| NOTES TO FINANCIAL STATEMENTS |

31 December 2005

1. CORPORATE INFORMATION

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

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

- production, distribution and sale of consumer products, including beer and processed food products in Beijing and other provinces in the People's Republic of China (the "PRC")
- investment in transportation infrastructure, including the Capital Airport Expressway, which connects the Capital Airport and the city centre of Beijing, and the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC
- the provision of tourism services in Badaling Great Wall (discontinued during the year – *note 52(b)(v)*) and Longqingxia, scenic areas in Beijing
- the provision of hotel services in Beijing, the PRC (discontinued during the year – *note 52(b)(v)*)
- the provision of retail services in Beijing and certain other cities in the PRC
- investment in commercial and residential properties in Beijing and Hong Kong
- operation of a water purification and treatment plant in Beijing
- property construction and development
- the provision of telecommunications and information technology ("IT") related services
- construction of geothermal energy systems and provision of related installation services
- restaurant operations in the PRC, Thailand, Indonesia, Singapore and Malaysia

As at 31 December 2005 and the date of approval of these financial statements, the immediate holding company of the Company is Beijing Enterprises Investments Limited, which is incorporated in the British Virgin Islands, and in the opinion of the directors, the ultimate holding company is Beijing Holdings Limited ("BHL"), which is incorporated in Hong Kong.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for (i) the periodic remeasurement of hotel and investment properties, and certain financial assets at fair value; and (ii) a disposal group and non-current assets held for sale, which are stated at the lower of carrying amount and fair value less costs to sell, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) 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 2005. 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 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 in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs are relevant to the Group and became effective in the current year for the preparation of these financial statements:

- HKAS 1 (Revised) "Presentation of Financial Statements"
- HKAS 16 (Revised) "Property, Plant and Equipment"
- HKAS 27 (Revised) "Consolidated and Separate Financial Statements"
- HKAS 39 (Revised) "Financial Instruments: Recognition and Measurement"
- HKAS 40 (Revised) "Investment Property"
- HKFRS 3 (Revised) "Business Combinations"
- HK-Int 4 "Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases"

The new and revised HKFRSs have had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

- HKAS 1 Amendment — "Capital Disclosures"
- HKAS 19 Amendment — "Actuarial Gains and Losses, Group Plans and Disclosures"
- HKAS 21 Amendment — "Net Investment in a Foreign Operation"
- HKAS 39 Amendment — "Cash Flow Hedge Accounting of Forecast Intragroup Transactions"
- HKAS 39 Amendment — "The Fair Value Option"
- HKAS 39 & HKFRS 4 Amendments — "Financial Guarantee Contracts"
- HKFRSs 1 & 6 Amendments — "First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources"
- HKFRS 6 — "Exploration for and Evaluation of Mineral Resources"
- HKFRS 7 — "Financial Instruments: Disclosures"
- HK(IFRIC)-Int 4 — "Determining whether an Arrangement contains a Lease"
- HK(IFRIC)-Int 5 — "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
- HK(IFRIC)-Int 6 — "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"
- HK(IFRIC)-Int 7 — "Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies"

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

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

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

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK (IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities of the Group. HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 December 2005 and 1 March 2006, respectively.

The HKAS 21 Amendment prescribes the accounting treatment on recognition of exchange differences in respect of net investment in foreign operations.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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;

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Jointly-controlled entities

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

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

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

Associates

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

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

(c) the party is an associate;

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill previously eliminated against the consolidated capital reserve
Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated capital reserve and is transferred to retained profits as a movement in reserves when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations

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

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

Impairment of assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment (previously referred to as "fixed assets") and depreciation

Hotel property

Hotel property is an interest in a hotel building and its integral fixed plant which is collectively used in the operation of the hotel. Following initial recognition at cost, the hotel property is carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on such property and accumulated impairment losses. Fair value is determined by reference to its open market value on the basis of annual professional valuation performed at the end of each financial year. Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the hotel property and the net amount is restated to the revalued amount of the hotel property.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment (previously referred to as "fixed assets") and depreciation *(continued)*

Hotel property (continued)
Changes in the carrying amount of the hotel property as a result of a revaluation are dealt with as movements in the property revaluation reserve. If this reserve is insufficient to cover a deficit, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged.

