BEIJING ENTERPRISES HOLDINGS LIMITED

2007

Annual Report

stock code: 392

CONTENTS

CORPORATE INFORMATION

GENERAL INFORMATION:

Registered Office

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Tel: (852) 2915 2898
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Website

http://www.behl.com.hk

Stock Code

392

Company Secretary

Mr. Tam Chun Fai *CPA CFA*

Share Registrars

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

DIRECTORS:

Executive Directors

Mr. 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. Zhou Si *(Vice Chairman)*
Mr. Liu Kai *(Vice President)*
Mr. Guo Pu Jin
Mr. E Meng *(Vice President)*
Mr. Lei Zhen Gang
Mr. Jiang Xin Hao *(Vice President)*
Mr. Tam Chun Fai

Independent Non-executive Directors

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

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
China Construction Bank,
Hong Kong Branch
Mizuho Corporate Bank Ltd.,
Hong Kong Branch
Rabobank, Hong Kong Branch

In Mainland China:

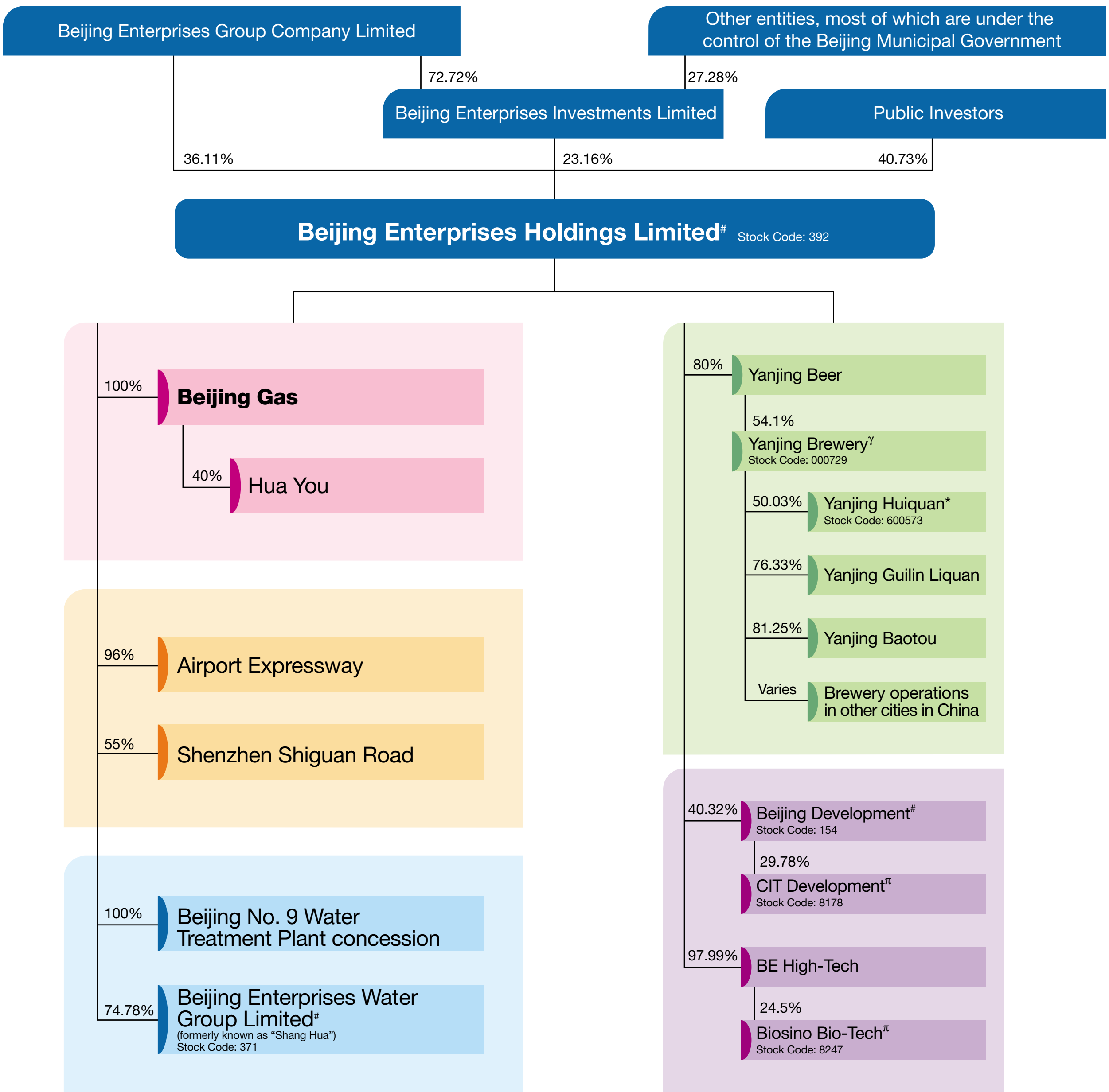
Agricultural Bank of China
Bank of China
China Construction Bank
Guangdong Development Bank
The Industrial and
Commercial Bank of China

ADR Depository Bank:

The Bank of New York

CORPORATE STRUCTURE

As at 8 April 2008



* Listed on The Shanghai Stock Exchange

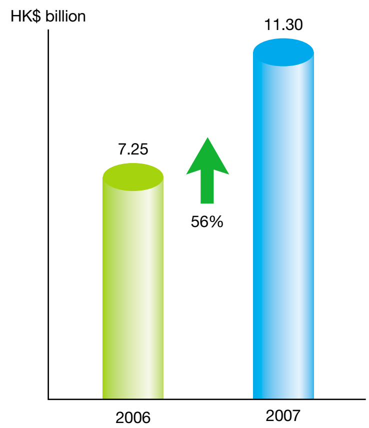
γ Listed on The Shenzhen Stock Exchange

\# 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

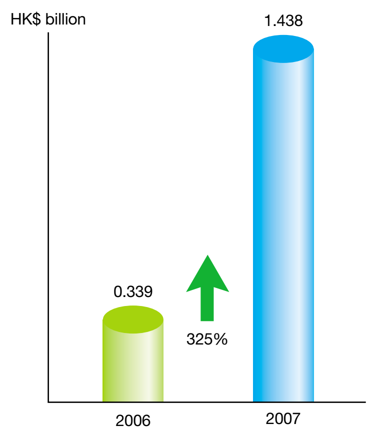
- Revenue from continuing operations for the year amounted to approximately HK$11.3 billion, representing an increase of 56% over last year.



Revenue

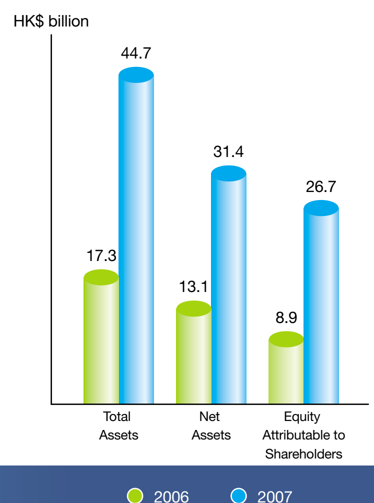
- Profit attributable to shareholders of the Company amounted to approximately HK$1.438 billion, representing an increase of 3.25 times over last year.
- Basic earnings per share amounted to HK$1.67.
- A final dividend of HK30 cents per share is proposed for 2007.

  A final special dividend of HK10 cents per share is proposed for 2007.



Profit Attributable to Shareholders of the Company

	2007 year end HK$billion	2006 year end HK$billion
■ Total assets	**44.7**	17.3
■ Net assets	**31.4**	13.1
■ Equity attributable to shareholders	**26.7**	8.9



CHAIRMAN'S STATEMENT

Yi Xi Qun

The year 2007 marked the tenth year since Beijing Enterprises Holdings Limited (the "Company") has been listed and was thus a significant year for the Group's strategic reform. Upon the completion of acquisition of Beijing Gas Group Company Limited ("Beijing Gas"), the Company established its core business of infrastructure and public utility segment focusing on urban clean energy services and began to transform into a utilities conglomerate. Supported by the above mentioned factors and driven by a favourable market environment, the Group achieved significant growth with record high results in assets portfolio, profitability and market capitalisation.

In 2007, profit attributable to shareholders of the Company was HK$1.438 billion, increased by 3.25 times. Basic earnings per share amounted to HK$1.67, increased by 2.1 times as compared with HK$0.54 in 2006. The Board of Directors of the Company (the "Board") recommended the payment of a final dividend of HK30 cents per share. Since it is the tenth anniversary of listing of the Company and to celebrate the acquisition of Beijing Gas, the Company proposed the payment of a final special dividend of HK10 cents per share to express our gratitude to the long term support from the Shareholders. Together with our interim dividend, the Company distributed a total dividend of HK60 cents in 2007.

Excluding the incomparable factors of the consolidation of Beijing Gas, the substantial growth in the results was attributable to the stronger operating results recorded by continuing operations of existing entities, among which:

Through the strengthening of cost control for the operations in China other than Beijing, adjusting products mix and optimising pricing system, Beijing Yanjing Brewery Co., Ltd. ("Yanjing Brewery") has successfully offset the adverse impacts arising from intensifying market competition and price hikes in raw materials and had also achieved an accelerated growth. In 2007, revenue and profit attributable to the Company from Yanjing Brewery recorded growths of 75.7% and 62.5% over 2006 respectively.

With the extensive increase in the utilisation rate of Beijing Capital Airport, traffic volume of Airport Expressway increased by 9.8% during the year. In 2007, operating revenue and profit attributable to the Company of Beijing Capital Expressway Development Co., Ltd. rose 47.1% and 39.3% respectively.

The Group utilised its capital operation by capturing the opportunities resulted from the brisk capital market in 2007. This lead to sharp increase in its exceptional gain. In particular, the four funding activities of Beijing Development (Hong Kong) Limited (stock code: 154) and China Information Technology Development Limited (formerly Xteam Software International Limited) (stock code: 8178), being associates of the Company, raised a total capital of HK$510 million for their development and generated an exceptional gain of HK$180 million during the year. Also, the Group leveraged on the opportunities arising from the appreciation of Renminbi and the active stock market and obtained considerable exchange gains and gains on stock investment.

CHAIRMAN'S STATEMENT

The Group maintained a healthy financial position in 2007. At the balance sheet date, the Group's cash in hand and short-term loans were HK$8.2 billion and HK$2.64 billion respectively. In September 2007, the Company captured the favourable market situation and successfully placed new shares and financed a net proceeds of HK$3.64 billion. Through obtaining development funds at relatively low costs, the Group has prepared sufficient capital reserve for further investment in areas of its core businesses.

The general economic situation in 2008 is extremely severe. Taking into the consideration of the objective analysis on our development foundation and resources advantages, we are prudently optimistic concerning the development prospects in 2008.

Meanwhile, we have not neglected the potential risks arising from the development of our core operations. The Board and management pay serious attention to the diversion of Airport Expressway in case if the investment in South Link Expressway of Beijing Capital Airport not be approved by the government. Therefore, the Company has set up a task force to continuously promote the communication and coordination with relevant government authorities, strives to prepare a timely contingency plan and argument to protect the shareholders' interest.

In respect of the expansion in gas operation, besides the continuous exploration in rural areas of Beijing, the Company will grasp the golden opportunities attributable to the consolidation of domestic gas market and the penetration of PetroChina into downstream market to extend its coverage into upper and downstream industries. The Company strives to expand its market share in the Ring Bohai Economic Circle through various mergers and acquisitions in target cities. The Company will implement two material projects in 2008:

Firstly, the Company will carry out a coal-based natural gas project in Keshiketengqi County, Chifeng City, Inner Mongolia to utilise the abundant lignite reserve in Inner Mongolia. Datang International Power Generation Co., Ltd. will be the largest shareholder of the project and Beijing Gas will be the second largest. Total investment is expected to exceed RMB18 billion and the project is scheduled to commence construction in 2008 and begin partial operations in 2010. Upon completion of the entire project, the annual production of natural gas will reach 4 billion cubic metres, which will be supplied to regions in Inner Mongolia, Hebei province and Beijing through pipelines.

Secondly, the Group acquired Shandong Zhongyuan Gas Co., Ltd.. The company holds 30-year pipeline gas operation rights in the developed Rongcheng City, Rushan City, Wendeng City and Haiyang City in Yantai and Weihai districts of Shandong province and has signed a 30-year pipeline gas operation agreement with the provincially approved tourism and holiday resort in Weihai City. The connectable population of the above five regions is over 2.6 million and the planned consumption of natural gas is over 450 million cubic metres. Currently, Beijing Gas has entered into an agreement with Beijing Runfar Group（北京潤發集團）to acquire 60% equity interest in Zhongyuan Gas held by Beijing Runfar Group.

CHAIRMAN'S STATEMENT

Establishing an investment platform for water industry is another important part of our principal business expansion in 2008. It is a strategic decision made by the Group based on its concerns about rare resources of water and the assessment of development prospects of water industry. The forthcoming five to ten years will be the fastest urbanisation period in China, which is also a critical period for the development of water industry including water supply and sewage treatment as well as the peak period for market investment in water. It is expected that the investment scale could reach over RMB one trillion during the eleventh five-year period. The market-oriented reform and water price adjustments that implemented by the government in the water industry in recent years also created a more flexible environment for enterprises to invest and develop in this industry. The establishment of water investment platform at current stage is aimed at promoting business expansion and project consolidation in a more systematic, professional and effective way, establishing a leading market position, enhancing competitiveness and influence of the Group in water treatment industry so as to grasp the development opportunities in a better way. In order to uphold the above-mentioned strategic intentions, we acquired Shang Hua Holdings Limited (Stock code: 0371, which has changed its name to "Beijing Enterprises Water Group Limited") in March this year and employed the development strategy of "establishing a platform for water and environmental protection investment through Shang Hua Holdings".

2008 is the long-awaited year of realisation of the Olympic dream pursued by the Chinese and is also the first whole year after the Company has transformed into a utilities company. We will persist in our usual development objective of "optimising value operation and maximising value creation" and continue to strengthen gas operation as our core business, further capitalising advantages and resources to proactively yet cautiously invest in projects with good potential in our principal activities. We will also pay full attention to the uncertainties in our operation environment, raise the insightfulness and initiatives of risk management and realise value improvement and sustainable development.

Chairman

Hong Kong
8 April 2008

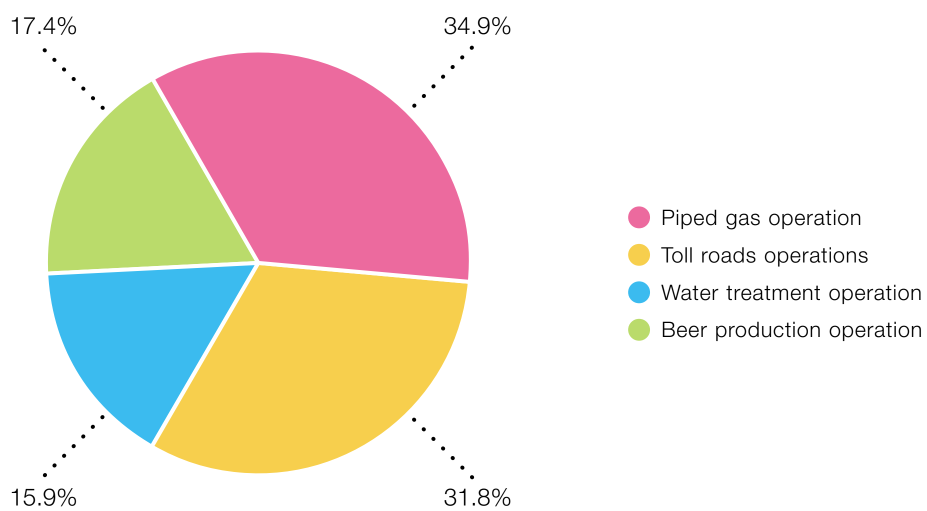
MANAGEMENT DISCUSSION AND ANALYSIS

The revenue of the Group was HK$11.3 billion for the 2007, increased by 55.9% comparing to last year. Profit attributable to the shareholders of the Company was HK$1.438 billion, jumped 325% compared to 2006 and marked a record high since the listing of the Company in 1997.

Stripping off the net exceptional gain of HK$404 million arising from the deemed disposals of Beijing Development (Hong Kong) Limited ("Beijing Development") (stock code: 154) and China Information Technology Development Limited ("CIT Development") (formerly Xteam Software International Limited) (stock code: 8178) and disposal of existing shares of CIT Development, as well as property revaluation gains, net profits attributable to shareholders of the Group increased 73.5% to HK$1,034 million mainly driven by consolidation of Beijing Gas Group Company Limited ("Beijing Gas") profit since 1 July 2007 and strong profit growth of Beijing Yanjing Brewery Co. Ltd. ("Yanjing Beer") and Beijing Capital Airport Expressway ("Airport Expressway").

Net profit before exceptional items contributed by each business segment during the year were as follows:

	Net profit before exceptional items	**Proportion**
	HK'000	%
Piped gas operation	339,200	34.9
Toll roads operations	309,010	31.8
Water treatment operation	154,430	15.9
Beer production operation	168,020	17.4



Natural gas sphere tanks

Valves at a Natural Gas Storage Facility

Natural gas boilers

I. BUSINESS REVIEW

Piped gas operations

After the completion of acquisition of Beijing Gas on 29 June 2007, the Company officially consolidated its results since 1 July 2007. Actual volume sold by natural gas distribution segment of Beijing Gas in Beijing during the second half of 2007 was approximately 1.67 billion cubic metres which brought operating revenue of approximately HK$3.25 billion and contributed a profit of HK$161 million to the Group.

Volume sold by natural gas distribution segment of Beijing Gas for the year of 2007 was 3.7 billion cubic meters and the operating revenue was HK$6.91 billion. As at the end of 2007, Beijing Gas has a trunk pipeline network system with five pressure levels ranging from high to low pressure levels in Beijing, which is comprised of various major facilities, such as pipelines of 7,551 km, five citygates and four spherical gas-holder stations. Gas distribution capacity of the main trunk pipeline network reaches 12 billion cubic meters per year.

The total volume of gas transported by Beijing Hua You Natural Gas Company Limited ("Hua You"), in which 40% interests are owned by Beijing Gas, amounted to approximately 8.86 billion cubic metres, representing an increase of over 44% as compared with 2006. Net profit after tax for the second half of 2007 attributable to Beijing Gas was HK$178 million. The maximum annual transmission capability of Nos. 1 and 2 Shanxi-Beijing Gas Pipeline owned by Hua You is 15.3 billion cubic metres, which will be increased to 17 billion cubic metres through capacity enhancement.

Since the completion of the acquisition, Beijing Gas has played a significant role in financial performance of the Group in terms of profit contributions and asset scales, which realised our goal to transform the Group to an integrated enterprise focusing on public facilities and infrastructure.

I. BUSINESS REVIEW *(continued)*

Toll road operations

The traffic volume of Airport Expressway achieved a new record high of 55.94 million vehicles in 2007, representing an increase of 9.8% comparing with the year 2006. Average daily traffic flow reached over 153,000 vehicles.

Operating revenue in 2007 was approximately HK$527 million and net profit attributable to the Group amounted to approximately HK$289 million, representing an increase of 39% comparing with the corresponding period last year, which was mainly due to the increased toll revenue and the significant decrease of repair and maintenance expenses upon the completion of the major overhaul.

The traffic volume of Shenzhen Shiguan Road slightly decreased by 2.1% to about 9.60 million vehicles in 2007. Net profit attributable to the Group for the year ended 31 December 2007 was HK$19.62 million, almost the same as last year.

Water treatment operation

For the year of 2007, profit attributable to the Group from Beijing No. 9 Water Treatment Plant concession was HK$154 million, representing an increase of over 7% as compared with 2006. The concession of water treatment brings stable cash flows to the Group every year.

Capital Airport Expressway

Shui Tian Toll Station of Shenzhen Shiguan Road

Beijing No 9 Water Treatment Plant

Yanjing Beer

Yanjing Beer is the Official Sponsor of The Beijing 2008 Olympic Games

Smart Card

I. BUSINESS REVIEW *(continued)*

Beer production operation

The sales volume of Yanjing Brewery, was 4.07 million metric litres in 2007, representing an increase of 14% comparing with the corresponding period of 2006. The market share on nationwide basis remained over 12%. The revenue from the brewery operation increased about 23% to HK$6.74 billion in 2007. Net profit attributable to the Group was HK$168 million, which increased significantly by 63% as compared with last year. Although the costs of raw materials for beer production, energy and labour kept mounting, by virtue of strength of its brand and sale network, the selling prices of Yanjing Brewery's major products had been increased and well received by consumers, which mitigated the cost pressure. In addition, gross margin remained steady due to the consistent efforts to optimise product structure, enlarge market share of premium beer and increase the consumption of domestic barley.

Other

Beijing Development remained as the Group's IT flagship. Smart Card (市政交通一卡通) issuance volume, of which 43% is owned by Beijing Development, has exceeded 16 million, indicating that the card has become the major electronic payment platform for public transport in Beijing. Research and development are being carried out to explore more value-added services and to expand revenue sources. In addition, CIT Development, in which 30.41% interests is held by Beijing Development, had already made substantial profit contribution by newly injected value-added services of mobile communication.

