointly-controlled entities, associates, holding companies, fellow subsidiaries and related companies are disclosed in notes 22, 23 and 31 to the financial statements, respectively.

(iii) Details of the guarantees given by related parties in respect of the Group's bank and other borrowings and the Convertible Bonds issued by Yanjing Brewery are disclosed in notes 38 and 39 to the financial statements.

(iv) Details of the guarantees given by the Group for banking facilities granted to a related company and a jointly-controlled entity are disclosed in note 50 to the financial statements.

53. RELATED PARTY DISCLOSURES *(continued)*

(d) Compensation of key management personnel of the Group

	2006 HK$'000	2005 HK$'000
Short term employee benefits	12,529	7,484
Post-employment benefits	570	347
Share-based payments	16,796	–
Total compensation paid to key management personnel	29,895	7,831

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

54. EVENT AFTER THE BALANCE SHEET DATE

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

55. COMPARATIVE AMOUNTS

Owing to the disposal of the Group's interests in Wangfujing during the year, the Group's retail operation and property construction and development operation were discontinued. Accordingly, certain comparative amounts for the consolidated income statement have been restated to conform to the current year's presentation. In addition, certain comparative amounts have been reclassified to conform to the current year's presentation.

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 3 April 2007.

FIVE YEAR FINANCIAL SUMMARY

31 December 2006

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 published audited financial statements and restated and reclassified as appropriate, is set out below:

RESULTS

	Year ended 31 December				
	2002 HK$'000 (Restated)	2003 HK$'000 (Restated)	2004 HK$'000 (Restated)	2005 HK$'000 (Restated)	**2006 HK$'000**
CONTINUING OPERATIONS					
Revenue	3,922,781	4,731,559	5,496,985	6,263,153	**7,246,920**
Operating profit	556,598	770,940	886,574	721,242	**358,866**
Share of profits and losses of:					
Jointly-controlled entities	1,396	(6,148)	50,068	(12,712)	**688**
Associates	39,273	41,361	54,012	24,095	**64,644**
Amortisation of goodwill arising on acquisition of jointly-controlled entities	(4,699)	(4,357)	–	–	**–**
Profit before tax	592,568	801,796	990,654	732,625	**424,198**
Tax	(208,133)	(182,459)	(204,965)	(136,877)	**(169,823)**
Profit for the year from continuing operations	384,435	619,337	785,689	595,748	**254,375**
DISCONTINUED OPERTATIONS					
Profit/(loss) for the year from discontinued operations	107,004	8,360	(120,929)	119,061	**353,875**
Profit for the year	491,439	627,697	664,760	714,809	**608,250**
ATTRIBUTABLE TO:					
Shareholders of the Company	403,511	450,045	503,188	570,422	**338,668**
Minority interests	87,928	177,652	161,572	144,387	**269,582**
	491,439	627,697	664,760	714,809	**608,250**

FIVE YEAR FINANCIAL SUMMARY

31 December 2006

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	17,366,191	18,105,664	19,389,590	19,630,268	**17,324,152**
Total liabilities	(7,005,904)	(7,014,118)	(7,788,393)	(7,123,275)	**(4,264,347)**
NET ASSETS	10,360,287	11,091,546	11,601,197	12,506,993	**13,059,805**
REPRESENTED BY:					
Equity attributable to shareholders of the Company	7,260,314	7,546,138	7,881,098	8,442,941	**8,870,705**
Minority interests	3,099,973	3,545,408	3,720,099	4,064,052	**4,189,100**
TOTAL EQUITY	10,360,287	11,091,546	11,601,197	12,506,993	**13,059,805**