Depreciation of the hotel property is calculated on the straight-line basis to write off the valuation of the hotel property over its estimated useful life of 40 years.

On derecognition of the hotel property, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment (previously referred to as "fixed assets") and depreciation *(continued)*

Other property, plant and equipment (continued)
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 principal annual rates used for this purpose are as follows:

Buildings	2% to 10%
Leasehold improvements	Over the lease terms or 5 to 10 years, whichever is shorter
Plant and machinery	5% to 20%
Furniture, fixtures and office equipment	10% to 20%
Motor vehicles	10% to 20%

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment (previously referred to as "fixed assets") and depreciation *(continued)*

Construction in progress

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for 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, and not depreciated. 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.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

When a property occupied by the Group as an owner-occupied property becomes an investment property, any difference between the carrying amount and the fair value of the property at the date of change in use is accounted for as follows:

(a) any resulting decrease in the carrying amount of the property is recognised in the income statement in the period the change in use took place.

(b) any resulting increase in the carrying amount is credited to the income statement, to the extent the increase reverses a previous impairment loss for that property, or restores the carrying amount of the property to an amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the property in prior years; and any remaining part of the increase in the carrying amount is credited directly to equity in the property revaluation reserve. On subsequent disposal of the property, the relevant portion of the property revaluation reserve realised is transferred to retained profits as a movement in reserves.

For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition, subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the buildings as a finance lease in property, plant and equipment.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

Licences
Licences are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 5 to 10 years.

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, 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, i.e., the date that the Group commits to purchase 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 classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets 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 financial assets are measured at fair value, with gains or losses recognised as movements in the investment revaluation reserve, until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in the investment revaluation reserve is included in the income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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

Available-for-sale financial assets carried at fair value
If an available-for-sale financial asset 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 profit or loss, is transferred from the investment revaluation reserve to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

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 in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

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 long term 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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

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

Properties under development

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

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

Properties held for sale

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

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 customer 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 customer for contract work.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

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 and pre-sale of properties under development for which the agreements were entered into after January 2004, 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 or the properties sold;

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

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, Beijing Development and Xteam ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(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 is reflected as additional share dilution in the computation of earnings per share.

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

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

Paid leave carried forward
The Group provides paid annual leave to certain of its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Employment Ordinance long service payments
Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

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

Foreign currencies

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

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

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

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

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

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

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

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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 2005 was HK$275,777,000 (2004: HK$330,198,000), details of which are set out in note 17 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 brewery operation segment produces, distributes and sells brewery products;

(b) the retail operation segment operates department stores in Beijing and certain other cities in the PRC;

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

(d) the water treatment operation segment operates a water purification and treatment plant in Beijing and sells purified water;

(e) the telecommunications and IT related services and products segment comprises the construction of broadband infrastructure, sale of software, the provision of Internet services and IT technical support and consultation services;

(f) the dairy operation segment produces, distributes and sells dairy products (discontinued during the year ended 31 December 2004 – *note 10*); and

(g) the corporate and others segment comprises the construction of geothermal energy systems and provision of related installation services, tourism and hotel operations (discontinued during the year ended 31 December 2005 – *note 52(b)(v)*), production, distribution and sale of wine and processed food products, restaurant operations, property construction and development, property investments and corporate income and expense items.

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3. SEGMENT INFORMATION *(continued)*

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.

(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 2005 and 2004:

Year ended 31 December 2005

Group

	Continuing operations							Discontinued operation		
	Brewery operation HK$'000	Retail operation HK$'000	Expressway and toll road operations HK$'000	Water treatment operation HK$'000	Telecom-munications and IT related services and products HK$'000	Corporate and others HK$'000	Total HK$'000	Dairy operation HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment revenue:										
Sales to external customers	4,556,142	4,510,210	477,440	506,638	273,199	676,984	11,000,613	–	–	11,000,613
Intersegment sales	–	–	–	–	–	–	–	–	–	–
Other revenue and gains, net	74,424	107,475	3,742	–	9,956	29,318	224,915	79,987	–	304,902
Total	4,630,566	4,617,685	481,182	506,638	283,155	706,302	11,225,528	79,987	–	11,305,515
Segment results	387,883	131,739	290,577	166,595	(8,562)	(206,452)	761,780	79,987		841,767
Interest income							73,165	–		73,165
Unallocated revenue and gains, net							142,740	–		142,740
Unallocated expenses							(6,458)	–		(6,458)
Profit from operating activities							971,227	79,987		1,051,214
Finance costs							(156,220)	–		(156,220)
Share of profits and losses of:										
Jointly-controlled entities	–	(14,179)	–	–	(264)	(12,449)	(26,892)	–		(26,892)
Associates	(2,391)	–	(410)	–	(411)	25,005	21,793	–		21,793
Profit before tax							809,908	79,987		889,895
Tax							(175,086)	–		(175,086)
Profit for the year							634,822	79,987		714,809

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3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2005 (continued)

Group

	Continuing operations							Discontinued operation		
	Brewery operation HK$'000	Retail operation HK$'000	Expressway and toll road operations HK$'000	Water treatment operation HK$'000	Telecom-munications and IT related services and products HK$'000	Corporate and others HK$'000	Total HK$'000	Dairy operation HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment assets	7,458,097	1,474,409	1,709,479	1,238,023	435,974	7,123,702	19,439,684	–	(4,434,091)	15,005,593
Share of net assets of:										
Jointly-controlled entities	–	138,098	–	–	44,649	13,681	196,428	–	–	196,428
Associates	11,395	25,188	3,090	–	2,129	211,404	253,206	–	–	253,206
	7,469,492	1,637,695	1,712,569	1,238,023	482,752	7,348,787	19,889,318	–	(4,434,091)	15,455,227
Unallocated assets							4,219,071	–	–	4,219,071
Total assets							24,108,389	–	(4,434,091)	19,674,298
Segment liabilities	1,777,389	622,744	465,648	458,244	122,347	4,383,888	7,830,260	–	(4,434,091)	3,396,169
Unallocated liabilities							3,771,136	–	–	3,771,136
Total liabilities							11,601,396	–	(4,434,091)	7,167,305
Other segment information:										
Depreciation	429,420	57,923	50,510	86	5,491	51,431	594,861	–	–	594,861
Amortisation of other intangible assets	–	–	31,346	71,259	2,312	1,066	105,983	–	–	105,983
Impairment losses on:										
Segment assets	–	–	–	–	–	81,308	81,308	–	–	81,308
Unallocated assets										1,083
Capital expenditure	1,056,158	149,295	9,751	6,304	5,071	142,701	1,369,280	–	–	1,369,280

3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2004

Group

	Continuing operations							Discontinued operation		
	Brewery operation HK$'000	Retail operation HK$'000	Expressway and toll road operations HK$'000	Water treatment operation HK$'000	Telecom-munications and IT related services and products HK$'000	Corporate and others HK$'000	Total HK$'000	Dairy operation HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment revenue:										
Sales to external customers	3,494,029	3,021,404	435,371	490,566	436,399	902,187	8,779,956	885,684	–	9,665,640
Intersegment sales	–	–	–	–	–	–	–	–	–	–
Other revenue and gains, net	100,660	44,436	(1,815)	–	1,942	72,577	217,800	16,498	–	234,298
Total	3,594,689	3,065,840	433,556	490,566	438,341	974,764	8,997,756	902,182	–	9,899,938
Segment results	405,108	130,100	262,327	194,297	85,429	(167,111)	910,150	(108,744)		801,406
Interest income							43,708	1,043		44,751
Unallocated revenue and gains, net							125,903	2,139		128,042
Unallocated expenses							(49,550)	–		(49,550)
Profit/(loss) from operating activities							1,030,211	(105,562)		924,649
Finance costs							(130,338)	(7,710)		(138,048)
Share of profits and losses of:										
Jointly-controlled entities	(5,799)	17,647	–	–	(116)	55,982	67,714	(11,261)		56,453
Associates	11,586	–	–	–	19,897	19,692	51,175	–		51,175
Profit/(loss) before tax							1,018,762	(124,533)		894,229
Tax							(233,156)	3,687		(229,469)
Profit/(loss) for the year							785,606	(120,846)		664,760