Net profit of Beijing Development attributable to the Group was approximately HK$150 million in 2007, 22 times higher than last year. Profit increase was mainly derived from deemed disposal arising from placing of new shares by CIT Development and the disposal of shares of CIT Development, being held by Beijing Development. The information technology business of Beijing Development remained stable. Smart Card was still at the stage of determining its operating commercial terms and had not yet contributed any profits.

II. PROSPECT

Piped gas operations

The sales of natural gas in Beijing will have stable and continuous growth in future. The major driving forces include commencement of new natural gas driven power plant and new industrial users. In the long run, Beijing will develop into a metropolitan city with 18 million to 20 million population, which will increase the long term consumption of natural gas. In addition, natural gas network to be built in new satellite cities outside the Sixth Ring Road in Beijing will also further increase the demand of natural gas.

In respect of gas transmission, Hua You is actively expanding its long pipeline network and enlarging the transmission capacity of Nos. 1 and 2 Shanxi-Beijing Gas Transmission Pipeline. With the continuous economic development of the Capital and Bohai circle, more medium and large cities within the region will adopt natural gas as a clean energy. The transmission volume of Hua You will grow rapidly with continuous increase in transmission revenue. The strong cash flow could provide actual support to its expansion plan and capital expenditure.

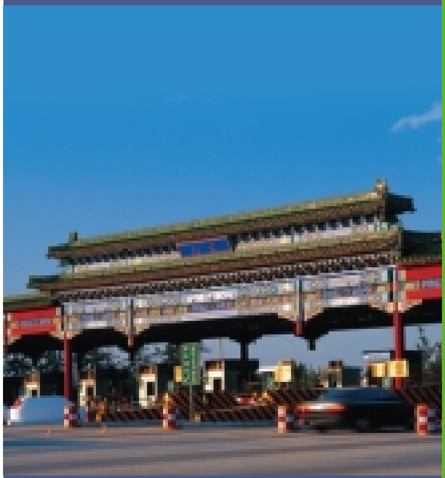
In respect of exploring new gas resources, Beijing Gas will inject RMB1.86 billion to Inner Mongolia Datang International Keqi Coal-based Gas Company Limited for 33% equity interests. The total investment will amount to RMB18.78 billion, with a planned output of 4 billion-cubic metres of natural gas per annum.

Toll road operations

Terminal 3 of Beijing Capital Airport has commenced operation in late March 2008. The auxiliary line of the South Link Expressway of the Beijing Capital Airport ("South Link Expressway") also started operation. As the South Link Expressway shares part of the traffic volume of the Airport Expressway, passengers using the new terminals had been diverted to South Link Expressway's toll station which affects the revenue of Tianzhu Toll Station (天竺收費站), one of the main operating station currently operated by the Group.

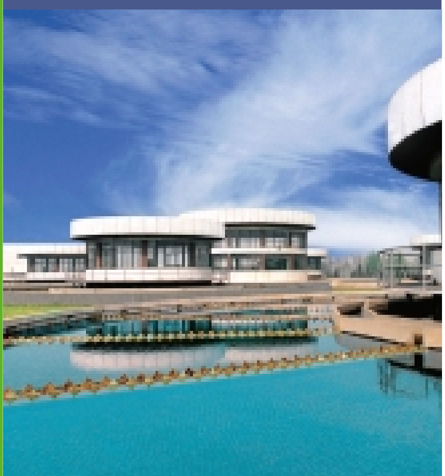
Beijing Gas office

Natural gas pipelines



Tianzhu Toll Station of
Capital Airport Expressway

Toll Station of
Beijing Capital Airport North Link



Water plant operation by
Beijing Enterprises

Beer production line

II. PROSPECT *(continued)*

Toll road operations *(continued)*

To cope with the diversion of South Link Expressway, the Group actively involves in the investment of South Link Expressway project. Currently, the Group has reached an intention of cooperation with Beijing Capital Highway Development Co., Ltd. (北京市首都公路發展有限責任公司) in respect of the investment of South Link Expressway project and reported the cooperation proposal to Beijing Municipal Committee of Communications ("BMCC"). BMCC intended to grant the operating concession of South Link Expressway together with North Link Expressway of the Beijing Capital Airport and Second Airport Passway Project (機場第二通道項目) to the Beijing Capital Airport North Link Expressway Company Limited (北京首都機場北線高速公路有限責任公司) in order to unify the operations and management. Currently, BMCC carries out further study on the proposal and will consult opinions from relevant departments.

Water treatment operations

The Group has completed the acquisition of Shang Hua and duly changed its name into Beijing Enterprises Water Group Limited. The listed company will be used as a platform by the Group for future investment and development of new water related projects. As the PRC is in shortage of fresh water, the Group is very optimistic to the future water price. It is believed that local government will speed up the investment and operation of water projects such as water treatment and waste water processing, which provides new opportunities to the Group.

Beer production operation

Yanjing beer is among the leaders in Mainland China in terms of branding and market share. To further consolidate its strengths, Yanjing Brewery ("Yanjing Brewery") has obtained approval from the shareholders to offer new shares and raise RMB1.9 billion. The proceeds will be used in regions with core competitive strength such as Guangxi and Inner Mongolia to satisfy the rapid growing demand, technological improvement in beer production lines in provinces such as Zhejiang, Hunan, Guangdong, Xinjiang and Hubei, expand the capacity and at the same time raise the technology level and enhance the product structure. In addition, Yanjing Brewery will establish malt production bases in Xinjiang and Inner Mongolia which will use quality domestic malt as raw materials to further lower production cost and enhance operation results.

III. FINANCIAL REVIEW

Revenue

The revenue of the Group's continuing operations in 2007 was approximately HK$11.3 billion, which jumped 55.9% as compared with that of HK$7.25 billion in 2006. This was mainly driven by the consolidation of Beijing Gas' revenue of HK$3.25 billion in the second half of 2007. Yanjing Beer's revenue also grew strongly by 23% to HK$6.74 billion. Other business contributed an aggregate of not more than 12% of the total revenue.

Cost of sales

Cost of sales increased by 69.4% to HK$8.16 billion, mainly due to consolidation of the results of natural gas distribution business in Beijing since 1 July 2007. The cost of sales for gas distribution business mainly included purchase cost of natural gas as well as depreciation expense of piped line network.

Gross profit margin

Overall gross profit margin was 27.8% compared to 33.6% in 2006. The decline in gross profit margin was due to consolidation of the gas distribution business since 1 July 2007. Natural gas distribution business had average gross margin of approximately 15.8%, which is lower than the higher margin brewery business due to different direct cost structure. The gross margin of gas distribution business tend to be lower in the second half year due to lower volume of sales and relatively fixed depreciation expense.

Other income and gains, net

This mainly comprised interest income of HK$99 million, gain on deemed disposal of interests in associates of HK$61 million, fair value gain on investment properties of HK$56 million, investment related gain of HK$42 million, exchange gain of HK$33 million and other miscellaneous income etc.

Selling and distribution costs

Selling and distribution costs of the Group's continuing operations in 2007 increased by 6.5% to HK$889 million mainly due to consolidation of natural gas distribution business since 1 July 2007. The proportion of selling and distribution costs for gas distribution business was lower than that of brewery business due to much higher advertisement expenses for consumer products business.

Administrative expenses

Administrative expenses of the Group's continuing operations in 2007 was HK$891 million, increased by 3.9% comparing to HK$858 million in 2006. The increase was mainly due to consolidation of the natural gas distribution business since 1 July 2007. The moderate increase was due to relatively lower proportion of administration costs for gas distribution business comparing to brewery business.

III. FINANCIAL REVIEW *(continued)*

Finance costs

Finance costs of the Group's continuing operations for the year 2007 was HK$235 million, increased by 126% comparing to HK$104 million in 2006. The significant increase was mainly due to drawdown of a syndicated loan amounting to HK$2.1 billion which was used to complete the acquisition of Beijing Gas.

Share of profits and losses of jointly-controlled entities

This substantially represents the 40% share of the profit after taxation of Hua You since 1 July 2007. Hua You is 40% owned by Beijing Gas and 60% owned by PetroChina Limited. The primary business of Hua You is natural gas transmission which supplies to city gas operators along the two long piped lines owned by Hua You.

Share of profits and losses of associates

The Group's share of profit of associates jumped more than three times to HK$261 million in 2007. It was mainly attributed to exceptional profits amounting to approximately HK$184 million arising from disposal and deemed disposal of equity interests in CIT Development recorded in the books of Beijing Development plus a net revaluation gain of an investment property of HK$103 million on investment properties contributed by BMEI Co., Ltd, an associate of the Group.

Tax

Effective income tax rate declined significantly to approximately 18.5% mainly due to the fact that the net exceptional gains derived from deemed disposal of shares in Beijing Development together with certain property revaluation gain recorded in the headquarter were capital in nature and not subject to tax. In addition, the dilution loss on share reform of Yanjing Brewery which was not deductible for PRC income tax purpose artificially increased the effective tax rate last year.

Profit for the year from continuing operations

As a result of the above factors, net profits from continuing operations for year ended 31 December 2007 was HK$1,723 million against HK$254 million in 2006.

Profit from discontinuing operations

This mainly represents the prior year dividends declared by Wangfujing Department Stores (Group) Company Limited entitled to the Company in 2007.

IV. FINANCIAL POSITION OF THE GROUP

Cash and bank borrowings

As at 31 December 2007, cash and bank deposits held by the Group amounted to HK$8.2 billion. At the year end date, the Group had a strong net working capital of HK$3.7 billion. The Group maintains sufficient banking facilities for its working capital requirement and has plenty of room to gear up its balance sheet should significant investment opportunities arise.

The Group's bank and other borrowings amounted to HK$5.9 billion as at 31 December 2007, which mainly comprised of five year syndicated loans amounting to HK$2.1 billion and short term working capital loans HK$2.6 billion carried in the PRC subsidiaries. Around 35.4% of the bank loans were denominated in Hong Kong dollars with the majority of remaining balance in Renminbi. The Group was in a net cash position of HK$2.3 billion as at 31 December 2007.

Liquidity and Capital Resources

During the first half of the year, the Group drew down syndicated loan of HK$2.1 billion to complete the acquisition of the Beijing Gas. Upon completion of the Beijing Gas transaction, the downstream gas distribution business started to contribute to the operating cash flow of the Group and significantly increased its liquidity. Riding on very favorable capital market conditions in the second half of the year 2007, the Company successfully placed 100 million of new shares to investors and raised net proceeds of approximately HK$3.65 billion. This new proceeds significantly boosts the liquidity of the Group and supports continuous capital expenditure in the future.

During the year under review, the Company had issued 411,250,000 new shares at HK$18.48 to acquire the Beijing Gas. In addition, the Company further issued 100 million of new shares at HK$37.1 to support its future capital requirements. As at the end of 2007, the issued capital of the Company has increased to 1,138,940,000 shares and shareholders equity jumped to HK$26.7 billion. Total equity was HK$31.4 billion comparing to HK$13.1 billion as at the end of 2006. With much higher capitalisation and much stronger balance sheets, the Group will be able to weather any storm in the market.

Given the primarily cash nature business of gas distribution, toll roads, brewery and water concession, the Group is benefiting from very strong recurring cash flow and is well positioned to capture investment opportunities in the future.

Cashflow

The Group derived net cash inflow of HK$2.4 billion from its operating activities during the year. Net cash outflow on investing activities including purchases of fixed assets, acquisition of subsidiaries etc was HK$3.3 billion. As mentioned above, the Group had raised significant capital through issue of new shares and new borrowings. Net cash inflow from financing activities for the year was HK$6.1 billion.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YI Xi Qun, aged 60, is the Chairman of the Company and Beijing Enterprises Group Company Limited. Mr. Yi also serves as the Independent Non-executive Director of China Merchants Bank Co., Ltd. and SOHO China 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. In 1991, Mr. Yi became an assistant to the Mayor of Beijing as well as Director of the Economic and Foreign Trade Commission of Beijing Municipality and the Management Committee of the Beijing Economic and Technology Development Zone. Mr. Yi has in-depth knowledge and a wealth of experience in macroeconomic and microeconomic management. Mr. Yi joined the Group in December 1999.

Mr. ZHANG Hong Hai, aged 55, is a Vice Chairman and the Chief Executive Officer of the Company. Mr. Zhang also serves as an Executive Director of Beijing Development (Hong Kong) Limited and the Chairman of China Information Technology Development Limited (formerly known as "Xteam Software International Limited"). 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 53, 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 57, is a Vice Chairman of the Company. He is also the Vice Board Chairman and General Manager of Beijing Enterprises Group Company Limited. Mr. Bai graduated from Beijing Normal University in 1985 and had worked as the Deputy Director and Director of the Policy Research Office of Beijing Chemical Industry Group, the Deputy Director of the Beijing Economic Structure Reforms Committee, the Executive Director and Executive Vice President of the Company, the Deputy Director of Beijing State-owned Assets Supervision and Administration Commission. Mr. Bai has many years of experience in economics, finance and enterprise management. Mr. Bai rejoined the Group in June 2005.

EXECUTIVE DIRECTORS *(continued)*

Mr. ZHOU Si, aged 51, is a Vice Chairman of the Company. He is also the Director of Beijing Enterprises Group Company Limited and the Chairman of Beijing Gas Group Co., Ltd. Mr. Zhou 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. He has extensive experience in economics, finance and enterprise management. Mr. Zhou joined the Group in June 2005.

Mr. LIU Kai, aged 54, is an Executive Director and a Vice President of the Company. Mr. Liu also serves as an Executive Director of Beijing Enterprises Water Group Limited (formerly known as "Shang Hua Holdings Limited"). 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 55, 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 54, 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 Co., Ltd.. Mr. Guo has many years of experience in government affairs and corporate management in China. Mr. Guo joined the Group in April 2004.

EXECUTIVE DIRECTORS *(continued)*

Mr. E Meng, aged 49, is an Executive Director and a Vice President of the Company. Mr. E also serves as the Chairman of Beijing Development (Hong Kong) Limited, the Executive Director of China Information Technology Development Limited (formerly known as "Xteam Software International Limited") and Beijing Enterprises Water Group Limited (formerly known as "Shang Hua Holdings Limited"), and an Independent Non-executive Director of JLF Investment Company Limited. 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 43, a master degree holder in economics and senior engineer, was an Executive Director 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, Peking 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 and resigned in May 2007.

Mr. LEI Zhen Gang, aged 54, a PRC senior accountant, is an Executive Director of the Company and also the Director of Beijing Enterprises Group 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.

EXECUTIVE DIRECTORS *(continued)*

Mr. JIANG Xin Hao, aged 43, is an Executive Director and 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 Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Vice President of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a Manager of the investment development department of Beijing Holdings Limited and a General Manager of Beijing BHL Investment Center between May 2000 and February 2005. He served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. Mr. Jiang has many years of experience in economics, finance and corporate management. Mr. Jiang joined the Group in February 2005.

Mr. TAM Chun Fai Jimmy, aged 46, is the Executive Director, Financial Controller and Company Secretary of the Company. Mr. Tam also serves as the Independent Non-executive Director of Hi Sun Technology (China) Limited and KWG Property Holding Limited. Mr. Tam graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy and is a regular member of Chartered Financial Analyst and a member of Hong Kong Institute of Certified Public Accountants. Mr. Tam has extensive experience in auditing and corporate advisory services with major international accounting firms. He was involved in floatation and audit work of a wide variety of businesses, including electronics, electrical appliances, athletic shoes manufacturing, banking, insurance, securities and property development. Mr. Tam joined the Group in April 1997.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAU Hon Chuen, Ambrose, aged 60, 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 and resigned in March 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

Dr. LEE Tung Hai, Leo, *GBS, LLD, JP*, aged 86, 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 l'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 and resigned in March 2008.

Mr. WANG Xian Zhang, aged 65, 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 and resigned in March 2008.

Mr. WU Jiesi, aged 56, holds a doctorate degree in Economics. Mr. Wu also serves as Independent Non-executive Director of China Insurance International Holdings Company Limited and China Merchants Bank Co., Ltd., and Non-executive Director of China Water Affairs Group Limited and Shenzhen Investment Limited. He conducted post-doctoral research work in theoretical economics at the Nankai University in the PRC and was conferred the professorship qualification by the Nankai University in 2001. During the period from 1984 to 1995, Mr. Wu worked at the Industrial and Commercial Bank of China in a number of positions, including as the President of Shenzhen Branch. From 1995 to 1998, Mr. Wu was Vice Mayor of Shenzhen Municipal Government and from 1998 to 2000 he was the assistant to the Governor of Guangdong province. He was the Chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, the Honorary President of Guangdong Investment Limited and Guangdong Tannery Limited, and the managing director and chief executive officer of Hopson Development Holdings Limited. He has extensive experience in finance and management. Mr. Wu joined the Group in July 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

Mr. Robert A. THELEEN, aged 62, is the Chairman, founder and Co-Chief Executive Officer of China Vest, Ltd., a Shanghai-based Merchant Bank. Mr. Theleen was a pioneer in the private equity investment industry in China where, in 1982, he launched one of the first venture capital funds investing in China. Mr. Theleen is also a Trustee of the Asia Foundation and an active member of the business community in Shanghai where he resides. He was educated at Duquesne University and at the American School of Management in the United States where he obtained his master's degree in business administration in 1970. He is also a member of the Advisory Board of the Hopkins-Nanjing Center in Nanjing, China. Mr. Theleen joined the Group in July 2004.

Mr. LAM Hoi Ham, *JP*, aged 69, was graduated from the faculty of economics of The University of Hong Kong, is the founder of the accounting firm H H Lam & Co., and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam was granted Medal of Honour by The Hong Kong Government in 1994 and was appointed a Justice of the Peace in 1997. Mr. Lam serves as a Standing Committee member of the 10th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China of Beijing City, the vice chairman of Beijing Overseas Friendship Association and a committee member of Beijing Health Department Overseas Friendship Association, etc. Mr. Lam joined the Group in March 2008.

SENIOR MANAGEMENT

Mr. LI Yong Cheng, aged 46, is a Vice President of the Company. Mr. Li is a senior engineer, graduated at Wuhan University of Science and Technology with a master's degree in environmental engineering. He obtained a master's degree (EMBA) at Guanghua School of Management of Peking University. He also studied the purification technology of gas in Germany. Mr. Li is currently the vice chairman of the board and general manager of Beijing Gas Group Co., Ltd. He has extensive management experience in piped gas business. Mr. Li joined the Group in August 2007.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

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 acquired the entire issued share capital of Beijing Gas Group (BVI) Co., Ltd., which, together with its subsidiaries, are engaged in the distribution and sale of piped natural gas, the provision of gas technology consultation and development services, surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repair and maintenance services in Beijing, the People's Republic of China (the "PRC"), further details of which are included in note 44 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 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 190.

An interim dividend and an interim special dividend of HK$0.10 per ordinary share each were paid on 9 November 2007. The directors recommend the payment of a final dividend of HK$0.3 per ordinary share and a final special dividend of HK$0.1 per ordinary share in respect of the year to shareholders on the register of members on 26 June 2008. 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 the annual report of the Company for the year ended 31 December 2006 is set out on pages 191 to 192. 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 CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, 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 35(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2007, 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$966,844,000, of which HK$455,576,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$20,721,710,000, 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.

REPORT OF THE DIRECTORS

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. Zhou Si *(Vice Chairman)*	
Mr. Liu Kai *(Vice President)*	
Mr. Zheng Wan He	(resigned on 5 January 2007)
Mr. Guo Pu Jin	
Mr. E Meng *(Vice President)*	
Mr. Zhao Chang Shan	(resigned on 29 May 2007)
Mr. Lei Zhen Gang	
Mr. Jiang Xin Hao *(Vice President)*	(appointed on 29 May 2007)
Mr. Tam Chun Fai	(appointed on 29 May 2007)

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 3 March 2008, Messrs. Lau Hon Chuen, Ambrose, Lee Tung Hai, Leo and Wang Xian Zhang resigned as directors of the Company and Mr. Lam Hoi Ham was appointed an independent non-executive director of the Company to fill the vacancy.

In accordance with articles 96 and 105(A) of the Company's articles of association and the recommendation of the board of directors, Messrs. Bai Jin Rong, Zhou Si, E Meng, Robert A. Theleen and Lam Hoi Ham will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

REPORT OF THE DIRECTORS

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 18 to 23 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 5 months as at 31 December 2007. 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 23 months, 24 months and 6 months as at 31 December 2007.

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 36 to 40 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 2007, the interests and short positions of the directors and the chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

(a) Long positions in ordinary shares of the Company

Name of director	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Yi Xi Qun	100,000#	0.0088%
Mr. Li Fu Cheng	12,000#	0.0011%
Mr. Bai Jin Rong	60,000#	0.0053%
Mr. Liu Kai	6,000#	0.0005%
Mr. E Meng	50,000#	0.0044%
Mr. Jiang Xin Hao	60,000#	0.0053%
Mr. Tam Chun Fai	10,000#	0.0009%

All interests disclosed are directly beneficially owned by the directors.

(b) Long positions in underlying shares of the Company

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

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

(c) Long positions in ordinary shares of associated corporations

Name of director	Name of associated corporation	Number of ordinary shares held	Percentage of the associated corporation's issued share capital
Mr. Zhang Hong Hai	Beijing Development (Hong Kong) Limited ("Beijing Development")@	600,000#	0.09%
Mr. Li Fu Cheng	Beijing Yanjing Brewery Company Limited ("Yanjing Brewery")@	38,898#	0.0035%
Mr. E Meng	Beijing Development@	601,000#	0.09%

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

All interests disclosed are directly beneficially owned by the directors.

(d) Long positions in underlying shares of associated corporations

Name of director	Name of associated corporation	Number of share options
Mr. Zhang Hong Hai	Beijing Development@	3,400,000 (a)
	Beijing Development@	6,800,000 (b)
Mr. E Meng	Beijing Development@	4,500,000 (b)
	China Information Technology Development Limited ("CIT Development")@	32,400,000 (c)

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

Notes:

(a) These share options were granted on 27 June 2006 at an exercise price of HK$1.00* per ordinary share of Beijing Development. The share options are exercisable at any time commencing on 27 June 2006 and, if not otherwise exercised, will lapse on 17 June 2011.

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

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

Notes: *(continued)*

(b) These share options were granted on 30 October 2007 at an exercise price of HK$4.03* per ordinary share of Beijing Development. The share options may be exercised in two equal portions. The first portion is exercisable at any time commencing on 1 May 2008, and the other portion is exercisable from 1 May 2009 and, if not otherwise exercised, will lapse on 17 June 2011.

(c) These share options were granted on 13 September 2007 at an exercise price of HK$0.79* per ordinary share of CIT Development. The share options are exercisable at any time commencing on 13 March 2008 and, if not otherwise exercised, will lapse on 12 September 2012. The exercise of the options is subject to an annual cap of 25% of the share options granted. Subject to the approval of the share option committee and the remuneration committee of CIT Development, executive directors and independent non-executive directors of CIT Development are entitled to exercise all the share options within three months from the date of termination of their employment with CIT Development.

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

Save as disclosed above, as at 31 December 2007, 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 an interest or a short position as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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 the heading "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants 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 share option holders to those of shareholders. Further details of the Scheme are disclosed in note 34 to the financial statements.

The following set out the movements of the share options granted under the Scheme during the year ended 31 December 2007:

Name or category of participant		Number of share options: At 1 January 2007	Granted during the year *(note b)*	Exercised during the year	At 31 December 2007
Directors:					
Mr. Yi Xi Qun	*(a)*	650,000	–	(400,000)	250,000
Mr. Zhang Hong Hai	*(a)*	450,000	–	(450,000)	–
Mr. Li Fu Cheng	*(a)*	450,000	–	(450,000)	–
Mr. Bai Jin Rong	*(a)*	450,000	–	(360,000)	90,000
Mr. Zhou Si	*(a)*	300,000	–	–	300,000
Mr. Liu Kai	*(a)*	300,000	–	(300,000)	–
Mr. Guo Pu Jin	*(a)*	300,000	–	(240,000)	60,000
Mr. E Meng	*(a)*	300,000	–	(300,000)	–
Mr. Zhao Chang Shan (resigned on 29 May 2007)	*(a)*	300,000	–	(300,000)	–
Mr. Lei Zhen Gang	*(a)*	300,000	–	(150,000)	150,000
Mr. Jiang Xin Hao (appointed on 29 May 2007)	*(a)*	300,000	–	(190,000)	110,000
Mr. Tam Chun Fai (appointed on 29 May 2007)	*(a)*	300,000	–	(300,000)	–
		4,400,000	–	(3,440,000)	960,000
Other employees:					
In aggregate	*(a)*	1,500,000	–	(1,450,000)	50,000
	(b)	–	300,000	(300,000)	–
		1,500,000	300,000	(1,750,000)	50,000
		5,900,000	300,000	(5,190,000)	1,010,000

SHARE OPTION SCHEME *(continued)*

Notes:

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

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

(b) These share options were granted on 2 May 2007 at an exercise price of HK$20.6 per ordinary share of the Company. The exercise price was determined based on the closing price of the date of grant. The cash consideration paid by the employee for the share options granted was HK$1. The share options do not have any vesting period. All the share options, if not otherwise exercised, will lapse on 2 May 2012.

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

At 31 December 2007, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

	Number of ordinary shares held, capacity and nature of interest			
Name	Directly beneficially owned	Others	Total	Percentage of the Company's issued share capital
Modern Orient Limited	100,050,000	–	100,050,000	8.78%
Beijing Enterprises Investments Limited ("BEIL")	165,775,001	100,050,000(a)	265,825,001	23.34%
Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI")	411,250,000	265,825,001(b)	677,075,001	59.45%
北京控股集團有限公司 (Beijing Enterprises Group Company Limited) ("Beijing Enterprises Group")	–	677,075,001(c)	677,075,001	59.45%
Deutsche Bank Aktiengesellschaft	61,232,981	71,680,671(d)	132,913,652	11.67%

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

Long positions: *(continued)*

Notes:

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

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

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

(d) The interest disclosed includes 1,424,000 shares held as an investment manager, 5,256,671 shares held as security interest in the shares and 65,000,000 shares as a trustee.

Short positions:

	Number of ordinary shares held, capacity and nature of interest			Percentage of
Name	**Directly beneficially owned**	**Others**	**Total**	**the Company's issued share capital**
BEIL	6,825,001	–	6,825,001	0.60%
BE Group BVI	–	6,825,001(a)	6,825,001	0.60%
Beijing Enterprises Group	–	6,825,001(b)	6,825,001	0.60%
Deutsche Bank Aktiengesellschaft	1,058,000	2,841,000(c)	3,899,000	0.34%

Notes:

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

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

(c) Person having a security interest in the shares.

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

Save as disclosed above, as at 31 December 2007, 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 30 and 52 to the financial statements.

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

EVENT AFTER THE BALANCE SHEET DATE

Details of the significant events after the balance sheet date of the Group are set out in note 53 to the financial statements.

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

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

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

ON BEHALF OF THE BOARD

Chairman

Hong Kong
8 April 2008

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 2007.

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 2007. The Model Code also applies to other specified senior management of the Company.

BOARD OF DIRECTORS

Composition and role

The Board comprises of eleven Executive Directors and three 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)*

Composition and role *(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. Zhou Si		3/3
Mr. Liu Kai		3/3
Mr. Zheng Wan He	(resigned on 5 January 2007)	0/0
Mr. Guo Pu Jin		3/3
Mr. E Meng		3/3
Mr. Zhao Chang Shan	(resigned on 29 May 2007)	2/2
Mr. Lei Zhen Gang		3/3
Mr. Jiang Xin Hao	(appointed on 29 May 2007)	2/2
Mr. Tam Chun Fai	(appointed on 29 May 2007)	2/2
Mr. Lau Hon Chuen, Ambrose	(resigned on 3 March 2008)	2/2
Dr. Lee Tung Hai, Leo	(resigned on 3 March 2008)	2/2
Mr. Wang Xian Zhang	(resigned on 3 March 2008)	2/2
Mr. Wu Jiesi		2/2
Mr. Robert A. Theleen		2/2
Mr. Lam Hoi Ham*	(appointed on 3 March 2008)	0/0

* This Director was appointed in 2008 and accordingly was not entitled to attend any Board meeting during the year ended 31 December 2007.

BOARD OF DIRECTORS *(continued)*

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
Mr. Lam Hoi Ham (appointed on 3 March 2008)
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 2007, the auditors of the Company only provided audit services to the Company.

AUDIT COMMITTEE

The current members of the Audit Committee are:

Mr. Lam Hoi Ham – Committee Chairman (appointed on 3 March 2008)
Mr. Wu Jiesi
Mr. Robert A. Theleen (appointed on 3 March 2008)

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.

AUDIT COMMITTEE *(continued)*

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 2007. During the year ended 31 December 2007, 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 (resigned on 3 March 2008)	2/2
Mr. Wang Xian Zhang (resigned on 3 March 2008)	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 2007 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 43 to 190, which comprise the consolidated and company balance sheets as at 31 December 2007, 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.

AUDITORS' RESPONSIBILITY *(continued)*

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.

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 2007 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
8 April 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CONTINUING OPERATIONS:			
REVENUE	*4*	**11,299,856**	7,246,920
Cost of sales		**(8,156,745)**	(4,815,447)
Gross profit		**3,143,111**	2,431,473
Gains on deemed disposal of interests in subsidiaries	*5*	**–**	146,957
Other income and gains, net	*4*	**532,645**	294,430
Selling and distribution costs		**(888,992)**	(834,775)
Administrative expenses		**(891,415)**	(858,241)
Dilution losses on share reforms of subsidiaries	*6*	**–**	(485,827)
Other operating expenses, net		**(86,166)**	(231,440)
PROFIT FROM OPERATING ACTIVITIES	*7*	**1,809,183**	462,577
Finance costs	*8*	**(234,562)**	(103,711)
Share of profits and losses of:			
Jointly-controlled entities	*22(a)*	**178,243**	688
Associates	*23(a)*	**261,009**	64,644
PROFIT BEFORE TAX		**2,013,873**	424,198
TAX	*11*	**(290,970)**	(169,823)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**1,722,903**	254,375
DISCONTINUED OPERATIONS:			
Profit for the year from discontinued operations	*7, 12(a)*	**80,827**	353,875
PROFIT FOR THE YEAR		**1,803,730**	608,250
ATTRIBUTABLE TO:			
Shareholders of the Company:			
Continuing operations		**1,357,553**	100,216
Discontinued operations	*12(a)*	**80,827**	238,452
	13	**1,438,380**	338,668
Minority interests		**365,350**	269,582
		1,803,730	608,250

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
DIVIDENDS	*14*		
Interim		**227,706**	62,250
Proposed final		**455,576**	124,500
		683,282	186,750
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*15*		
Basic			
– For profit for the year		**HK$1.67**	HK$0.54
– For profit from continuing operations		**HK$1.58**	HK$0.16
Diluted			
– For profit for the year		**HK$1.67**	HK$0.54
– For profit from continuing operations		**HK$1.57**	HK$0.16

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	16	**17,060,957**	7,681,882
Investment properties	17	**334,262**	272,904
Prepaid land premiums	18	**837,507**	302,757
Goodwill	19	**7,044,321**	44,177
Other intangible assets	20	**1,445,241**	1,450,584
Interests in jointly-controlled entities	22	**3,302,725**	1,921
Interests in associates	23	**881,268**	519,854
Available-for-sale investments	24	**290,424**	352,914
Prepayments, deposits and other receivables	29	**22,094**	130,008
Restricted cash and pledged deposits	25	**–**	2,200
Deferred tax assets	40	**161,227**	663
Total non-current assets		**31,380,026**	10,759,864
Current assets:			
Prepaid land premiums	18	**18,832**	8,086
Inventories	26	**2,342,259**	1,648,707
Amounts due from customers for contract work	27	**178**	–
Trade and bills receivables	28	**1,120,439**	458,313
Prepayments, deposits and other receivables	29	**1,538,517**	1,644,518
Financial assets at fair value through profit or loss	31	**39,250**	9,706
Taxes recoverable		**35,196**	27,258
Restricted cash and pledged deposits	25	**131,800**	59,305
Cash and cash equivalents	32	**8,072,484**	2,708,395
Total current assets		**13,298,955**	6,564,288
TOTAL ASSETS		**44,678,981**	17,324,152

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company:			
Issued capital	33	**113,894**	62,250
Reserves	35(a)	**26,178,009**	8,683,955
Proposed final dividends	14	**455,576**	124,500
		26,747,479	8,870,705
Minority interests		**4,689,457**	4,189,100
TOTAL EQUITY		**31,436,936**	13,059,805
Non-current liabilities:			
Bank and other borrowings	36	**3,282,325**	566,998
Convertible bonds	37	**–**	464
Defined benefits plans	38	**223,772**	–
Other long term liabilities	39	**136,690**	21,570
Deferred tax liabilities	40	**49,354**	20,512
Total non-current liabilities		**3,692,141**	609,544
Current liabilities:			
Trade and bills payables	41	**1,737,563**	733,615
Amounts due to customers for contract work	27	**20,468**	–
Other payables and accruals	42	**4,292,488**	1,036,140
Taxes payable	43	**858,110**	551,098
Bank and other borrowings	36	**2,641,275**	1,333,950
Total current liabilities		**9,549,904**	3,654,803
TOTAL LIABILITIES		**13,242,045**	4,264,347
TOTAL EQUITY AND LIABILITIES		**44,678,981**	17,324,152

Yi Xi Qun
Director

Zhang Hong Hai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Notes	Attributable to shareholders of the Company											Minority interests	Total equity
		Issued capital	Share premium account	Share option reserve	Capital reserve	Property revaluation reserve	Investment revaluation reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Proposed final dividends	Total		
		HK$'000	HK$'000	HK$'000	HK$'000 (note 35(a)(iii))	HK$'000	HK$'000	HK$'000	HK$'000 (note 35(a)(ii))	HK$'000	HK$'000	HK$'000	HK$'000	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		–	–	–	–	–	(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 contribution 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 reforms of subsidiaries	6	–	–	–	(200,323)	–	–	–	(47,853)	248,176	–	–	485,827	485,827
Share reform expenses		–	–	–	(3,451)	–	–	–	–	–	–	(3,451)	–	(3,451)
Equity-settled share option arrangements	34	–	–	21,279	–	–	–	–	–	–	–	21,279	–	21,279
Equity-settled share option arrangements by a subsidiary		–	–	–	2,910	–	–	–	–	–	–	2,910	2,304	5,214
Final 2005 dividend		–	–	–	–	–	–	–	–	–	(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*	21,279*	215,246*	7,593*	–*	417,183*	704,186*	2,478,971*	124,500	8,870,705	4,189,100	13,059,805

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

		Attributable to shareholders of the Company												
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000 (note 35(a)(iii))	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 35(a)(ii))	Retained profits HK$'000	Proposed final dividends HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007		62,250	4,839,497	21,279	215,246	7,593	–	417,183	704,186	2,478,971	124,500	8,870,705	4,189,100	13,059,805
Exchange realignment		–	–	–	–	–	–	870,323	–	–	–	870,323	302,713	1,173,036
Share issue expenses	33	–	(79,361)	–	–	–	–	–	–	–	–	(79,361)	–	(79,361)
Total income and expense for the year recognised directly in equity		–	(79,361)	–	–	–	–	870,323	–	–	–	790,962	302,713	1,093,675
Profit for the year		–	–	–	–	–	–	–	–	1,438,380	–	1,438,380	365,350	1,803,730
Total income and expense for the year		–	(79,361)	–	–	–	–	870,323	–	1,438,380	–	2,229,342	668,063	2,897,405
Acquisition of subsidiaries	44	–	–	–	–	–	–	–	–	–	–	–	9,432	9,432
Acquisition of minority interests		–	–	–	–	–	–	–	–	–	–	–	(4,185)	(4,185)
Deemed disposal of interest in an associate		–	–	–	61,019	(1,865)	–	(565)	(2,152)	(57,002)	–	(565)	–	(565)
Share of reserves of associates		–	–	–	137,102	6,604	–	(335)	(202)	(138,124)	–	5,045	–	5,045
Issue of shares	33	51,125	15,873,000	–	–	–	–	–	–	–	–	15,924,125	–	15,924,125
Equity-settled share option arrangements	34	–	–	4,271	–	–	–	–	–	–	–	4,271	–	4,271
Exercise of share options	33	519	88,574	(21,543)	–	–	–	–	–	–	–	67,550	–	67,550
Final 2006 dividend		–	–	–	–	–	–	–	–	(788)	(124,500)	(125,288)	–	(125,288)
Interim 2007 dividend	14	–	–	–	–	–	–	–	–	(227,706)	–	(227,706)	–	(227,706)
Proposed final 2007 dividends	14	–	–	–	–	–	–	–	–	(455,576)	455,576	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(172,953)	(172,953)
Transfer to reserves		–	–	–	–	–	–	–	304,529	(304,529)	–	–	–	–
At 31 December 2007		**113,894**	**20,721,710***	**4,007***	**413,367***	**12,332***	**-***	**1,286,606***	**1,006,361***	**2,733,626***	**455,576**	**26,747,479**	**4,689,457**	**31,436,936**

* These reserve accounts comprise the consolidated reserves of HK$26,178,009,000 (2006: HK$8,683,955,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**2,013,873**	424,198
From discontinued operations	*12(a)*	**80,827**	701,851
Adjustments for:			
Finance costs	*8*	**234,562**	114,893
Fair value gain on investment properties, net	*4*	**(55,749)**	(4,580)
Share of profits and losses of jointly-controlled entities and associates		**(439,252)**	(58,672)
Depreciation	*7*	**893,799**	705,779
Amortisation of operating concessions	*7*	**111,912**	106,415
Amortisation of management information systems	*7*	**–**	2,000
Amortisation of licences	*7*	**–**	449
Amortisation of deferred development costs	*7*	**–**	670
Amortisation of computer software	*7*	**1,053**	–
Excess over the cost of acquisition of subsidiaries and minority interests	*4*	**(341)**	(889)
Impairment of items of property, plant and equipment	*7*	**–**	1,916
Impairment of goodwill	*7*	**–**	44,625
Impairment of available-for-sale investments carried at cost	*7*	**–**	90,770
Impairment of an amount due from an associate	*7*	**–**	5,500
Impairment of trade and bills receivables, net	*7*	**1,588**	15,838
Impairment/(reversal of impairment) of other receivables	*7*	**52,838**	94,226
Provision against inventories, net	*7*	**–**	3,459
Interest income	*4*	**(98,889)**	(82,177)
Investment income, unlisted	*4*	**(12,086)**	(1,436)
(Gain)/loss on disposal of items of property, plant and equipment, net	*7*	**21,333**	(111,341)
Gain on disposal of investment properties	*4*	**–**	(3,189)
Gain on disposal of interests in subsidiaries, net	*4*	**(80,827)**	(141,469)
Gains on deemed disposal of interests in subsidiaries		**–**	(146,957)
Dilution losses on share reforms of subsidiaries		**–**	485,827
(Gain)/loss on deemed disposal of an interest in an associate	*7*	**(61,370)**	499
Gain on disposal of available-for-sale investments carried at cost	*4*	**(111,230)**	(47,676)
Gain on disposal of financial assets at fair value through profit or loss, net	*4*	**(18,619)**	(2,563)
Fair value gain on financial assets at fair value through profit or loss, net	*4*	**(11,089)**	(8,919)
Employee share option benefits	*7, 9*	**4,271**	26,493
		2,526,604	2,215,540

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	**2007 HK$'000**	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Operating profit before working capital changes		**2,526,604**	2,215,540
Increase in prepaid land premiums		**(73,709)**	(22,986)
Decrease in properties under development		**–**	322,301
Increase in properties held for sale		**–**	(239,497)
Increase in inventories		**(523,186)**	(336,792)
Decrease/(increase) in amounts due from customers for contract work		**254**	(5,133)
Decrease in trade and bills receivables		**33,389**	76,322
Increase in prepayments, deposits and other receivables		**(575,434)**	(676,865)
Purchases of financial assets at fair value through profit or loss		**(62,687)**	(38,140)
Proceeds from disposal of financial assets at fair value through profit or loss		**62,851**	74,545
Decrease/(increase) in taxes recoverable		**(7,938)**	2,228
Increase in trade and bills payables		**183,244**	555,282
Increase in amounts due to customers for contract work		**5,090**	1,924
Increase in other payables and accruals		**613,870**	524,490
Increase in other taxes payable		**133,439**	29,791
Increase in other long term liabilities		**101,902**	7,147
Exchange adjustments		**403**	3,751
Cash generated from operations		**2,418,092**	2,493,908
Dividends received from jointly-controlled entities and associates		**26,111**	2,761
Hong Kong profits tax paid		**(612)**	(4,605)
Mainland China income tax paid		**(236,093)**	(236,538)
Overseas income tax paid		**–**	(1,490)
Net cash inflow from operating activities		**2,207,498**	2,254,036

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	16	**(1,434,594)**	(1,520,316)
Proceeds from disposal of items of property, plant and equipment		**160,490**	248,384
Proceeds from disposal of investment properties		**–**	5,974
Purchases of other intangible assets	20	**(2,268)**	(1,639)
Share reform expenses		**–**	(3,451)
Acquisition of subsidiaries	44	**(2,009,581)**	(231,571)
Acquisition of minority interests		**(18,712)**	–
Disposal of subsidiaries	45(a)	**80,173**	(189,126)
Deconsolidation of subsidiaries	45(b)	**–**	(343,086)
Acquisition of and increase in investments in jointly-controlled entities and associate		**(23,454)**	(60,902)
Proceeds from disposal of interests in jointly-controlled entities and associates		**–**	1,462
Increase in amounts due from/to and loans to jointly-controlled entities and associates		**(38,076)**	(49,657)
Purchases of available-for-sale investments		**(20,000)**	(350,682)
Proceeds from disposal of available-for-sale investments		**18,538**	134,013
Decrease/(increase) in time deposits with maturity of more than three months when acquired		**(28,202)**	88,768
Increase in pledged deposits		**(39,033)**	(49,962)
Interest received		**87,053**	45,836
Investment income received		**12,086**	1,436
Net cash outflow from investing activities		**(3,255,580)**	(2,274,519)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new ordinary shares	33	**3,710,000**	–
Proceeds from exercise of share options	33	**67,550**	–
Share issue expenses	33	**(79,361)**	–
Capital contributions by minority shareholders		**–**	336,073
Redemption of convertible bonds	37	**(143)**	–
New loans		**5,424,730**	3,038,791
Repayment of loans		**(2,258,796)**	(3,710,875)
Interest paid	8	**(193,291)**	(108,892)
Dividends paid		**(352,994)**	(186,750)
Dividends paid to minority shareholders		**(172,953)**	(164,368)
Net cash inflow/(outflow) from financing activities		**6,144,742**	(796,021)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**5,096,660**	(816,504)
Cash and cash equivalents at beginning of year		**2,706,682**	3,417,574
Effect of foreign exchange rate changes, net		**239,227**	105,612
CASH AND CASH EQUIVALENTS AT END OF YEAR		**8,042,569**	2,706,682
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	32	**4,536,911**	2,597,596
Cash equivalents	32	**89,834**	50,225
Time deposits	32	**3,577,539**	122,079
		8,204,284	2,769,900
Less: Pledged deposits	32	**(131,800)**	(61,505)
Time deposits with maturity of more than three months when acquired		**(29,915)**	(1,713)
		8,042,569	2,706,682

BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	16	**21,461**	40,153
Investment properties	17	**159,650**	134,000
Interests in subsidiaries	21	**20,528,563**	4,838,397
Interests in jointly-controlled entities	22	**46,808**	338
Interests in associates	23	**50,314**	46,168
Available-for-sale investments	24	**132,497**	132,747
Prepayments, deposits and other receivables	29	**–**	67,558
Total non-current assets		**20,939,293**	5,259,361
Current assets:			
Trade and bills receivables	28	**5,565**	2,982
Prepayments, deposits and other receivables	29	**56,776**	443,451
Financial assets at fair value through profit or loss	31	**39,250**	9,706
Cash and cash equivalents	32	**3,557,536**	152,632
Total current assets		**3,659,127**	608,771
TOTAL ASSETS		**24,598,420**	5,868,132
EQUITY AND LIABILITIES			
Equity:			
Issued capital	33	**113,894**	62,250
Reserves	35(b)	**21,236,985**	5,355,941
Proposed final dividends	14	**455,576**	124,500
TOTAL EQUITY		**21,806,455**	5,542,691
Non-current liabilities:			
Bank and other borrowings	36	**2,093,873**	–
Current liabilities:			
Bank and other borrowings	36	**–**	243,600
Other payables and accruals	42	**688,411**	73,569
Taxes payable	43	**9,681**	8,272
Total current liabilities		**698,092**	325,441
TOTAL LIABILITIES		**2,791,965**	325,441
TOTAL EQUITY AND LIABILITIES		**24,598,420**	5,868,132

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:

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

- production, distribution and sale of consumer products, including beer and wine in Beijing and other provinces in the PRC.