3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2004 (continued)

Group

	Continuing operations							Discontinued operation		
	Brewery operation HK$'000	Retail operation HK$'000	Expressway and toll road operations HK$'000	Water treatment operation HK$'000	Telecom-munications and IT related services and products HK$'000	Corporate and others HK$'000	Total HK$'000	Dairy operation HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment assets	5,678,295	1,923,479	1,735,445	1,033,965	553,754	6,398,214	17,323,152	1,153,079	(4,938,888)	13,537,343
Share of net assets of:										
Jointly-controlled entities	–	225,401	–	–	43,585	322,843	591,829	125,113	–	716,942
Associates	335,376	20,406	–	–	140	194,388	550,310	–	–	550,310
	6,013,671	2,169,286	1,735,445	1,033,965	597,479	6,915,445	18,465,291	1,278,192	(4,938,888)	14,804,595
Unallocated assets							4,613,547	26,541	–	4,640,088
Total assets							23,078,838	1,304,733	(4,938,888)	19,444,683
Segment liabilities	1,464,257	979,599	439,043	266,104	139,369	4,248,642	7,537,014	230,763	(4,938,888)	2,828,889
Unallocated liabilities							4,751,565	263,032	–	5,014,597
Total liabilities							12,288,579	493,795	(4,938,888)	7,843,486
Other segment information:										
Depreciation	337,957	91,923	48,866	74	3,887	45,732	528,439	64,546	–	592,985
Amortisation of other intangible assets	–	–	30,711	70,656	2,263	1,058	104,688	–	–	104,688
Impairment losses on:										
Segment assets	–	–	–	–	–	29,386	29,386	17,512	–	46,898
Unallocated assets										44,300
Capital expenditure	649,621	242,801	8,809	–	40,629	40,554	982,414	92,393	–	1,074,807

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	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**13,008**	34,742	**10,799,561**	9,445,907	**188,044**	184,991	**–**	–	**11,000,613**	9,665,640
Intersegment sales	**4,642**	10,367	**–**	–	**40,381**	38,731	**(45,023)**	(49,098)	**–**	–
Other revenue and gains, net	**1,445**	12,660	**302,742**	221,638	**715**	–	**–**	–	**304,902**	234,298
Total	**19,095**	57,769	**11,102,303**	9,667,545	**229,140**	223,722	**(45,023)**	(49,098)	**11,305,515**	9,899,938
Other segment information:										
Segment assets	**4,861,816**	4,682,945	**14,514,771**	13,730,766	**63,097**	62,520	**(4,434,091)**	(4,938,888)	**15,005,593**	13,537,343
Share of net assets of:										
Jointly-controlled entities	**–**	58	**196,428**	716,884	**–**	–	**–**	–	**196,428**	716,942
Associates	**–**	–	**253,206**	550,310	**–**	–	**–**	–	**253,206**	550,310
	4,861,816	4,683,003	**14,964,405**	14,997,960	**63,097**	62,520	**(4,434,091)**	(4,938,888)	**15,455,227**	14,804,595
Unallocated assets									**4,219,071**	4,640,088
Total assets									**19,674,298**	19,444,683
Capital expenditure	**1,972**	8	**1,366,037**	1,072,045	**1,271**	2,754	**–**	–	**1,369,280**	1,074,807

4. TURNOVER, INTEREST INCOME, OTHER REVENUE AND GAINS, NET

Turnover represents: (1) the aggregate of the invoiced value of goods sold, net of value-added tax, consumption tax and government surcharges, and after allowances for returns and trade discounts; (2) the aggregate of revenue from hotel operation, 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.