- investment in transportation infrastructure, including the Capital Airport Expressway, which connects the Capital Airport and the city centre of Beijing, and the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC.

- operation of water purification and treatment plants in Beijing and another city in the PRC.

As at 31 December 2007 and the date of approval of these financial statements, the immediate holding company of the Company is Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI"), which is incorporated in the British Virgin Islands, and in the opinion of the directors, the ultimate holding company is 北京控股集團有限公司 (Beijing Enterprises Group Company Limited) ("Beijing Enterprises Group"), which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing Municipal Government").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain financial assets which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. 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 interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Presentation of Financial Statements – Capital Disclosures*
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*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 47 to the financial statements.

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

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Company's directors and employees of the Group in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group did not reverse any impairment loss in respect of such asset subsequently after previous interim period, the interpretation has had no impact on the financial position or results of operations of the Group.

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.

Amendment to HKFRS 2	*Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions* [3]
HK(IFRIC)-Int 12	*Service Concession Arrangements* [5]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [4]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* [5]

[1] *Effective for annual periods beginning on or after 1 January 2009*
[2] *Effective for annual periods beginning on or after 1 July 2009*
[3] *Effective for annual periods beginning on or after 1 March 2007*
[4] *Effective for annual periods beginning on or after 1 July 2008*
[5] *Effective for annual periods beginning on or after 1 January 2008*

HKAS 2 has been revised to restrict the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 (Revised) has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by HKFRS 3 (Revised) and HKAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

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

HKAS 1 (Revised) affects certain disclosures of the financial statements. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instrument, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

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

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK (IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. The Group is in the process of making an assessment of the impact of HK(IFRIC)-Int 12. So far, the Group has concluded that the adoption of HK(IRFIC)-Int 12 will result in changes in accounting policies for the Group's expressway and related structures, and two operating concessions of the Group as referred to in notes 20(i) and (ii) to the financial statements in respect of certain of the Group's operations under public-to-private service concession arrangements. However, the Group is not yet in position to state the financial impact on the Group's results of operations and financial position.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit asset, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint ventures *(continued)*

(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 *Financial Instruments: Recognition and Measurement*, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

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

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising on the acquisition of associates, which was not previously eliminated against the consolidated capital reserve, is included as part of the Group's interests in associates. 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.

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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(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. The Group performs its annual impairment testing for goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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

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

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

Goodwill previously eliminated against the consolidated capital reserve

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("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.

Excess over the cost of business combinations

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill

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

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

An assessment is made at 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, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such 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.

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
Gas pipelines	25 years
Gas metres	8 years
Other plant and machinery	5 to 20 years
Furniture, fixtures and office equipment	5 to 12 years
Motor vehicles	5 to 15 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Investment properties

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Operating concessions

Operating concessions represent the rights to operate 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

Computer software

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 and 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. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

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 less any allowance for impairment. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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. Interest and dividends earned are reported as interest income and investment income, respectively, and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment of available-for-sale investments" and are transferred from the investment revaluation reserve.

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 that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any accumulated impairment losses.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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.

Available-for-sale investments carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. The Group generally refers to 5% or more as significant and regards a period of greater than three months as prolonged. In addition, the Group evaluates other factors, such as the share price volatility. 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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. The related interest expense is recognised within "Finance costs" in the income statement.

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 less 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.

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts

Contract revenue comprises 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 that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

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

Revenue recognition

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

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

(b) toll revenue, on an accrual basis;

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

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

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

(f) from the sale of properties, upon execution of the sale agreements;

(g) 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;

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions

The Company operates a share option scheme for the granting of non-transferable options, for the purpose of providing incentives and rewards, to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of share options granted by the Company is determined by external valuers using the binominal lattice model, further details of which are given in note 34 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, if applicable.

The cost of equity-settled transactions is recognised in the income statement, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions *(continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium accounts. Options which are cancelled prior to their exercise date or lapse are deleted from the register of outstanding options.

At the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

Other employee benefits

Pension schemes

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits *(continued)*

Pension schemes *(continued)*

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.

Other retirement benefits

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions 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.

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

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

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

Estimate of gas consumption

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

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

The actual consumption could deviate from those estimates.

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.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

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 investment property.

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 2007 was HK$7,078,316,000 (2006: HK$78,172,000), 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 and hence depreciation in future periods.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

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

The carrying amounts of items of property, plant and equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated balance sheet as at 31 December 2007 were HK$17,060,957,000 (2006: HK$7,681,882,000) and HK$1,445,241,000 (2006: HK$1,450,584,000), respectively, details of which are set out in notes 16 and 20 to the financial statements, respectively.

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 short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows. The carrying amount of available-for-sale investments carried as assets in the consolidated balance sheet as at 31 December 2007 were HK$290,424,000 (2006: HK$352,914,000), details of which are set out in note 24 to the financial statements.

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 transactions in accordance with the prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as liabilities in the consolidated balance sheet as at 31 December 2007 were HK$528,064,000 (2006: HK$354,492,000), details of which are set out in note 43 to the financial statements.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and tax in the periods in which such estimates have been changed. The carrying amount of deferred tax assets and liabilities carried as assets in the consolidated balance sheet as at 31 December 2007 were HK$161,227,000 (2006: HK$663,000) and HK$49,354,000 (2006: HK$20,512,000), respectively, details of which are set out in note 40 to the financial statements.

Provision for impairment of trade and bills receivables and other receivables

The Group's management determines the provision for impairment of trade and bills receivables and other receivables. This estimate is based on the evaluation of collectibility and ageing analysis of accounts and on management's estimation in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been changed. The carrying amount of trade and bills receivables and other receivables carried as assets in the consolidated balance sheet as at 31 December 2007 were HK$1,120,439,000 (2006: HK$458,313,000) and HK$1,527,377,000 (2006: HK$1,762,345,000), respectively, details of which are set out in notes 28 and 29 to the financial statements.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Provision for obsolete and slow-moving inventories

Management reviews the condition of inventories of the Group and makes provision for 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 for obsolete and slow-moving items. Management reassesses the estimation at 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. The carrying amount of inventories carried as assets in the consolidated balance sheet as at 31 December 2007 were HK$2,342,259,000 (2006: HK$1,648,707,000), details of which are set out in note 26 to the financial statements.

Defined benefits plans

The present value of the retirement benefits obligations under the various defined benefits plans of the Group depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefits obligations. Key assumptions for the obligations are based in part on the current market conditions. The carrying amount of the obligations carried as liabilities in the consolidated balance sheet under defined benefits plans as at 31 December 2007 was HK$224,076,000 (2006: Nil), details of which and additional information are disclosed in note 38 to the financial statements.

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 natural gas operation segment engages in the distribution and sale of piped natural gas, the provision of gas technology consultation and development services, the surveying and plotting of underground construction projects, the construction and installation of gas pipelines and related equipment and the provision of repair and maintenance services;

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

(c) the 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*);

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

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

(f) the corporate and others segment comprises the construction of broadband infrastructure, the sale of software, the provision of Internet services and IT technical support and consultation services, tourism operation, the 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 2007 and 2006:

Group

Year ended 31 December 2007

	Continuing operations						Discontinued operations				
	Piped gas operation HK$'000	Brewery operation HK$'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	3,253,919	6,738,239	608,584	551,380	147,734	11,299,856	–	–	–	–	11,299,856
Intersegment sales	–	–	–	–	–	–	–	–	–	–	–
Other income and gains, net	27,021	94,496	2,188	2,838	104,655	231,198	–	–	–	–	231,198
Total	3,280,940	6,832,735	610,772	554,218	252,389	11,531,054	–	–	–	–	11,531,054
Segment results	263,564	684,336	413,859	178,296	(32,319)	1,507,736	–	–	–		1,507,736
Unallocated income and gains, net						301,447			80,827		382,274
Profit from operating activities						1,809,183			80,827		1,890,010
Finance costs						(234,562)			–		(234,562)
Share of profits and losses of:											
Jointly-controlled entities	178,243	–	–	–	–	178,243			–		178,243
Associates	–	(280)	–	–	261,289	261,009			–		261,009
Profit before tax						2,013,873			80,827		2,094,700
Tax						(290,970)			–		(290,970)
Profit for the year						1,722,903			80,827		1,803,730

3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

Year ended 31 December 2007 (continued)

	Continuing operations						Discontinued operations				
	Piped gas operation HK$'000	Brewery operation HK$'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	9,873,382	10,696,617	1,918,871	905,299	13,659,548	37,053,717	–	–	–	(5,216,151)	31,837,566
Share of net assets of:											
Jointly-controlled entities	3,250,906	–	–	–	29,427	3,280,333	–	–	–	–	3,280,333
Associates	–	10,799	3,689	–	817,803	832,291	–	–	–	–	832,291
	13,124,288	10,707,416	1,922,560	905,299	14,506,778	41,166,341	–	–	–	(5,216,151)	35,950,190
Unallocated assets						8,730,381			–	–	8,730,381
Total assets						49,896,722			–	(5,216,151)	44,680,571
Segment liabilities	3,783,020	3,191,863	298,941	31,286	4,653,657	11,958,767	–	–	–	(5,216,151)	6,742,616
Unallocated liabilities						6,501,019			–	–	6,501,019
Total liabilities						18,459,786			–	(5,216,151)	13,243,635
Other segment information:											
Depreciation	225,468	579,384	72,008	1,138	15,801	893,799	–	–	–	–	893,799
Amortisation of other intangible assets	1,053	–	33,450	76,924	1,538	112,965	–	–	–	–	112,965
Impairment losses on:											
Segment assets	–	5,616	3,616	–	–	9,232	–	–	–	–	9,232
Unallocated assets											100,000
Capital expenditures	446,207	910,183	70,275	36	10,161	1,436,862	–	–	–	–	1,436,862

3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

Year ended 31 December 2006

	Continuing operations						Discontinued operations				
	Piped gas operation HK$'000	Brewery operation HK$'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				
	Piped gas operation HK$'000	Brewery operation HK$'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)*

(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	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	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	3,089	3,366	11,296,767	13,336,583	–	230,042	–	–	11,299,856	13,569,991
Intersegment sale	–	1,237	–	–	–	32,422	–	(33,659)	–	–
Other income and gains, net	79,085	25,111	152,113	405,666	–	1,101	–	–	231,198	431,878
Total	82,174	29,714	11,448,880	13,742,249	–	263,565	–	(33,659)	11,531,054	14,001,869
Other segment information:										
Segment assets	11,739,822	5,467,225	25,313,895	13,367,970	–	–	(5,216,151)	(5,153,985)	31,837,566	13,681,210
Share of net assets of:										
Jointly-controlled entities	23,454	–	3,256,879	5,591	–	–	–	–	3,280,333	5,591
Associates	458,493	216,522	373,798	266,384	–	–	–	–	832,291	482,906
	12,221,769	5,683,747	28,944,572	13,639,945	–	–	(5,216,151)	(5,153,985)	35,950,190	14,169,707
Unallocated assets									8,730,381	3,160,441
Total assets									44,680,571	17,330,148
Capital expenditures	–	1,031	1,436,862	1,506,886	–	14,038	–	–	1,436,862	1,521,955

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 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:

	2007 HK$'000	2006 HK$'000
Revenue		
Piped gas operation	3,253,919	–
Brewery operation	6,738,239	5,476,877
Expressway and toll road operations	608,584	530,542
Water treatment operation	551,380	518,696
Corporate and others	147,734	720,805
Attributable to continuing operations reported in the consolidated income statement	11,299,856	7,246,920
Attributable to discontinued operations – *note 12(a)*	–	6,323,071
	11,299,856	13,569,991
Other income		
Bank interest income	87,053	45,836
Imputed interest income on interest-free other receivables	11,836	36,341
Rental income	19,319	61,224
Service income	6,246	21,162
Investment income, unlisted	12,086	1,436
Entrusted operating arrangement fee – *note 45(b)(i)*	–	12,516
Government grants*	35,542	81,023
Sale of raw materials	4,153	1,499
Indemnification from a related company recognised as income#	–	193,551
Others	65,061	107,059
	241,296	561,647

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

	2007 HK$'000	2006 HK$'000
Gains, net		
Fair value gain on investment properties, net – *note 17*	55,749	4,580
Excess over the cost of acquisition of subsidiaries and minority interests	341	889
Gain on disposal of items of property, plant and equipment, net	–	111,341
Gain on disposal of investment properties	–	3,189
Gain on disposal of interests in subsidiaries†	80,827	141,469
Gain on deemed disposal of an interest in an associateΩ	61,370	–
Gain on disposal of available-for-sale investments carried at cost	111,230	47,676
Gain on disposal of financial assets at fair value through profit or loss, net	18,619	2,563
Fair value gain on financial assets at fair value through profit or loss, net	11,089	8,919
Foreign exchange differences, net	32,951	28,679
	372,176	349,305
Other income and gains, net	613,472	910,952
Attributable to:		
Continuing operations reported in the consolidated income statement	532,645	294,430
Discontinued operations – *note 12(a)*	80,827	616,522
	613,472	910,952

* 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 must be utilised for the development of the Company's subsidiaries.

\# The indemnification from a related company recognised as income during the year ended 31 December 2006 represented the indemnification given by Beijing Enterprises Group 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", a wholly-owned subsidiary of the Company) on the disposal of its 49.52% equity interest in Beijing Wangfujing Department Store (Group) Co., Ltd. ("Wangfujing") during that year. Further details of the disposal are set out in note 12 to the financial statements.

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

† The gain on disposal of interests in subsidiaries recognised during the years ended 31 December 2007 and 2006 was attributable to the disposal of the Group's entire 50.1% equity interests in Wangfujing, details of which are set out in note 12 to the financial statements.

Ω The gain on deemed disposal of interest in an associate recognised during the year ended 31 December 2007 arose from the dilution of the Group's effective equity interest in Beijing Development (Hong Kong) Limited ("Beijing Development"), an associate of the Group, from 46.57% to 40.48% upon the issuance of new ordinary shares by Beijing Development during the year.

5. GAINS ON DEEMED DISPOSAL OF INTERESTS IN SUBSIDIARIES

The gains on deemed disposal of interests in subsidiaries recognised during the year ended 31 December 2006 included the following:

(i) a gain of HK$141,341,000 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% to 50.47% upon the exercise of convertible bonds of Yanjing Brewery by certain bondholders in exchange for ordinary shares of Yanjing Brewery during the year ended 31 December 2006. Further details of the Group's convertible bonds are set out in note 37 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 ordinary 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 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 effective 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 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 equity 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 its tradable shares for every 10 tradable shares held by each of them on the condition that (i) the growth rate of the audited profit attributable to shareholders of Yanjing Huiquan for each of the years ended 31 December 2006 and 2007 and the year ending 31 December 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.

No additional shares had been granted up to the date of approval of these financial statements as none of the above conditions were triggered for the years ended 31 December 2006 and 2007.

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	2007 HK$'000	2006 HK$'000
Cost of inventories sold		**7,841,149**	9,632,535
Cost of properties sold		**–**	26,912
Cost of services provided		**315,596**	232,712
Depreciation	*16*	**893,799**	705,779
Amortisation of operating concessions*	*20*	**111,912**	106,415
Amortisation of management information systems*	*20*	**–**	2,000
Amortisation of licences*	*20*	**–**	449
Amortisation of deferred development costs*	*20*	**–**	670
Amortisation of computer software**	*20*	**1,053**	–
Research and development expenditure:			
Current year expenditure		**2,834**	10,656
Less: Capitalised in deferred development costs	*20*	**–**	(1,639)
		2,834	9,017
Impairment of items of property, plant and equipment***	*16*	**–**	1,916
Impairment of goodwill***	*19(b)*	**–**	44,625
Impairment of available-for-sale investments carried at cost***		**–**	90,770
(Gain)/loss on disposal of items of property, plant and equipment, net		**21,333**	(111,341)
(Gain)/loss on deemed disposal of an interest in an associate		**(61,370)**	499
Minimum lease payments under operating leases:			
Land and buildings		**29,771**	216,485
Plant and machinery		**294**	–
		30,065	216,485

7. PROFIT FROM OPERATING ACTIVITIES *(continued)*

	Notes	2007 HK$'000	2006 HK$'000
Amortisation of prepaid land premiums	18	**13,751**	13,928
Auditors' remuneration		**10,747**	8,950
Employee benefits expense (excluding directors' remuneration – *note 9*):			
Salaries, allowances and benefits in kind		**1,053,015**	1,121,828
Employee share option benefits		**1,950**	11,861
Net pension scheme contributions		**108,690**	110,272
Cost of defined benefits plans**	38(a)	**10,885**	–
		1,174,540	1,243,961
Provision against inventories, net		**–**	3,459
Impairment of an amount due from an associate		**–**	5,500
Impairment of trade and bills receivables, net	28(b)	**1,588**	15,838
Net impairment/(reversal of impairment) of other receivables due from:	29(a)		
Related parties		**(36,867)**	60,517
Others		**89,705**	33,709
		52,838	94,226
Net rental income		**(20,935)**	(55,092)

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

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

8. FINANCE COSTS

	Group 2007 HK$'000	2006 HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**186,856**	104,028
Interest on convertible bonds	**3**	1,270
Interest on other loans	**6,432**	3,594
Imputed interest on an interest-free amount due to the immediate holding company with an extended credit period of one year	**34,708**	–
Imputed interest on an interest-free other loan from a minority shareholder	**6,563**	6,001
Total finance costs	**234,562**	114,893
Attributable to:		
Continuing operations reported in the consolidated income statement	**234,562**	103,711
Discontinued operations – *note 12(a)*	**–**	11,182
	234,562	114,893

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	
	2007	2006
	HK$'000	HK$'000
Fees:		
Executive directors	**1,760**	1,050
Independent non-executive directors	**690**	560
	2,450	1,610
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**14,703**	8,621
Employee share option benefits	**2,321**	14,632
Pension scheme contributions	**550**	446
	17,574	23,699
	20,024	25,309

During the year ended 31 December 2006, 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 34 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.

9. DIRECTORS' REMUNERATION *(continued)*

(a) Independent non-executive directors

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

	2007 HK$'000	2006 HK$'000
Mr. Lau Hon Chuen, Ambrose	**120**	100
Dr. Lee Tung Hai, Leo	**150**	120
Mr. Wang Xian Zhang	**150**	120
Mr. Wu Jiesi	**150**	120
Mr. Robert A. Theleen	**120**	100
	690	560

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(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 2007					
Mr. Yi Xi Qun	150	2,684	398	97	3,329
Mr. Zhang Hong Hai	150	2,013	275	87	2,525
Mr. Li Fu Cheng	300	328	275	–	903
Mr. Bai Jin Rong	150	2,341	275	117	2,883
Mr. Liu Kai	120	1,676	183	75	2,054
Mr. Guo Pu Jin	300	–	183	–	483
Mr. Zhou Si	150	–	183	–	333
Mr. E Meng	120	1,676	183	75	2,054
Mr. Zhao Chang Shan	–	–	183	–	183
Mr. Lei Zhen Gang	120	–	183	–	303
Mr. Jiang Xin Hao	100	2,322	–	75	2,497
Mr. Tam Chun Fai	100	1,663	–	24	1,787
	1,760	14,703	2,321	550	19,334

9. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors *(continued)*

	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

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 five (2006: four) directors. Details of the remuneration of the five highest paid employees for the year are set out below:

	2007 HK$'000	2006 HK$'000
Salaries, allowances and benefits in kind	**11,706**	9,280
Employee share option benefits	**1,131**	8,140
Pension scheme contributions	**451**	546
	13,288	17,966

10. FIVE HIGHEST PAID EMPLOYEES *(continued)*

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

	2007 Number of employees	2006 Number of employees
HK$2,000,001 – HK$2,500,000	**2**	–
HK$2,500,001 – HK$3,000,000	**2**	2
HK$3,000,001 – HK$3,500,000	**1**	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% (2006: 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 of the PRC, certain of the Company's subsidiaries enjoy income tax exemptions and reductions.

	Group	
	2007	2006
	HK$'000	HK$'000
Current – PRC:		
Hong Kong	**612**	95
Mainland China	**277,741**	494,830
Underprovision in prior years	**–**	130
Current – Overseas:		
Charge for the year	**–**	1,486
Underprovision in prior years	**–**	4
Deferred – *note 40*	**12,617**	21,254
Total tax charge for the year	**290,970**	517,799
Attributable to:		
Continuing operations reported in the consolidated income statement	**290,970**	169,823
Discontinued operations – *note 12(a)*	**–**	347,976
	290,970	517,799

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 – 2007

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	245,033		1,768,840		–		2,013,873	
Tax at the statutory tax rate	42,880	17.5	583,717	33.0	–	–	626,597	31.1
Lower tax rate for specific provinces or local authority	–	–	(245,012)	(13.9)	–	–	(245,012)	(12.2)
Effect on opening deferred tax of changes in tax rate	–	–	15,119	0.9	–	–	15,119	0.8
Profits and losses attributable to jointly-controlled entities and associates	(23,312)	(9.5)	(75,577)	(4.3)	–	–	(98,889)	(4.9)
Income not subject to tax	(69,124)	(28.2)	(56,005)	(3.2)	–	–	(125,129)	(6.2)
Expenses not deductible for tax	44,020	18.0	14,848	0.8	–	–	58,868	2.9
Tax losses not recognised as deferred tax assets	6,229	2.5	53,917	3.0	–	–	60,146	3.0
Tax losses utilised from previous periods	(81)	–	(649)	–	–	–	(730)	–
Tax charge at the Group's effective rate	612	0.3	290,358	16.3	–	–	290,970	14.5

11. TAX (continued)

Group – 2006

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Overseas HK$'000	%	Total HK$'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

12. DISCONTINUED OPERATIONS

The Group's discontinued operations for the years ended 31 December 2007 and 2006 represented the retail and property construction and development operations operated by Wangfujing.

Pursuant to a share transfer agreement and two supplementary 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 Company Limited) ("Beikong Commercial", a then subsidiary of Beijing Enterprises Group), Jing Lian Fa and Investment Management sold their respective entire 49.52% and 0.61% equity interests in Wangfujing (collectively the "Wangfujing Sold Interests") to Beikong Commercial for cash considerations of RMB978,000,000 and RMB22,000,000, respectively, during the year ended 31 December 2006.

12. DISCONTINUED OPERATIONS *(continued)*

The transaction was completed on 12 December 2006 and the Group no longer holds any interests 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 during the year ended 31 December 2006 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.

Subsequent to the disposal transaction, Beikong Commercial disposed of its entire equity interest in Wangfujing to a third party independent to the Group (the "New Wangfujing Shareholder").

On 18 April 2007, Wangfujing declared a final dividend in respect of the year ended 31 December 2006 of which RMB78,806,000 (approximately HK$80,827,000) was received by the New Wangfujing Shareholder in respect of the Wangfujing Sold Interests. Pursuant to an agreement entered into between the Company and the New Wangfujing Shareholder on 30 April 2007, the New Wangfujing Shareholder agreed to return the aforesaid dividend to the Company for nil consideration. The amount was accounted for as additional proceeds for the disposal of Wangfujing by the Group and was recognised as an income under discontinued operations during the year. RMB70,806,000 (approximately HK$72,622,000) of the amount had been settled during the year ended 31 December 2007 and the remaining balance remained unsettled as at the date of approval of these financial statements. In the opinion of the directors, no impairment loss on the amount due is foreseen.

12. DISCONTINUED OPERATIONS *(continued)*

(a) The results of the discontinued operations dealt with in the consolidated financial statements for the years ended 31 December 2007 and 2006 are summarised as follows:

		Group	
		2007	2006
	Notes	**HK$'000**	HK$'000
Revenue	*4*	**–**	6,323,071
Other income and gains, net	*4*	**–**	475,053
Cost of sales and operating expenses		**–**	(6,219,900)
Profit from operating activities	*7*	**–**	578,224
Finance costs	*8*	**–**	(11,182)
Share of profits and losses of:			
Jointly-controlled entities	*22(a)*	**–**	(5,647)
Associates	*23(a)*	**–**	(1,013)
Profit before tax of the discontinued operations		**–**	560,382
Gain on disposal of the discontinued operations	*4*	**80,827**	141,469
Profit before tax from the discontinued operations		**80,827**	701,851
Tax:			
Related to profit before tax of the discontinued operations		**–**	(154,425)
Related to gain on disposal of the discontinued operations		**–**	(193,551)
		–	(347,976)
Profit for the year from the discontinued operations		**80,827**	353,875
Attributable to:			
Shareholders of the Company		**80,827**	238,452
Minority interests		**–**	115,423
		80,827	353,875

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 2007 and 2006 are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Net cash inflow from operating activities	**–**	1,078,313
Net cash inflow/(outflow) from investing activities	**72,622**	(585,578)
Net cash outflow from financing activities	**–**	(413,103)
Net cash inflow attributable to the discontinued operations	**72,622**	79,632

(c) Earnings per share from the discontinued operations

	2007	2006
Basic from the discontinued operations	**HK$0.09**	HK$0.38
Diluted from the discontinued operations	**HK$0.09**	HK$0.38

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

	2007	2006
Profit for the year attributable to shareholders of the Company from the discontinued operations	**HK$80,827,000**	HK$238,452,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 15)*	**859,604,521**	622,500,000
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation *(note 15)*	**861,408,600**	625,204,167

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 2007 includes a profit of HK$700,173,000 (2006: HK$462,334,000) which has been dealt with in the financial statements of the Company *(note 35(b))*.

14. DIVIDENDS

	2007 HK$'000	2006 HK$'000
Interim – HK$0.10 (2006: HK$0.10) per ordinary share	**113,853**	62,250
Interim special – HK$0.10 (2006: Nil) per ordinary share	**113,853**	–
	227,706	62,250
Proposed final – HK$0.30 (2006: HK$0.20) per ordinary share	**341,682**	124,500*
Proposed final special – HK$0.10 (2006: Nil) per ordinary share	**113,894**	–
	455,576	124,500
	683,282	186,750

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

* The actual final dividend paid for the year ended 2006 was HK$125,288,000 due to additional shares issued during the period from 3 April 2007 (the date of approval of the financial statements of the Company for the year ended 31 December 2006) and 21 June 2007 (the date of closure of the register of members).

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, where applicable, adjusted to reflect the effect of the exercise of all outstanding share options of Beijing Development, the convertible bonds issued by China Information Technology Development ("CIT Development", formerly Xteam Software International Limited) assuming the conversion of all outstanding convertible bonds of CIT Development 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. Beijing Development and CIT Development were both subsidiaries of the Company before Beijing Development became an associate of the Company during the year ended 31 December 2006. The exercise or conversion of all outstanding share options of CIT Development and all outstanding convertible bonds of Yanjing Brewery did not have a diluting effect on the Group's basic earnings per share for the year ended 31 December 2007.

The exercise of the outstanding share options of each of Beijing Development and CIT Development and the conversion of all outstanding convertible bonds of Yanjing Brewery did not have a diluting effect or had an anti-dilutive effect on the Group's basic earnings per share for the year ended 31 December 2006.

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:

	2007 HK$'000	2006 HK$'000
Earnings:		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation		
From continuing operations	1,357,553	100,216
From discontinued operations – *note 12(c)*	80,827	238,452
	1,438,380	338,668
Decrease in share of profit of Beijing Development by the Company as a result of the exercise of all outstanding share options of Beijing Development	(1,568)	–
Decrease in share of profit of Beijing Development as a result of the dilution of interest in CIT Development assuming the full conversion of all outstanding convertible bonds issued by CIT Development	(1,481)	–
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	1,435,331	338,668
Attributable to:		
Continuing operations	1,354,504	100,216
Discontinued operations – *note 12(c)*	80,827	238,452
	1,435,331	338,668

	2007	2006
Number of ordinary shares:		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	859,604,521	622,500,000
Effect of dilution of share options – weighted average number of ordinary shares	1,804,079	2,704,167
Weighted average number of ordinary shares used in the diluted earnings per share calculation	861,408,600	625,204,167

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$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000 *(note (b))*	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2007										
At 31 December 2006 and 1 January 2007:										
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
Net carrying amount:										
At 1 January 2007		1,132,999	2,845,102	4,937	–	3,026,237	142,267	121,038	409,302	7,681,882
Acquisition of subsidiaries	*44*	–	593,912	–	5,663,990	851,661	35,078	74,383	934,911	8,153,935
Additions		–	26,580	156	19,145	192,321	30,277	31,345	1,134,770	1,434,594
Transfer from construction in progress		28,254	331,151	–	454,394	432,015	835	–	(1,246,649)	–
Depreciation provided for the year		(48,333)	(116,980)	(1,322)	(124,708)	(534,445)	(37,751)	(30,260)	–	(893,799)
Disposals		–	(119,618)	(113)	–	(43,493)	(5,408)	(2,966)	(10,225)	(181,823)
Exchange realignment		76,633	219,360	178	244,221	243,432	10,608	11,155	60,581	866,168
At 31 December 2007		1,189,553	3,779,507	3,836	6,257,042	4,167,728	175,906	204,695	1,282,690	17,060,957
At 31 December 2007:										
Cost		1,498,220	4,614,171	14,735	6,510,856	7,545,582	387,473	371,583	1,312,499	22,255,119
Accumulated depreciation and impairment		(308,667)	(834,664)	(10,899)	(253,814)	(3,377,854)	(211,567)	(166,888)	(29,809)	(5,194,162)
Net carrying amount		1,189,553	3,779,507	3,836	6,257,042	4,167,728	175,906	204,695	1,282,690	17,060,957

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$'000	Gas pipelines HK$'000	Gas metres and other plant and machinery HK$'000 *(note (b))*	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2006										
At 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	*44*	–	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 classified as held for sale	*(d)*	–	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	*45(a)*	–	(722,309)	(196,577)	–	(56,507)	(50,226)	(13,448)	(330,196)	(1,369,263)
Deconsolidation of subsidiaries	*45(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

NOTES TO FINANCIAL STATEMENTS

31 December 2007

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 2007					
At 31 December 2006 and 1 January 2007:					
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**
Net carrying amount:					
At 1 January 2007	**37,400**	**1,739**	**532**	**482**	**40,153**
Depreciation provided for the year	**(799)**	**(424)**	**(227)**	**(262)**	**(1,712)**
Disposals	**(16,980)**	**–**	**–**	**–**	**(16,980)**
At 31 December 2007	**19,621**	**1,315**	**305**	**220**	**21,461**
At 31 December 2007:					
Cost	**23,502**	**5,196**	**5,577**	**2,056**	**36,331**
Accumulated depreciation	**(3,881)**	**(3,881)**	**(5,272)**	**(1,836)**	**(14,870)**
Net carrying amount	**19,621**	**1,315**	**305**	**220**	**21,461**
Year ended 31 December 2006					
At 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

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

Notes:

(a) The expressway and related structures, and buildings included above as at 31 December 2007 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	–	6,066,657	6,066,657
	45,734	6,066,657	6,112,391

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$114,297,000 (2006: HK$133,806,000) were pledged to secure certain bank and other loans granted to the Group *(note 36(d))*.

(c) Certain buildings of the Group and the Company as at 31 December 2007 were reclassified from investment properties during the year ended 31 December 2000 at the then aggregate carrying amount of HK$22,096,000 (2006: HK$41,000,000), as valued on 31 December 1999 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on an open market value basis. Had the carrying value of these buildings been carried at historical cost less accumulated depreciation, their net carrying amount would have been HK$17,532,000 (2006: HK$33,456,000).

(d) During the year ended 31 December 2006, a building and a prepaid land premium of the Group in Mainland China, which were originally to be sold by the Group to a third party pursuant to a sale and purchase agreement entered into between the two parties during the year ended 31 December 2005, were reclassified from non-current assets classified as held for sale to property, plant and equipment and prepaid land premiums, respectively, at their then respective translated net carrying amounts of approximately HK$15,430,000 and HK$4,153,000 *(note 18)* upon the cancellation of the sales transaction mutually agreed between the two parties during the year ended 31 December 2006.

17. INVESTMENT PROPERTIES

		Group		Company	
		2007	2006	**2007**	2006
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount at 1 January		**272,904**	446,820	**134,000**	134,000
Transfer from buildings	*16*	**–**	11,750	**–**	–
Disposals		**–**	(2,785)	**–**	–
Disposal of subsidiaries	*45(a)*	**–**	(148,640)	**–**	–
Deconsolidation of subsidiaries	*45(b)*	**–**	(48,390)	**–**	–
Fair value gain on revaluation, net		**55,749**	4,580	**25,650**	–
Exchange realignment		**5,609**	9,569	**–**	–
Carrying amount at 31 December		**334,262**	272,904	**159,650**	134,000

Notes:

(a) The investment properties of the Group as at 31 December 2007 are held under the following lease terms:

Group

	Hong Kong	Elsewhere	Total
	HK$'000	HK$'000	HK$'000
Long term leases	72,800	–	72,800
Medium term leases	11,000	250,462	261,462
	83,800	250,462	334,262

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

17. INVESTMENT PROPERTIES *(continued)*

Notes: (continued)

(b) The investment properties are leased to third parties under operating leases, further summary details of which are included in note 50(a) to the financial statements. The gross rental income received and receivable by the Group and the Company and related expenses in respect of these investment properties are summarised as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Gross rental income	**19,726**	30,790	**6,088**	4,391
Direct expenses	**(1,478)**	(5,929)	**–**	(1,031)
Net rental income	**18,248**	24,861	**6,088**	3,360

(c) At 31 December 2007, 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	2007 HK$'000	2006 HK$'000
Carrying amount at 1 January		**310,843**	390,004
Acquisition of subsidiaries	*44*	**428,289**	169,949
Additions		**90,427**	38,071
Transfer from non-current assets classified as held for sale	*16(d)*	**–**	4,153
Amortisation provided for the year		**(13,751)**	(13,928)
Disposals		**(2,968)**	(1,157)
Disposal of subsidiaries	*45(a)*	**–**	(281,597)
Deconsolidation of subsidiaries	*45(b)*	**–**	(14,675)
Exchange realignment		**43,499**	20,023
Carrying amount at 31 December		**856,339**	310,843
Portion classified as current assets		**(18,832)**	(8,086)
Non-current portion		**837,507**	302,757

All leasehold lands of the Group as at 31 December 2007 are held under medium term leases.

Certain of the leasehold land of Group with an aggregate carrying amount at the balance sheet date of HK$51,073,000 (2006: Nil) were pledged to secure certain bank and other loans granted to the Group *(note 36(d))*.

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	2007 HK$'000	2006 HK$'000
At 1 January:			
Cost		**44,177**	335,435
Accumulated impairment		**–**	(59,658)
Net carrying amount		**44,177**	275,777
Net carrying amount:			
At 1 January		**44,177**	275,777
Acquisition of subsidiaries	*44*	**6,982,580**	–
Acquisition of minority interests		**14,868**	3,168
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	*(b)*	**–**	(44,625)
Disposal of subsidiaries	*45(a)*	**–**	(35,901)
Deconsolidation of subsidiaries	*45(b)*	**–**	(123,019)
Exchange realignment		**2,696**	2,772
At 31 December		**7,044,321**	44,177
At 31 December:			
Cost and net carrying amount		**7,044,321**	44,177

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 2007 (2006: HK$26,062,000). 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	2007 HK$'000	2006 HK$'000
Piped gas operation	*(i)*	**6,982,580**	–
Expressway and toll road operations	*(ii)*	**21,687**	21,687
Others		**40,054**	22,490
		7,044,321	44,177

(i) The recoverable amount of the piped gas 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 forecast approved by senior management covering a period of eight years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections for the first eight-year period is 11%, which is determined by reference to the average rates for the similar industry and the business risk of the relevant business unit. A growth rate of 1% is used for the perpetual period.

(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 14 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.

Based on the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2007.

During the year ended 31 December 2006, an impairment loss of HK$44,625,000 had been recognised in the income statement for the goodwill attributable to the Group's geothermal energy systems operation as, in the opinion of the directors, the recoverable amount of the relevant business unit was less than the carrying amount with reference to the business valuation of that business unit.

19. GOODWILL *(continued)*

Notes: (continued)

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

Key assumptions used in value-in-use calculations

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

- ***Budgeted turnover***

  The budgeted turnover is based on the following assumptions:

  – in respect of the relevant business unit in piped gas operation segment, based on the projected piped gas sales volume.

  – 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***

  – in respect of the relevant business unit in the piped gas operation segment, the basis used to determine the latest gas selling price up to the date of valuation report.

  – 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 Mainland China and other locations in which the assessed entity carried on its business.

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

20. OTHER INTANGIBLE ASSETS

Group

	Operating concessions HK$'000 (note)	Management Information systems HK$'000	Licences HK$'000	Deferred development costs* HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2007						
At 31 December 2006 and 1 January 2007:						
Cost	**2,212,001**	**–**	**–**	**–**	**–**	**2,212,001**
Accumulated amortisation	**(761,417)**	**–**	**–**	**–**	**–**	**(761,417)**
Net carrying amount	**1,450,584**	**–**	**–**	**–**	**–**	**1,450,584**
Net carrying amount:						
At 1 January 2007	**1,450,584**	**–**	**–**	**–**	**–**	**1,450,584**
Acquisition of subsidiaries – *note 44*	**–**	**–**	**–**	**–**	**10,350**	**10,350**
Additions	**–**	**–**	**–**	**–**	**2,268**	**2,268**
Amortisation provided for the year	**(111,912)**	**–**	**–**	**–**	**(1,053)**	**(112,965)**
Exchange realignment	**94,535**	**–**	**–**	**–**	**469**	**95,004**
At 31 December 2007	**1,433,207**	**–**	**–**	**–**	**12,034**	**1,445,241**
At 31 December 2007:						
Cost	**2,363,248**	**–**	**–**	**–**	**15,866**	**2,379,114**
Accumulated amortisation	**(930,041)**	**–**	**–**	**–**	**(3,832)**	**(933,873)**
Net carrying amount	**1,433,207**	**–**	**–**	**–**	**12,034**	**1,445,241**
Year ended 31 December 2006						
At 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 45(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

* *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 2007, the remaining amortisation period of this operating concession is approximately 11 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 at a total consideration of RMB652 million an operating right to operate the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC, for a period of 20 years commencing on 12 April 2002.

As at 31 December 2007, the remaining amortisation period of this operating concession is approximately 14 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 2007, the remaining amortisation period of this operating concession was approximately 30 years and 7 months.

21. INTERESTS IN SUBSIDIARIES

		Company	
		2007	2006
	Note	**HK$'000**	HK$'000
Unlisted shares or investments, at cost		**20,932,613**	4,150,940
Due from subsidiaries	*(a)*	**2,106,162**	2,164,148
Due to subsidiaries	*(a)*	**(2,143,786)**	(1,035,517)
		20,894,989	5,279,571
Less: Impairment for unlisted shares	*(b)*	**(124,227)**	(124,227)
Impairment for amounts due from subsidiaries	*(c)*	**(242,199)**	(316,947)
		(366,426)	(441,174)
		20,528,563	4,838,397

Notes:

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

(b) An impairment was recognised for certain unlisted investments with a carrying amount of HK$231,438,000 (before deducting the impairment loss) (2006: HK$231,438,000) because these subsidiaries have been loss-making for some time.

(c) The movement in the provision for impairment of the amounts due from subsidiaries is as follows:

	Company	
	2007	2006
	HK$'000	HK$'000
At 1 January	**316,947**	316,947
Disposal of subsidiaries	**(74,748)**	–
At 31 December	**242,199**	316,947

21. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

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

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
北京市燃氣集團有限責任公司 (Beijing Gas Group Company Limited) ("Beijing Gas") δ	PRC/ Mainland China	RMB1,983,630,000	–	100	Distribution and sale of piped gas
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	–	21.65†	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
燕京啤酒(赤峰)有限責任公司 (Yanjing Brewery (Chefeng) 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 (Chefeng Zhongjing) Company Limited)	PRC/ Mainland China	RMB39,100,000	–	32.98†	Production and sale of beer
燕京啤酒(赤峰寶山)有限責任公司 (Yanjing Brewery (Chefeng Baoshan) Company Limited) δ	PRC/ Mainland China	RMB32,860,000	–	32.98†	Production and sale of beer

21. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

(d) *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
燕京啤酒(通遼)有限責任公司 (Yanjing Brewery (Tongliao) Company Limited) δ	PRC/ Mainland China	RMB70,000,000	–	35.46†	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	RMB210,660,000	–	40.96†	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
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

21. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

(d) *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
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	–	40.25†	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	–	21.61†	Production and sale of beer

21. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

(d) *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
福建惠泉啤酒福鼎有限公司 (Fujian Huiquan Brewery Fuding Co., Ltd.)	PRC/ Mainland China	RMB80,000,000	–	17.54†	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	–	28.13†	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$85,000,000	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.	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 Wine Co., Ltd.)	PRC/ Mainland China	RMB11,880,000	51	51	Production and sale of wine

21. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

(d) *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
Beijing Enterprises (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 them.

* 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 6 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. During the year ended 31 December 2007, further equity interest in Yanjing Huiquan was acquired by Yanjing Brewery and the effective equity interest in Yanjing Huiquan held by Yanjing Brewery was increased to 50.03% and Yanjing Brewery continues to be treated as a subsidiary of the Group.

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

δ Acquired/incorporated during the year.

During the year, the Group acquired the entire equity interest in Beijing Gas Group (BVI) Company Limited ("Beijing Gas BVI") from a then intermediate holding company of the Company. Further details of the acquisition are included in note 44(a) 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

		Group		Company	
		2007	2006	**2007**	2006
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost		**–**	–	**23,454**	–
Share of net assets	*(a)*	**3,280,333**	5,591	**–**	–
Due from jointly-controlled entities	*(b)*	**23,686**	500	**23,354**	338
Due to jointly-controlled entities	*(b)*	**(1,294)**	(4,170)	**–**	–
		3,302,725	1,921	**46,808**	338

Notes:

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

	2007	2006
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities		
Non-current assets	**5,538,755**	142
Current assets	**128,764**	5,912
Non-current liabilities	**(1,671,871)**	–
Current liabilities	**(712,508)**	(463)
Minority interests	**(2,807)**	–
Net assets	**3,280,333**	5,591
Share of the jointly-controlled entities' results		
Revenue	**782,152**	203,716
Other income	**2,591**	3,910
Total revenue	**784,743**	207,626
Total expenses	**(513,555)**	(211,959)
Profit/(loss) before tax	**271,188**	(4,333)
Tax	**(92,945)**	(626)
Profit/(loss) for the year	**178,243**	(4,959)
Attributable to:		
Continuing operations reported in the consolidated income statement	**178,243**	688
Discontinued operations – *note 12(a)*	**–**	(5,647)
	178,243	(4,959)

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

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Percentage of: Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activity
北京華油天然氣有限責任公司 (Beijing Hua You Natural Gas Company Limited) ("Hua You Company")	PRC/ Mainland China	RMB5,906,625,000	40	40	40	Provision of natural gas transmission services

During the year, the Group acquired a 40% equity interest in Hua You Company upon the acquisition of Beijing Gas BVI in June 2007. Further details of the acquisition are included in note 44(a) to the financial statements.

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

23. INTERESTS IN ASSOCIATES

		Group		Company	
		2007	2006	2007	2006
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Unlisted shares, at cost		–	–	46,168	46,168
Share of net assets	*(a)*	832,291	482,906	–	–
Due from associates	*(b)*	15,278	4,779	4,146	–
Due to associates	*(b)*	(296)	(1,826)	–	–
Goodwill on acquisition	*(c)*	33,995	33,995	–	–
		881,268	519,854	50,314	46,168

Notes:

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

	2007	2006
	HK$'000	HK$'000
Share of the associates' assets and liabilities		
Property, plant and equipment	247,179	158,267
Other non-current assets	298,052	207,005
Current assets	691,164	469,928
Non-current liabilities	(76,344)	(49,418)
Current liabilities	(296,798)	(251,443)
Minority interests	(30,962)	(51,433)
Net assets	832,291	482,906
Share of the associates' results		
Revenue	419,311	186,820
Other income	294,935	57,446
Total revenue	714,246	244,266
Total expenses	(449,843)	(180,391)
Profit before tax	264,403	63,875
Tax	(3,394)	(244)
Profit for the year	261,009	63,631
Attributable to:		
Continuing operations reported in the consolidated income statement	261,009	64,644
Discontinued operations – *note 12(a)*	–	(1,013)
	261,009	63,631

23. INTERESTS IN ASSOCIATES *(continued)*

Notes: (continued)

(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 2007 represented the goodwill arose on acquisition of Beijing Development by the Group in prior years and was reclassified from goodwill of the Group when Beijing Development became an associate of the Group in December 2006.

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

The amount of goodwill remaining in consolidated capital reserve, arising on the acquisition of associates prior to 1 January 2001, was HK$74,236,000 (2006: HK$74,236,000) as at 31 December 2007. The amount of goodwill is stated at cost.

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

			Percentage of			
Company name	**Place of incorporation/ registration and operations**	**Nominal value of issued and paid-up capital/ registered capital**	**Ownership interest attributable to the Group**	**Voting power**	**Profit sharing**	**Principal activities**
Beijing Development (Hong Kong) Limited Ω	Hong Kong	HK$681,481,150	40.45	40.45	40.45	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 in-vitro diagnostic regent 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 2007, based on its then published price quotation, amounted to approximately HK$1,031,025,000.

23. INTERESTS IN ASSOCIATES *(continued)*

Notes: (continued)

(e) *(continued)*

† 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. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity investments in Hong Kong, at fair value	**–**	250	**–**	250
Unlisted equity investments, at cost	**315,572**	443,434	**141,695**	141,187
	315,572	443,684	**141,695**	141,437
Impairment	**(25,148)**	(90,770)	**(9,198)**	(8,690)
	290,424	352,914	**132,497**	132,747

Notes:

(a) During the year ended 31 December 2006, the gross gain of the Group's available-for-sale investments recognised directly in the investment revaluation reserve amounted to HK$625,731,000 and the entire amount was removed from the investment revaluation reserve and recognised in the income statement in that year as part of the gain on disposal of interests in subsidiaries upon the disposal of Wangfujing.

24. AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

Notes: (continued)

(b) 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, the gain on disposal of available-for-sale investments stated at cost less any accumulated impairment losses recognised in the income statement amounted to HK$111,230,000 (2006: HK$47,676,000). The carrying amounts of these investments amounted to HK$93,060,000 (2006: HK$86,337,000) at the time of disposal.

25. RESTRICTED CASH AND PLEDGED DEPOSITS

	Group	
	2007	2006
	HK$'000	HK$'000
Restricted cash	**25,591**	–
Pledged deposits	**106,209**	61,505
Restricted cash and pledged deposits *(note 32)*	**131,800**	61,505
Portion classified as current assets	**(131,800)**	(59,305)
Non-current portion	**–**	2,200

Notes:

(a) Short term pledged bank balances of HK$63,206,000 (2006: HK$57,982,000) as at 31 December 2007 and long term pledged bank balances of HK$2,200,000 as at 31 December 2006 were pledged to secure certain trade finance facilities granted to the Group *(note 41)*.

(b) Short term pledged bank balances of HK$43,003,000 (2006: Nil) as at 31 December 2007 were pledged to banks to secure certain short term bank loans *(note 36(d))*.

(c) Short term pledged bank balances of HK$1,323,000 as at 31 December 2006 were pledged to secure certain construction contracts of the Group.

(d) The restricted cash represented the proceeds of a government surcharge collected by Beijing Gas, a subsidiary acquired by the Group during the year as further detailed in note 44(a) to the financial statements, from piped gas customers on behalf of 北京市發展和改革委員會 (the Beijing Municipal Commission of Development and Reform) (the "BMCDR") prior to 2003. The proceeds held on behalf of the BMCDR, which are deposited in a specific bank account of the Group, together with any interest earned therefrom, are repayable to the BMCDR *(note 42)*.

26. INVENTORIES

	Group 2007 HK$'000	2006 HK$'000
Raw materials	**2,046,595**	1,411,423
Work in progress	**160,313**	119,348
Finished goods	**135,351**	117,936
	2,342,259	1,648,707

27. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	Group 2007 HK$'000	2006 HK$'000
Amounts due from customers for contract work	**178**	–
Amounts due to customers for contract work	**(20,468)**	–
	(20,290)	–
Contract costs incurred plus recognised profits less recognised losses to date	**139,114**	–
Less: Progress billings received and receivable	**(159,404)**	–
	(20,290)	–

28. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills receivables	**1,379,774**	510,637	**5,565**	2,982
Impairment *(note (b))*	**(259,335)**	(52,324)	**–**	–
	1,120,439	458,313	**5,565**	2,982

Notes:

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

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**1,036,039**	439,738	**5,565**	2,982
One to two years	**34,907**	8,485	**–**	–
Two to three years	**17,612**	5,139	**–**	–
Over three years	**31,881**	4,951	**–**	–
	1,120,439	458,313	**5,565**	2,982

28. TRADE AND BILLS RECEIVABLES

Notes: (continued)

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**52,324**	41,792	**–**	–
Acquisition of subsidiaries	**200,960**	–	**–**	–
Impairment during the year recognised in the income statement – *note 7*	**1,588**	15,838	**–**	–
Amount written off as uncollectible	**(7,458)**	–	**–**	–
Disposal of subsidiaries	**–**	(7,390)	**–**	–
Exchange realignment	**11,921**	2,084	**–**	–
At 31 December	**259,335**	52,324	**–**	–

The above provision for impairment of trade and bills receivables represented provision for individually impaired trade and bills receivables with an aggregate carrying amount of HK$285,398,000 (2006: HK$52,324,000). The individually impaired trade receivables relate to customers that were in financial difficulties or were in default or delinquency in principal payments and more or only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**933,482**	411,720	**–**	–
Less than 1 year past due	**102,557**	28,018	**2,583**	2,982
Due more than 1 year	**84,400**	18,575	**2,982**	–
	1,120,439	458,313	**5,565**	2,982

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that either have good track record with the Group or are in negotiation with the Group over the amounts or terms of repayment. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2007	2006	**2007**	2006
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments		**33,234**	12,181	**261**	476
Deposits and other debtors	*(a)*	**1,415,929**	499,165	**97,747**	81,717
Due from holding companies	*30*	**194,443**	411,763	**844**	404,761
Due from fellow subsidiaries	*30*	**43,208**	26,010	**30,307**	26,010
Due from related companies	*30*	**89,478**	983,771	**6,688**	78,698
		1,776,292	1,932,890	**135,847**	591,662
Less:					
Impairment for deposits and other debtors		**(215,681)**	(101,335)	**(79,071)**	(80,653)
Impairment for due from related companies		**–**	(57,029)	**–**	–
	(b)	**(215,681)**	(158,364)	**(79,071)**	(80,653)
		1,560,611	1,774,526	**56,776**	511,009
Portion classified as current assets		**(1,538,517)**	(1,644,518)	**(56,776)**	(443,451)
Non-current portion		**22,094**	130,008	**–**	67,558

Notes:

(a) The Group's deposits and other debtors as at the balance sheet date included the following:

(i) an aggregate amount of HK$71,044,000 (2006: HK$101,472,000) paid in advance to related companies arising from purchases of raw materials in the ordinary course of business of the Group. The balances with the related companies are unsecured and interest-free.

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

As at 31 December 2007, the outstanding loan to Badaling Tourism Corporation amounted to RMB37,094,000 (2006: RMB52,670,000) with a corresponding amortised cost of HK$38,350,000 (2006: HK$49,583,000), comprising the current and non-current portions of HK$16,256,000 (2006: HK$16,266,000) and HK$22,094,000 (2006: HK$33,317,000), respectively.

Interest income of HK$3,620,000 (2006: HK$1,728,000) was recognised in the consolidated income statement during the year ended 31 December 2007.

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

Notes: (continued)

(a) *(continued)*

(iii) an amount of HK$52,498,000 due from Ever Sincere Investment Limited ("Ever Sincere", a then related company), representing the outstanding cash consideration of HK$152,498,000 in respect of its acquisition of the Group's remaining 51% equity interest in Beijing Enterprises Ever Source Limited ("BEES") during the year, less impairment of HK$100,000,000. BEES had been deconsolidated as a result of an entrusted operation arrangement entered into between the Group and a related party during the year ended 31 December 2006. The amount due is wholly repayable on 31 August 2008. Further details of the deconsolidation and the disposal transaction in 2006 are set out in notes 45(b)(i) and 52(b) to the financial statements, respectively.

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**158,364**	94,180	**80,653**	48,293
Impairment/(reversal of impairment) during the year recognised in the income statement – *note 7*	**52,838**	94,226	**(4,392)**	32,360
Amount written off as uncollectible	**–**	(20,983)	**–**	–
Disposal of subsidiaries	**–**	(9,834)	**–**	–
Exchange realignment	**4,479**	775	**2,810**	–
At 31 December	**215,681**	158,364	**79,071**	80,653

The above provision for impairment of other receivables of the Group and the Company represented provision for individually impaired other receivables with an aggregate carrying amount of HK$289,162,000 (2006: HK$209,937,000) and HK$79,071,000 (2006: HK$80,653,000), respectively.

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

The amounts due from/to holding companies, fellow subsidiaries and 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 2007:						
Due to the immediate holding company						
BE Group BVI	*(a)*	**589,422**	**–**	**578,643**	**–**	**578,643**
At 31 December 2006:						
Due from holding companies						
Beijing Holdings Limited	*(b)*	213,654	71,218	70,935	67,557	209,710
Beijing Holdings (BVI) Limited	*(b)*	165,785	31,050	128,352	–	159,402
		379,439	102,268	199,287	67,557	369,112
Due from a fellow subsidiary						
Canfort Investment Limited	*(b)*	26,733	11,457	14,552	–	26,009
Due from a related company						
Jason New Resources Holdings Limited ("Jason New")	*(c)*	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

Notes:

(a) The amount due to BE Group BVI represented the outstanding cash consideration in respect of the acquisition of Beijing Gas BVI during the year. Further details of the acquisition, including the terms of repayment of the consideration, are set out in note 44(a) to the financial statements.

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

Notes: (continued)

(b) The amounts due from Beijing Holdings Limited, Beijing Holdings (BVI) Limited and Canfort Investment Limited 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.

During the year, pursuant to a deed of set-off entered into between the Group and the relevant parties on 10 April 2007, the amounts due were offset against the consideration payable by the Company in respect of its acquisition of Beijing Gas BVI, details of which are set out in note 44(a) to the financial statements.

(c) The amount due from Jason New as at 31 December 2006 represented the outstanding cash consideration in respect of its acquisition of the Group's 36.78% equity interest in BEES during the year ended 31 December 2006. The total consideration was repayable in six instalments. Further details of the transaction are set out in note 52(b) to the financial statements.

During the year ended 31 December 2007, the amount due from Jason New was fully settled and the impairment loss previously made was fully reversed and credited to the income statement during the year.

The balances with related companies of the Group included in deposits and other debtors and trade and bills payables are disclosed in notes 29 and 41 to the financial statements, respectively.

31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2007	2006
	HK$'000	HK$'000
Listed equity investments in Hong Kong	**39,250**	7,017
Unlisted fund	**–**	2,689
	39,250	9,706

32. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**4,536,911**	2,597,596	**11,956**	8,813
Cash equivalents	**89,834**	50,225	**49,024**	50,225
Time deposits	**3,577,539**	122,079	**3,496,556**	93,594
	8,204,284	2,769,900	**3,557,536**	152,632
Less: Restricted cash and pledged deposits – *note 25*	**(131,800)**	(61,505)	**–**	–
Cash and cash equivalents	**8,072,484**	2,708,395	**3,557,536**	152,632

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in RMB amounted to HK$4,416,892,000 (2006: HK$2,543,520,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of defaults.

33. SHARE CAPITAL

Shares

	Company 2007 HK$'000	2006 HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
1,138,940,000 (2006: 622,500,000) ordinary shares of HK$0.10 (2006: HK$0.10) each	**113,894**	62,250

A summary of the movements in the Company's issued ordinary share capital during the years ended 31 December 2007 and 2006 is as follows:

	Notes	**Number of ordinary shares in issue**	**Issued capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2006, 31 December 2006 and 1 January 2007		622,500,000	62,250	4,839,497	4,901,747
Allotment of new ordinary shares for the acquisition of Beijing Gas BVI	*(a)*	411,250,000	41,125	12,173,000	12,214,125
Share placement	*(b)*	100,000,000	10,000	3,700,000	3,710,000
Share options exercised	*(c)*	5,190,000	519	88,574	89,093
Share issue expenses		–	–	(79,361)	(79,361)
At 31 December 2007		1,138,940,000	113,894	20,721,710	20,835,604

33. SHARE CAPITAL *(continued)*

Notes:

(a) Pursuant to a sale and purchase agreement (the "Beijing Gas Sales and Purchase Agreement") entered into between the Company, Beijing Enterprises Group, Beijing Gas, BE Group BVI and 北京北燃實業有限公司 (Beijing Beiran Enterprises Company Limited) on 10 April 2007 for the acquisition of Beijing Gas BVI, 411,250,000 ordinary shares of HK$0.1 each were issued as part of the consideration for the acquisition of Beijing Gas BVI. The fair value of these ordinary shares, determined by reference to the closing quoted market price of the Company's ordinary shares on the Stock Exchange at the date of acquisition of 29 June 2007, amounted to HK$12,214,125,000. Further details of the transaction are set out in note 44(a) to the financial statements.

(b) Pursuant to a placing agreement and a subscription agreement entered into between, where applicable, the Company, a substantial shareholder of the Company and three placing agents on 20 September 2007, 100,000,000 ordinary shares of the Company were allotted at a price of HK$37.1 per ordinary share to the substantial shareholder for a total cash consideration, before any issuance expenses, of HK$3,710,000,000.

(c) The subscription rights attaching to 4,890,000 and 300,000 share options were exercised at subscription prices of HK$12.55 and HK$20.6 per ordinary share, respectively, resulting in the issue of 5,190,000 ordinary shares of HK$0.1 each in total for a total cash consideration of HK$67,549,500. At the time when the share options were exercised, the fair value of these share option in an amount of HK$21,543,000 previously recognised in the share option reserve was transferred to the share premium account. Further details of the share options are set out in note 34 to the financial statements.

Share options

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

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

34. 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 share options (whether exercised or outstanding) in any 12-month period granted to any one person must not exceed 1% of the total number of ordinary shares of the Company in issue.

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

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

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

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

		2007		2006	
	Notes	**Weighted average exercise price HK$ per share**	**Number of share options**	Weighted average exercise price HK$ per share	Number of share options
At 1 January	*(a)*	**12.55**	**5,900,000**	–	–
Granted during the year	*(b)*	**20.60**	**300,000**	12.55	5,900,000
Exercised during the year	*(c)*	**13.02**	**(5,190,000)**	–	–
At 31 December	*(d)*	**12.55**	**1,010,000**	12.55	5,900,000

34. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Notes:

(a) The outstanding share options as at 31 December 2007 and 2006 were granted on 19 July 2006 at an exercise price of HK$12.55 per ordinary share of the Company. The share options may be exercised in two portions, with the first portion (representing 80% of the total share options granted for each grantee) being vested on 19 January 2007 and exercisable at any time from that date; and the second portion (representing the remaining 20% of the total share options granted for each grantee) being vested and exercisable 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. During the year ended 31 December 2007, the terms in respect of the second portion of the share options have been altered and such share options are exercisable at any time after six months from the date of grant.

(b) The estimated fair value of the 300,000 (2006: 5,900,000) share options granted during the year was HK$1,950,000 (2006: HK$23,600,000), which was fully recognised in the income statement employee share option benefits during the year ended 31 December 2007 (2006: HK$21,279,000). The fair value of the share options granted was estimated as at the date of grant using a binomial lattice model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used for the year ended 31 December 2007:

- Share price as at the grant date of HK$20.6 (2006: HK$12.35) per ordinary share, which was the closing price of the Company's ordinary shares on the Stock Exchange on 2 May 2007 (2006: 19 July 2006);
- Risk-free rate of 4.054% (2006: 4.45%) per annum, which was the yield of the five-year Hong Kong Monetary Authority Exchange Fund Note in May 2007 (2006: July 2006);
- Expected annualised share price volatility of 30.89% (2006: 38.08%), of which reference was made to the volatility of the historical share price of the Company from 5 May 2002 to 4 May 2007 (2006: 19 July 2005 to 18 July 2006);
- Dividend yield of 0.9% (2006: 2.44%);
- Expected life of the share options of five years (2006: five years); and
- The second portion of the share options are exercisable at any time after six months from the grant.

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.

In addition to the share options granted during the year ended 31 December 2007, HK$2,321,000 of employee share option benefits was recognised in the income statement during the year in respect of the share options granted during the year ended 31 December 2006 which vested during the year ended 31 December 2007.

34. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Notes: (continued)

(c) 5,190,000 share options were exercised during the year ended 31 December 2007. The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK$26.19.

(d) At 31 December 2007, the Company had 1,010,000 share options outstanding under the Scheme, which represented approximately 0.09% of the ordinary shares of the Company in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 1,010,000 additional ordinary shares of the Company and additional share capital of HK$101,000 and share premium of HK$12,574,500 (before any issuance expenses).

Beijing Development and CIT Development

Beijing Development and CIT Development, both ceased to be subsidiaries of the Company when Beijing Development became an associate of the Company in December 2006 as further detailed in note 5 to the financial statements, operated their own share option schemes. In the opinion of the directors, to give details of their share option schemes in these financial statements would result in particulars of excessive length.

35. RESERVES

(a) Group

(i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 47 to 48 of the financial statements.

(ii) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries, jointly-controlled entities and associates. None of the Group's PRC reserve funds as at 31 December 2007 were 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(a) and 23(d) to the financial statements, respectively.

35. RESERVES *(continued)*

(b) Company

	Notes	**Share premium account** HK$'000	**Share option reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2006		4,839,497	–	219,581	5,059,078
Profit for the year and total income and expense for the year	*13*	–	–	462,334	462,334
Equity-settled share option arrangements	*34*	–	21,279	–	21,279
Interim 2006 dividend	*14*	–	–	(62,250)	(62,250)
Proposed final 2006 dividend	*14*	–	–	(124,500)	(124,500)
At 31 December 2006 and 1 January 2007		4,839,497	21,279	495,165	5,355,941
Share issue expenses and total income and expense recognised directly in equity	*33*	(79,361)	–	–	(79,361)
Profit for the year	*13*	–	–	700,173	700,173
Total income and expense for the year		(79,361)	–	700,173	620,812
Issue of shares	*33*	15,873,000	–	–	15,873,000
Exercise of share options	*33(c)*	88,574	(21,543)	–	67,031
Equity-settled share option arrangements	*34*	–	4,271	–	4,271
Final 2006 dividend	*14*	–	–	(788)	(788)
Interim 2007 dividends	*14*	–	–	(227,706)	(227,706)
Proposed final 2007 dividends	*14*	–	–	(455,576)	(455,576)
At 31 December 2007		20,721,710	4,007	511,268	21,236,985

36. BANK AND OTHER BORROWINGS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans:				
Secured	**167,769**	112,061	**–**	–
Unsecured	**4,974,666**	1,621,484	**2,093,873**	243,600
	5,142,435	1,733,545	**2,093,873**	243,600
Other loans, unsecured	**781,165**	167,403	**–**	–
Total bank and other borrowings	**5,923,600**	1,900,948	**2,093,873**	243,600
Analysed into:				
Bank loans repayable:				
Within one year	**2,557,961**	1,297,038	**–**	243,600
In the second year	**184,243**	360,838	**–**	–
In the third to fifth years, inclusive	**2,368,822**	62,513	**2,093,873**	–
Beyond five years	**31,409**	13,156	**–**	–
	5,142,435	1,733,545	**2,093,873**	243,600
Other loans repayable:				
Within one year	**83,314**	36,912	**–**	–
In the second year	**47,979**	34,956	**–**	–
In the third to fifth years, inclusive	**158,150**	5,868	**–**	–
Beyond five years	**491,722**	89,667	**–**	–
	781,165	167,403	**–**	–
Total bank and other borrowings	**5,923,600**	1,900,948	**2,093,873**	243,600
Portion classified as current liabilities	**(2,641,275)**	(1,333,950)	**–**	(243,600)
Non-current portion	**3,282,325**	566,998	**2,093,873**	–

36. BANK AND OTHER BORROWINGS *(continued)*

Notes:

(a) The carrying amounts of the Group's and Company's bank and other borrowings are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**2,093,873**	243,600	**2,093,873**	243,600
RMB	**3,362,200**	1,642,687	**–**	–
Euro	**14,699**	–	**–**	–
US$	**452,828**	14,661	**–**	–
	5,923,600	1,900,948	**2,093,873**	243,600

(b) Included in the Group's bank and other loans of the Group at the balance sheet date are:

(i) amortised cost of interest-free loans of HK$125,965,000 (2006: HK$101,403,000) granted from related companies;

(ii) other loans of HK$35,256,000 (2006: HK$66,000,000) which bear interest at a rate of 6% (2006: 6%) per annum; and

(iii) certain bank and other loans, with an aggregate carrying amount of HK$647,953,000 (2006: Nil), that were utilising the proceeds from certain loans granted by three overseas governments and the Asian Development Bank to the PRC government and a number of loans from 北京市財政局 (Finance Bureau of Beijing) to finance certain of the Group's pipeline construction projects. Except for an interest-free amount of HK$13,310,000 (2006: Nil), these loans bear interest at rates of 2% to 6.8%. These loans were acquired by the Group upon the acquisition of Beijing Gas BVI during the year ended 31 December 2007 as further detailed in note 44(a) to the financial statements.

(c) HK$333,333,000 (2006: HK$185,000,000) 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, and leasehold land with aggregate net carrying amounts at the balance sheet date of HK$114,297,000 (2006: HK$133,806,000) *(note 16(b))* and HK$51,073,000 (2006: Nil) *(note 18)*, respectively.

In addition, certain of the Group's secured bank loans as at the balance sheet date were secured by mortgages over certain of the Group's bank balances at that date of HK$43,003,000 (2006: Nil) in aggregate *(note 25(b))*.

36. BANK AND OTHER BORROWINGS *(continued)*

Notes: (continued)

(e) The bank loans of the Group and the Company include a five-year HK$2.1 billion syndicated loan facility obtained by the Company in 2007. The syndicated loan bears interest at HIBOR+0.285% and is fully repayable on 20 June 2012.

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

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

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

Within the best knowledge of the directors, none of the above events took place during the year and as at the date of approval of these financial statements.

37. CONVERTIBLE BONDS

On 16 October 2002, Yanjing Brewery, a subsidiary held indirectly as to 43.28% by the Company as at 31 December 2007 (2006: 43.28%), 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.

37. CONVERTIBLE BONDS *(continued)*

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.

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 a beneficial interest 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 was accounted for as a financial liability of the Group.

During the year ended 31 December 2007, 325 units (2006: 5,702,748 units) of the Convertible Bonds issued by Yanjing Brewery with an aggregate principal amount of approximately HK$334,000 (2006: HK$569,863,000) were exercised by certain bondholders in exchange for ordinary shares of Yanjing Brewery at a conversion price of RMB7.06 per share (2006: RMB7.06 per share). The remaining 139 units of the Convertible Bonds with an aggregate principal amount of approximately HK$143,000 were redeemed at the end of the Conversion Period during the year. The conversion of the Convertible Bonds during the year ended 31 December 2007 did not have a diluting effect on the Company's effective interest in Yanjing Brewery and no gain or loss on deemed disposal had been recognised in the consolidated income statement. During the year ended 31 December 2006, the Company's effective equity interest in Yanjing Brewery, as a result of the conversion of the Convertible Bonds, was diluted to 50.47% and a gain on deemed disposal of HK$141,341,000 had been recognised in the consolidated income statement during that year *(note 5)*.

38. DEFINED BENEFITS PLANS

Certain employees of Beijing Gas, a subsidiary acquired by the Group during the year as further detailed in note 44 to the financial statements, can enjoy retirement benefits after retirement such as supplementary medical reimbursement, allowance and beneficiary benefits pursuant to certain of its defined benefits plans.

The following tables summarise the components of the net benefits expense recognised in the consolidated income statement of the defined benefits plans of the Group and the amounts recognised in the consolidated balance sheet for the respective plans:

(a) Net benefits expenses (recognised in administrative expenses)

Group

	2007				
	Supplemental post-retirement medical reimbursement plan HK$'000	Supplemental post-retirement allowance and beneficiary benefits plans HK$'000	Internal retirement benefits plan HK$'000	Total HK$'000	2006 Total HK$'000
Current service cost	4,389	1,628	176	6,193	–
Interest cost on benefits obligations	2,736	1,313	–	4,049	–
Net actuarial loss recognised in the year	637	6	–	643	–
Net benefits expenses	7,762	2,947	176	10,885	–

38. DEFINED BENEFITS PLANS *(continued)*

(b) Benefits liabilities

Group

	2007				
	Supplemental post-retirement medical reimbursement plan HK$'000	Supplemental post-retirement allowance and beneficiary benefits plans HK$'000	Internal retirement benefits plan HK$'000	Total HK$'000	2006 Total HK$'000
Defined benefits obligations	120,364	64,036	366	184,766	–
Unrecognised actuarial gains	24,844	14,466	–	39,310	–
Total benefits liabilities	145,208	78,502	366	224,076	–
Portion classified as current liabilities included in other payables and accruals *(note 42)*				(304)	–
Non-current portion				223,772	–

38. DEFINED BENEFITS PLANS *(continued)*

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

Group

	Supplemental post-retirement medical reimbursement plan HK$'000	Supplemental post-retirement allowance and beneficiary benefits plans HK$'000	Internal retirement benefits plan HK$'000	Total HK$'000
At 1 January 2006, 31 December 2006 and at 1 January 2007	–	–	–	–
Acquisition of subsidiaries – *note 44*	137,728	69,619	177	207,524
Current service cost	4,389	1,628	–	6,017
Present value of benefits obligations for new participants of internal retirement plan during the year	–	–	176	176
Interest cost	2,736	1,313	–	4,049
Benefits paid	(39)	(108)	–	(147)
Actuarial gains on obligations	(29,123)	(10,908)	–	(40,031)
Exchange realignment	4,673	2,492	13	7,178
At 31 December 2007	120,364	64,036	366	184,766

38. DEFINED BENEFITS PLANS *(continued)*

(d) Principal assumptions

The above obligations were determined based on actuarial valuations performed by an independent actuary, Towers Perrin, using the projected unit credit method. The material actuarial assumptions used in determining the defined benefits obligations for the Group's plans are as follows:

	2007
Discount rate	4.75%
Salary increase rate of internal retirees	4.50%
Average salary increase rate of Beijing city	15.00%
Healthcare cost inflation rate	8.00%

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

Group

	Increase/ (decrease) 2007 HK$'000
Effect on the aggregate of the service cost and interest cost:	
One percentage point increase	2,188
One percentage point decrease	(1,532)
Effect on the defined benefits obligations:	
One percentage point increase	41,983
One percentage point decrease	(30,062)

39. OTHER LONG TERM LIABILITIES

	Group 2007 HK$'000	2006 HK$'000
Deferred income *(note)*	**121,834**	–
Others	**14,856**	21,570
	136,690	21,570

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

40. DEFERRED TAX

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

Group

	2007 HK$'000	2006 HK$'000
Deferred tax assets	**161,227**	663
Deferred tax liabilities	**(49,354)**	(20,512)
	111,873	(19,849)

40. DEFERRED TAX *(continued)*

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

Group

	Notes	Revaluation of properties HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Depreciation allowances in excess of related depreciation HK$'000	Investment revaluation HK$'000	Impairment and provision HK$'000	Derecognition of property, plant and equipment HK$'000	Provision of bonus and defined benefits plans HK$'000	Net deferred tax assets/ (liabilities) HK$'000
At 1 January 2006		(3,370)	(137,746)	543	–	39,818	–	–	(100,755)
Acquisition of subsidiaries	44	–	(50)	–	–	–	–	–	(50)
Deferred tax credited/(charged) to the income statement during the year	11	–	(1,244)	3,137	–	(23,147)	–	–	(21,254)
Deferred tax debited to equity during the year		–	–	–	(206,491)	–	–	–	(206,491)
Disposal of subsidiaries	45(a)	3,505	143,371	(23,084)	211,860	(10,601)	–	–	325,051
Deconsolidation of subsidiaries	45(b)	–	–	–	–	(6,178)	–	–	(6,178)
Exchange realignment		(135)	(5,543)	104	(5,369)	771	–	–	(10,172)
At 31 December 2006 and 1 January 2007		–	(1,212)	(19,300)	–	663	–	–	(19,849)
Acquisition of subsidiaries	44	–	(14,887)	–	–	60,082	27,298	68,009	140,502
Deferred tax charged to the income statement during the year, due to the effect of changes in tax rate	11	–	–	(15,119)	–	–	–	–	(15,119)
Deferred tax credited/(charged) to the income statement during the year	11	–	–	3,696	(64)	1,927	–	(3,057)	2,502
Exchange realignment		–	(687)	(1,781)	–	2,564	1,108	2,633	3,837
At 31 December 2007		–	(16,786)	(32,504)	(64)	65,236	28,406	67,585	111,873

40. DEFERRED TAX *(continued)*

At 31 December 2007, deferred tax assets have not been recognised in respect of unused tax losses of HK$704,019,000 (2006: 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. Out of this amount, the unrecognised tax losses of HK$668,425,000 (2006: HK$569,412,000) will expire in one to five years.

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly-controlled entities or associates 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.

41. TRADE AND BILLS PAYABLES

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

	2007 **HK$'000**	2006 HK$'000
Within one year	**1,334,249**	709,773
One to two years	**392,436**	15,451
Two to three years	**3,947**	1,948
Over three years	**6,931**	6,443
	1,737,563	733,615

Included in the Group's trade and bills payables at the balance sheet date are amounts of HK$341,941,000 (2006: HK$240,986,000) and HK$8,577,000 (2006: Nil) due to related companies and a jointly-controlled entity, respectively, arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related companies to their major customers.

Certain of the Group's bills payables as at the balance sheet date are secured by mortgages over certain of the Group's bank balances with an aggregate amount of HK$63,206,000 (2006: HK$60,182,000) *(note 25(a))*.

42. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2007	2006	**2007**	2006
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Accruals		**111,479**	210,190	**62,329**	46,715
Defined benefits plans					
– current portion	*38(b)*	**304**	–	**–**	–
Other liabilities	*30*	**3,534,327**	791,426	**14,934**	16,187
Due to the immediate					
holding company	*30*	**578,643**	–	**578,643**	–
Due to a fellow subsidiary	*30*	**8,523**	9,968	**8,523**	9,968
Due to related companies	*30*	**59,212**	24,556	**23,982**	699
		4,292,488	1,036,140	**688,411**	73,569

Included in other liabilities at the balance sheet date is an amount of HK$25,591,000 (2006: Nil) payable to the BMCDR in respect of a government surcharge collected on its behalf by the Group, further details of which are set out in note 25(d) to the financial statements.

Also included in other liabilities are construction project costs of approximately HK$82,462,000 (2006: Nil) payable to certain fellow subsidiaries of the Group. The balances with the fellow subsidiaries are unsecured, interest-free, and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

43. TAXES PAYABLE

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Income/profits tax	**528,064**	354,492	**–**	–
Consumption tax	**121,987**	101,708	**–**	–
Value-added tax	**158,161**	63,425	**–**	–
Business tax	**2,688**	1,897	**–**	–
Others	**47,210**	29,576	**9,681**	8,272
	858,110	551,098	**9,681**	8,272

44. BUSINESS COMBINATIONS

Except for property, plant and equipment with a carrying amount of HK$8,094,388,000 immediately before the acquisition, the fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year as at their respective dates of acquisition have no significant differences from their respective carrying amounts, and are set out as follows:

	Notes	**2007 HK$'000** *(note (a))*	2006 HK$'000 *(note (b))*
Net assets acquired:			
Property, plant and equipment	*16*	**8,153,935**	87,449
Prepaid land premiums	*18*	**428,289**	169,949
Other intangible assets	*20*	**10,350**	–
Interests in a jointly-controlled entity		**2,732,095**	–
Deferred tax assets	*40*	**155,389**	–
Inventories		**34,436**	9,612
Amounts due from customers for contract work		**432**	–
Trade and bills receivables		**641,589**	5,673
Prepayments, deposits and other receivables		**285,512**	221,634
Restricted cash and pledged deposits		**31,262**	–
Cash and bank balances		**502,443**	70,696
Trade and bills payables		**(733,143)**	(48,356)
Amounts due to customers for contract work		**(15,378)**	–
Other payables and accruals		**(1,885,531)**	(193,270)
Taxes payable		**(131,849)**	(1,577)
Bank and other borrowings		**(672,890)**	(19,493)
Defined benefits plans	*38(c)*	**(204,584)***	–
Other long term liabilities		**(22,028)**	–
Deferred tax liabilities	*40*	**(14,887)**	(50)
Minority interests		**(9,432)**	–
		9,286,010	302,267
Goodwill on acquisition	*19*	**6,982,580**	–
		16,268,590	302,267

* *Included in the amount are defined benefits obligations of HK$207,524,000 and unrecognised actuarial losses of HK$2,940,000.*

44. BUSINESS COMBINATIONS *(continued)*

	Note	2007 HK$'000 *(note (a))*	2006 HK$'000 *(note (b))*
Satisfied by:			
Cash		**4,000,100**	302,267
Allotment of new ordinary shares as consideration	*33*	**12,214,125**	–
Costs associated with the acquisitions		**99,853**	–
Fair value adjustment of cash consideration		**(45,488)**	–
		16,268,590	302,267
Profit for the year since acquisition		**339,202**	3,149

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

	2007 HK$'000	2006 HK$'000
Cash and bank balances acquired	**502,443**	70,696
Cash consideration, at fair value	**(3,954,612)**	(302,267)
Set-off against current accounts with fellow subsidiaries	**998,506**	–
Amortised cost of outstanding cash consideration:		
Increase in fair value of cash consideration arising from the passage of time	**(34,708)**	–
At end of year	**578,643**	–
Cash paid to costs associated with the acquisition	**(99,853)**	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(2,009,581)**	(231,571)

44. BUSINESS COMBINATIONS *(continued)*

Notes:

(a) Pursuant to the Beijing Gas Sale and Purchase Agreement dated 10 April 2007, the Company agreed to purchase the entire issued share capital of Beijing Gas BVI from BE Group BVI at HK$11,600,000,000, which is payable as to HK$4,000,100,000 by way in cash and as to the balance of HK$7,599,900,000 by way of issuance of 411,250,000 ordinary shares of the Company at a price of HK$18.48 per share. The cash consideration was to be settled in two instalments, with the first instalment of HK$3,000,000,000 being payable upon completion of the acquisition and the final instalment of HK$1,000,100,000 being due for settlement on or 30 June 2008 or such other date as the Company and BE Group BVI may agree.

Beijing Gas BVI is an investment holding company which holds a 100% equity interest in Beijing Gas, a company incorporated in the PRC. Beijing Gas and its subsidiaries engage in (i) the distribution and sale of piped natural gas in Beijing; (ii) the provision of gas technology consultation and development services and surveying and plotting of underground construction projects; and (iii) the construction and installation of gas pipelines and related equipment and the provision of repair and maintenance services.

Approval of the acquisition transaction from the shareholders of the Company was obtained on 17 May 2007 and the transaction was completed on 29 June 2007. Beijing Gas BVI became a wholly-owned subsidiary of the Company since then. The fair value of the 411,250,000 ordinary shares of the Company at the date of acquisition of 29 June 2007, determined based on the then closing quoted market price of the Company's ordinary shares on the Stock Exchange, amounted to HK$12,214,125,000 and was treated as a part of the Group's costs of acquisition of BE Group BVI.

Pursuant to a deed of set-off entered into between the Company, Beijing Enterprises Group and certain subsidiaries of Beijing Enterprises Group on 10 April 2007, Beijing Enterprises Group agreed that HK$998,506,000 of the first instalment of the cash consideration payable by the Company in respect of the acquisition could be offset against certain of the Group's amounts due from certain subsidiaries of Beijing Enterprises Group. The remaining balance of the first instalment of the cash consideration of HK$2,001,494,000 payable upon completion of the acquisition has fully repaid during the year. In addition, out of the final instalment of the cash consideration of HK$1,000,100,000 which is due for settlement on or before 30 June 2008, HK$410,678,000 has been settled by the Group during the year.

In respect of the purchase price allocation, the directors of the Company have considered the fair value of the piped gas operating concession at the date of acquisition and concluded it could not be measured reliably as there is no history or evidence of exchange transactions for the same. Accordingly, the piped gas operating concession was not recognised separately from goodwill for the purpose of the purchase price allocation in respect of the acquisition of Beijing Gas BVI.

In addition, the purchase price allocation set out above is still preliminary, pending the confirmation of the tax basis of the underlying assets from the relevant tax bureau in Mainland China.

44. BUSINESS COMBINATIONS *(continued)*

Notes: (continued)

(b) 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 operates a department store in Beijing, the PRC) from Dongan Group at 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 ended 31 December 2006 as detailed in note 12 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 2007 would have been HK$1,900,526,000 (2006: HK$338,668,000), HK$1,819,699,000 (2006: HK$100,216,000) and HK$80,827,000 (2006: HK$238,452,000) respectively, and the Group's revenue (comprising turnover and other income and gains, net), revenue from continuing operations and revenue from discontinued operations for the year would have been HK$15,594,446,000 (2006: HK$14,992,873,000), HK$15,513,619,000 (2006: HK$7,541,350,000) and HK$80,827,000 (2006: HK$7,451,523,000), respectively.

45. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES

(a) Disposal of subsidiaries

	Notes	2007 HK$'000	2006 HK$'000
Net assets disposed of:			
Property, plant and equipment	*16*	–	1,369,263
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
Available-for-sale investments		–	1,070,578
Pledged deposits		–	16,602
Deferred tax assets	*40*	–	30,815
Properties held for sale		–	278,903
Inventories		–	157,236
Trade and bills receivables		–	60,488
Prepayments, deposits and other receivables		–	165,232
Tax recoverable		–	7,929
Cash and bank balances		–	1,261,864
Trade and bills payables		–	(889,074)
Other payables and accruals		–	(1,275,198)
Taxes payable		–	(197,168)
Bank and other borrowings		–	(143,497)
Other long term liabilities		–	(18,259)
Deferred tax liabilities	*40*	–	(355,866)
Minority interests		–	(1,151,289)
		–	1,130,221
Exchange fluctuation reserve realised		–	(61,651)
Investment revaluation reserve realised		–	(210,039)
Gain on disposal of interests in subsidiaries, net	*4*	**80,827**	141,469
		80,827	1,000,000
Satisfied by cash consideration, at fair value		**80,827**	1,000,000

45. 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:

	2007 HK$'000	2006 HK$'000
Cash and bank balances disposed of	–	(1,261,864)
Cash consideration, at fair value	80,827	1,000,000
Amortised cost of outstanding cash consideration:		
At beginning of year	235,719	319,543
Increase in fair value of cash consideration arising from the passage of time	4,381	9,587
Offset against the cash consideration payable to BE Group BVI for the acquisition of Beijing Gas BVI – *note 44(a)*	(240,386)	–
(Impairment)/reversal of impairment	5,640	(32,360)
Exchange realignment	2,197	11,687
At end of year	(8,205)	(235,719)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	80,173	(189,126)

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

(b) Deconsolidation of subsidiaries

	Notes	2007 HK$'000	2006 HK$'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	*40*	–	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 45(b)(i)*		–	82,794
Reclassification to interests in associates from interests in subsidiaries – *note 45(b)(ii)*		–	216,522
		–	299,316

45. 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:

	2007 HK$'000	2006 HK$'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 has been 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 day 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 thereafter and, at which time the Group deconsolidated Beijing Development and its subsidiaries.

46. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

Apart from the transactions detailed in notes 5, 6, 37 and 45 to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2007 and 2006.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

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

Interest rate risk *(continued)*

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

At 31 December 2007

	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Effective interest rate %
Floating rate:								
Restricted cash and pledged deposits	115,988	–	–	–	–	–	115,988	0.72
Cash and cash equivalents	4,510,757	–	–	–	–	–	4,510,757	0.72
Bank and other borrowings	(740,215)	(42,973)	(23,818)	(26,260)	(2,122,824)	(305,474)	(3,261,564)	5.68
Fixed rate:								
Restricted cash and pledged deposits	15,812	–	–	–	–	–	15,812	3.3
Cash and cash equivalents	3,561,727	–	–	–	–	–	3,561,727	3.3
Bank and other borrowings	(1,896,349)	(186,627)	(293,465)	(26,371)	(26,371)	(93,578)	(2,522,761)	4.82

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:								
Restricted cash and 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:								
Restricted cash and 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

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

Interest rate risk *(continued)*

At 31 December 2007, it is estimated that a general decrease/increase of 100 basis points in interest rate of average balances of bank and other loans and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately HK$18,965,000 (2006: HK$23,658,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis performed on the same basis for 2006.

Foreign currency risk

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

The following table demonstrates the sensitivity to a reasonably possibility change in RMB/HK$ exchange rate, which all other variables held constant, of the Group's profit before tax and the Group's equity due to change in the bank balance denominated to RMB.

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	HK$'000	HK$'000
2007			
If Hong Kong dollar weakens against RMB	(5)	90,726	1,060,206
If Hong Kong dollar strengthens against RMB	5	(90,726)	(1,060,206)
2006			
If Hong Kong dollar weakens against RMB	(5)	66,943	501,852
If Hong Kong dollar strengthens against RMB	5	(66,943)	(501,852)

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

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

Credit risk

The Group is predominately engaged in cash income businesses, such as the expressway and toll road operations and brewery sales, and the Group has very high debtor turnover rate and low credit risk in respect of these operations.

Despite the above, the Group is still exposing to credit risk arising from its piped gas operation. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when they fall due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Various companies have different credit policies, depending on markets and businesses in which they operate. Aged analysis of trade and bills receivables are prepared and closely monitored in order to minimise any credit risk associated with the receivables. Normally, the Group does not obtain collateral from customers.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivables are set out in note 28 to the financial statements.

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

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

Liquidity risk

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

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

The maturity profile of the Group's financial liabilities (other than defined benefits plans) as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

At 31 December 2007

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
Bank loans	–	2,735,665	285,826	363,173	81,225	2,133,487	33,202	5,632,578
Other loans	–	118,367	78,826	85,596	92,433	92,555	593,977	1,061,754
Trade and bills payables	–	1,737,563	–	–	–	–	–	1,737,563
Other payables and accruals	–	3,645,806	–	–	–	–	–	3,645,806
Due to a fellow subsidiary	8,523	–	–	–	–	–	–	8,523
Due to the immediate holding company	–	578,643	–	–	–	–	–	578,643
Due to related companies	59,212	–	–	–	–	–	–	59,212
	67,735	8,816,044	364,652	448,769	173,658	2,226,042	627,179	12,724,079

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

Liquidity risk *(continued)*

At 31 December 2006

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
Bank loans	–	1,342,310	273,612	169,728	1,222	1,215	13,127	1,801,214
Other loans	–	39,882	35,946	1,956	8,313	14,670	157,709	258,476
Trade and bills payables	–	733,615	–	–	–	–	–	733,615
Other payables and accruals	–	1,001,616	–	–	–	–	–	1,001,616
Due to a fellow subsidiary	9,968	–	–	–	–	–	–	9,968
Due to related companies	24,556	–	–	–	–	–	–	24,556
Convertible bonds	–	464	–	–	–	–	–	464
	34,524	3,117,887	309,558	171,684	9,535	15,885	170,836	3,829,909

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

Fair value risk

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

	Carrying amount		Fair value	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets:				
Non-current prepayments,				
deposits and other receivables	**22,094**	130,008	**22,094**	130,008
Non-current pledged deposits	**–**	2,200	**–**	2,151
Financial liabilities:				
Non-current bank				
and other borrowings:				
Floating rate borrowings	**2,521,349**	220,000	**2,521,349**	220,000
Fixed rate borrowings	**626,412**	249,507	**502,175**	245,964
Interest-free borrowings				
(note (ii))	**134,564**	97,491	**110,095**	94,674
Convertible bonds	**–**	464	**–**	464

Notes:

(i) The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 24(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$125,965,000 (2006: HK$101,403,000) obtained by the Group from a joint venture partner of a subsidiary, which is repayable within 18 years (2006: 19 years), and an interest-free loan of HK$13,310,000 obtained from an oversea government, as further detailed in notes 36(b)(i) and 36(b)(iii) to the financial statements, respectively.

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

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is bank borrowings divided by the sum of total equity and bank borrowings. The gearing ratios as at the balance sheet date are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Bank borrowings	**5,129,125**	1,733,545
Total equity	**31,436,936**	13,059,805
Total equity and bank borrowings	**36,566,061**	14,793,350
Gearing ratio	**14%**	12%

48. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain equity investments being classified as available-for-sale investment and financial assets at fair value through profit or loss as disclosed in notes 24 and 31 to the financial statements, respectively, all financial assets and liabilities of the Group and the Company as at 31 December 2007 and 2006, are loans and receivables, and financial liabilities stated at amortised cost, respectively.

49. CONTINGENT LIABILITIES

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantee given for banking facilities granted to a company which has been deconsolidated in 2006 and so on	**213,675**	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	**93,594**	68,456	**93,594**	68,456
Guarantee given for the Convertible Bonds issued by Yanjing Brewery – *note 37*	**–**	–	**–**	464
	307,269	418,456	**93,594**	68,920

At 31 December 2007, the banking facilities granted to a company that has been deconsolidated during the year ended 31 December 2006 and a related company subject to guarantees given to certain banks by the Group were utilised to the extent of approximately HK$188,034,000 (2006: HK$155,000,000).

50. 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 2 to 10 years. The terms of the leases generally require the tenants to pay security deposits.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

Group

	2007	2006
	HK$'000	HK$'000
Within one year	**3,769**	796
In the second to fifth years, inclusive	**3,725**	2,695
After five years	**675**	11,660
	8,169	15,151

(b) As lessee

The Group leases certain of its office properties and staff quarters under operating lease arrangements, with leases negotiated with original terms ranging from 10 to 47 years.

At 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**99,248**	70,927	**1,004**	2,912
In the second to fifth years, inclusive	**124,513**	107,278	**8**	971
After five years	**664,626**	641,448	**–**	–
	888,387	819,653	**1,012**	3,883

51. CAPITAL COMMITMENTS

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

	Group	
	2007	2006
	HK$'000	HK$'000
Buildings:		
Contracted, but not provided for	**231,527**	139,836
Gas pipelines:		
Contracted, but not provided for	**233,357**	–
Plant and machinery:		
Contracted, but not provided for	**322,177**	73,303
Capital contribution to a jointly-controlled entity:		
Authorised, but not contracted	**591,346**	–
Total capital commitments	**1,378,407**	213,139

In addition, the Group's share of a jointly-controlled entity's own capital commitments which are not included in the above, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted, but not provided for	**252,908**	–

At the balance sheet date, the Company did not have any material capital commitments (2006: Nil).

52. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transaction	Notes	2007 HK$'000	2006 HK$'000
Joint venture partners of subsidiaries and their associates				
Yanjing Beer Group and its associates	Purchase of bottle labels	*(i)*	92,595	49,406
	Purchase of bottle caps	*(i)*	75,557	42,825
	Import of raw materials	*(ii)*	66,768	365,115
	Sale of beer	*(iii)*	8,566	8,171
	Canning service fees paid	*(iv)*	24,954	18,277
	Comprehensive support service fees paid	*(v)*	15,944	15,151
	Land rent expenses	*(vi)*	1,896	1,700
	Trademark licensing fees paid	*(vii)*	31,861	23,788
	Less: Refund for advertising subsidies	*(vii)*	(4,886)	(3,958)
Fellow subsidiaries				
北京北燃實業有限公司 (Beijing Beiran Enterprises Company Limited) and its subsidiaries	Sale of piped natural gas	*(viii)*	62,420	–
	Service contract income	*(ix)*	3,343	–
	Construction contract fee expenses	*(x)*	19,432	–
	Sale of raw materials	*(xii)*	16,211	–
	Purchase of raw materials	*(xi)*	41,840	–
	Building rental expenses	*(xi)*	17,029	–
	Repair and maintenance expenses	*(xii)*	6,787	–
北京京泰國際貿易有限公司 (Beijing Jing Tai International Company Limited)	Purchase of construction materials	*(xi)*	8,321	–
Jointly-controlled entity				
Hua You Company	Natural gas transmission fee expenses	*(viii)*	826,064	–
Other related parties				
China Communications Construction Company Limited and its associates	Construction costs, maintenance service costs and dismantling costs for an expressway	*(xiii)*	2,938	91,019

Notes:

(i) The purchase prices for bottle labels and bottle caps were determined by reference to the agreed prices for the preceding year and an annual adjustment determined by reference to the price index in Beijing in the preceding year.

52. RELATED PARTY DISCLOSURES *(continued)*

(a) *(continued)*

Notes: (continued)

(ii) 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.

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

(iv) The canning service fees were charged at a rate equal to the costs of the canning services incurred by Yanjing Beer Group plus a mutually.

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

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

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

(vi) The land rent expenses were charged at a mutually agreed amount of RMB1,744,000 (2006: RMB1,744,000) per annum.

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

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

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

(x) The construction contract fee was determined by reference to the then prevailing market rates and set at prices not higher than the guidance prices set by the PRC government.

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

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

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

52. RELATED PARTY DISCLOSURES *(continued)*

(b) Other transactions with related parties

Year ended 31 December 2007

(i) On 16 August 2007, Beijing Enterprises Treasury Company Limited ("BJ Treasury"), a wholly-owned subsidiary of the Company, entered into a disposal agreement with Ever Sincere, a substantial shareholder of BEES, pursuant to which BJ Treasury agreed to sell its remaining 51% equity interest in BEES to Ever Sincere at an aggregate cash consideration of HK$157,498,141. According to the disposal agreement, HK$5,000,000 of the consideration shall be paid within one month upon signing of the agreement and the remaining HK$152,498,141 shall be paid no later than 31 August 2008. Upon completion of the disposal agreement, BJ Treasury no longer held any equity interest in BEES.

Year ended 31 December 2006

(i) On 28 June 2006, BJ Treasury 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 has been deconsolidated from the Group on 1 January 2006 as a result of the Entrusted Operating Agreement as detailed in note 45(b)(i) to the financial statements, to dispose of a 36.78% equity interest in BEES for an aggregate cash consideration of HK$99,290,000. The cash consideration is to be settled by six instalments, with the first instalment of HK$20,000,000, the second, third, fourth, fifth and final 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 of which 30% and 70% of its equity interests are held by Mr. Xu and Mr. Xu's spouse, to acquire 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 the subsidiaries of BEES, have been deconsolidated from the Group on 1 January 2006 as a result of the Entrusted Operating Agreement as detailed in note 45(b)(i).

52. RELATED PARTY DISCLOSURES *(continued)*

(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 and other payables and accruals are disclosed in notes 29, 41 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, 29 and 30 to the financial statements, respectively.

(iii) Details of the guarantees given by related parties in respect of the Group's bank and other borrowings and the Convertible Bonds issued by Yanjing Brewery are disclosed in notes 36 and 37 to the financial statements.

(iv) Details of the guarantee given by the Group for banking facilities granted to a related company and a jointly-controlled entity are disclosed in note 49 to the financial statements.

(d) Compensation of key management personnel of the Group

	2007 **HK$'000**	2006 HK$'000
Short term employee benefits	**17,606**	12,529
Employee share option benefits	**2,321**	16,796
Pension scheme contributions	**550**	570
Total compensation paid to key management personnel	**20,477**	29,895

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

53. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the following significant event occurs:

(i) Issuance of new A shares by Yanjing Brewery

Pursuant to a circular issued by Yanjing Brewery on 23 January 2008, 80 million to 86 million of Yanjing Brewery's A shares with par value of RMB1 each would be issued to 10 designated shareholders on the condition that Yanjing Beer Corporation, a subsidiary of the Company and the holding company of Yanjing Brewery, must be one of the designated shareholders and should not subscribe less than 50% the new A shares to be issued by Yanjing Brewery. The share issue plan was approved at an extraordinary general meeting of Yanjing Brewery on 20 February 2008 and the shares are to be issued in May 2008 after the subscription price has been confirmed by the designated shareholders.

(ii) Acquisition of Shang Hua Holdings Limited ("Shang Hua")

Pursuant to a subscription agreement (the "Shang Hua Subscription Agreement") dated 21 January 2008 entered into between the Company, Shang Hua and Beijing Enterprises Environmental Construction Limited ("BE Environmental ", formerly Lucky Crown Management Limited and a wholly-owned subsidiary of the Company), the Company, Shang Hua and BE Environmental agreed the following terms in relation to the Group's acquisition of the equity interest in Shang Hua:

(a) Shang Hua conditionally agreed to allot and issue to BE Environmental, and BE Environmental conditionally agreed to subscribe for 247,000,000 new shares of Shang Hua at a price of HK$0.40 per new share;

(b) Shang Hua conditionally agreed to issue and BE Environmental conditionally agreed to subscribe for the zero coupon convertible bonds (the "Firm Bonds") at a selling price of HK$200 million. The Firm Bonds are convertible, at the option of BE Environmental, into fully-paid ordinary shares of Shang Hua at a conversion price of HK$0.4 per share and will be matured on the third anniversary of the date of issue of the Firm Bonds by Shang Hua; and

53. EVENTS AFTER THE BALANCE SHEET DATE *(continued)*

(ii) Acquisition of Shang Hua Holdings Limited ("Shang Hua") *(continued)*

(c) Shang Hua agreed to grant BE Environmental (1) a call option (the "First Call Option") to require Shang Hua to issue the zero coupon convertible bonds in the aggregate principal amount of HK$300 million (the "First Option Bonds") any time during the 12-month period after the completion of the subscription agreement; and (2) a call option (the "Second Call Option") to require Shang Hua to issue the zero coupon convertible bonds in the aggregate principal amount of HK$200 million (the "Second Option Bonds") any time during the period commencing on the completion date of the subscription agreement and ending on 31 December 2009. The First Option Bonds and the Second Option Bonds are convertible, at the option of BE Environmental, into fully-paid ordinary shares of Shang Hua at a conversion price of HK$0.4 per share and will be matured on the respective dates falling on the third anniversary date of the issue of the First Option Bonds and the Second Option Bonds.

The Shang Hua Subscription Agreement was completed on 7 March 2008 and Shang Hua became a subsidiary of the Group in which the Group holds a 74.78% equity interest. The total consideration paid by the Group in respect of the acquisition amounted to HK$98,800,000, before any costs associated with the acquisition, which represented the subscription consideration paid for the 247,000,000 new shares issued by Shang Hua as mentioned in note (a) above. As at the date of approval of these financial statements, neither the First Call Option nor the Second Call Option had been exercised by the Group.

Shares of Shang Hua are listed on the Main Board of the Stock Exchange and the principal activities of Shang Hua and its subsidiaries (collectively "Shang Hua Group") include the trading of computer related products. In the opinion of the directors, Shang Hua Group will progressively reduce its reliance on its existing principal activities and will focus on water treatment and environmental businesses.

The Group is in the progress of making an assessment of the amounts for each class of Shang Hua Group's assets, liabilities and contingent liabilities to be recognised at the acquisition date, their respective carrying amounts immediately before the acquisition and whether a goodwill or an excess over the cost of business combination was resulted from the acquisition. However, the Group is not yet in a position to disclose any of the above information in these financial statements.

53. EVENTS AFTER THE BALANCE SHEET DATE *(continued)*

(iii) Disposal of equity interests in Everbest Islands Limited ("Everbest"), Shun Xing and Feng Shou

Pursuant to a sale and purchase agreement dated 7 April 2008 entered into between the Company and BE Group BVI, the Company agreed to sell all of its 100% equity interest in Everbest (a company which holds a 75% equity interest in LQX Tourism), 51% equity interest in each of Shun Xing and Feng Shou to BE Group BVI at a total consideration of HK$241,562,165. Upon the completion of the transactions, these companies will cease to be subsidiaries of the Company and the Company will no longer engage in any tourism service business and wine production. Since the sale and purchase agreement was effected shortly before the date of approval of these financial statements, the audit of the estimate financial impact of this transaction to the Group cannot be completed and accordingly, no disclosure of the financial impact of this transaction to the Group has been made.

54. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, certain comparative amounts have been adjusted to conform with the current year's presentation and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 April 2008.

FIVE YEAR FINANCIAL SUMMARY

31 December 2007

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2006, is set out below:

RESULTS

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
CONTINUING OPERATIONS					
Revenue	4,731,559	5,496,985	6,263,153	7,246,920	**11,299,856**
Operating profit	770,940	886,574	721,242	358,866	**1,574,621**
Share of profits and losses of:					
Jointly-controlled entities	(6,148)	50,068	(12,712)	688	**178,243**
Associates	41,361	54,012	24,095	64,644	**261,009**
Amortisation of goodwill arising on acquisition of jointly-controlled entities	(4,357)	–	–	–	**–**
Profit before tax	801,796	990,654	732,625	424,198	**2,013,873**
Tax	(182,459)	(204,965)	(136,877)	(169,823)	**(290,970)**
Profit for the year from continuing operations	619,337	785,689	595,748	254,375	**1,722,903**
DISCONTINUED OPERATIONS					
Profit/(loss) for the year from discontinued operations	8,360	(120,929)	119,061	353,875	**80,827**
Profit for the year	627,697	664,760	714,809	608,250	**1,803,730**
ATTRIBUTABLE TO:					
Shareholders of the Company	450,045	503,188	570,422	338,668	**1,438,380**
Minority interests	177,652	161,572	144,387	269,582	**365,350**
	627,697	664,760	714,809	608,250	**1,803,730**

FIVE YEAR FINANCIAL SUMMARY

31 December 2007

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	18,105,664	19,389,590	19,630,268	17,324,152	**44,678,981**
Total liabilities	(7,014,118)	(7,788,393)	(7,123,275)	(4,264,347)	**(13,242,045)**
NET ASSETS	11,091,546	11,601,197	12,506,993	13,059,805	**31,436,936**
REPRESENTED BY:					
Equity attributable to shareholders of the Company	7,546,138	7,881,098	8,442,941	8,870,705	**26,747,479**
Minority interests	3,545,408	3,720,099	4,064,052	4,189,100	**4,689,457**
TOTAL EQUITY	11,091,546	11,601,197	12,506,993	13,059,805	**31,436,936**