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

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

	2005 HK$'000	2004 HK$'000
Turnover		
Brewery operation	**4,556,142**	3,494,029
Retail operation	**4,510,210**	3,021,404
Expressway and toll road operations	**477,440**	435,371
Water treatment operation	**506,638**	490,566
Telecommunications and IT related services and products	**273,199**	436,399
Corporate and others	**676,984**	902,187
Attributable to continuing operations reported in the consolidated income statement	**11,000,613**	8,779,956
Attributable to the discontinued operation reported in the consolidated income statement – Dairy operation	**–**	885,684
	11,000,613	9,665,640
Interest income		
Bank interest income	**58,132**	44,751
Imputed interest income on interest-free other receivables	**15,033**	–
	73,165	44,751
Other revenue		
Compensation income	**23,582**	7,492
Rental income	**44,633**	37,452
Service income	**15,866**	1,013
Investment income	**3,271**	3,053
Government grants*	**63,438**	66,788
Sale of raw materials	**2,995**	15,117
Indemnification from a related company recognised as income – *note 52(b)(i)*	**2,700**	19,500
Others	**58,321**	51,370
	214,806	201,785

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

	2005 HK$'000	2004 HK$'000
Gains, net		
Excess over the cost of acquisition of a subsidiary and minority interests	**3,677**	35,767
Gain on disposal of investment properties	**2,466**	238
Gain on disposal of interests in subsidiaries, net †	**81,097**	–
Gain on deemed disposal of interest in a subsidiary δ	**14,498**	20,715
Gain on disposal of interests in jointly-controlled entities Ω	**120,273**	–
Gain on disposal of interests in associates #	**–**	96,766
Gain on deemed disposal of an interest in an associate	**–**	369
Gain on disposal of available-for-sale financial assets	**1,514**	6,298
Gain on disposal of financial assets at fair value through profit or loss, net	**2,074**	841
Foreign exchange differences, net	**7,237**	–
	232,836	160,994
Other revenue and gains, net	**447,642**	362,779

* 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 gain on disposal of interests in subsidiaries recognised during the year ended 31 December 2005 mainly arose from the disposal of all of the Group's equity interests in Beijing Enterprises (Dairy) Limited ("BE Dairy"), which holds a 55% equity interest in Beijing Sanyuan Foods Co., Ltd. ("Sanyuan Foods"), and Beijing Western-Style Food Co., Ltd. ("Western Food") during the year. Further details of the disposal of subsidiaries are set out in note 45 to the financial statements.

δ The gain on deemed disposal of interest in a subsidiary recognised during the year ended 31 December 2005 arose from the dilution of the Group's equity interest in Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), an indirectly held subsidiary of the Company, from 54.86% (2004: 55.45%) to 54.46% (2004: 54.86%) upon the exercise of convertible bonds of Yanjing Brewery by certain bondholders in exchange for ordinary shares of Yanjing Brewery.

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

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

The gain on disposal of interests in associates recognised during the year ended 31 December 2004 mainly arose from the disposal of a 20% equity interest in Siemens Communication Networks Ltd., Beijing ("Beijing Siemens") to a joint venture partner of Beijing Siemens in April 2004.

5. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	**2005 HK$'000**	2004 HK$'000
Cost of inventories sold		**7,499,733**	6,123,409
Cost of properties sold		**29,154**	336,525
Cost of services rendered		**496,482**	546,000
Depreciation	*14*	**594,861**	592,985
Amortisation of operating concessions*	*18*	**102,605**	101,367
Amortisation of management information systems*	*18*	**1,887**	1,886
Amortisation of licences*	*18*	**1,491**	1,435
Research and development expenditure:			
Current year expenditure		**12,930**	14,890
Less: Capitalised in deferred development costs	*18*	**(2,197)**	(3,642)
		10,733	11,248
Impairment arising during the year**	*18*	**5,870**	–
		16,603	11,248

5. PROFIT FROM OPERATING ACTIVITIES *(continued)*

	Notes	2005 HK$'000	2004 HK$'000
Impairment of property, plant and equipment**	*14*	**3,780**	29,386
Impairment of goodwill**	*17*	**59,658**	17,512
Impairment of licences**	*18*	**12,000**	–
Impairment of available-for-sale financial assets**		**1,083**	44,300
Loss on disposal of property, plant and equipment, net***		**5,556**	14,370
(Gain)/loss on disposal of interests in subsidiaries, net	*45*	**(81,097)**	6,433
Loss on deemed disposal of interest in a jointly-controlled entity		**316**	680
(Gain)/loss on deemed disposal of interest in an associate		**927**	(369)
Minimum lease payments under operating leases of land and buildings		**175,282**	131,584
Amortisation of prepaid land premiums	*16*	**12,028**	9,693
Auditors' remuneration		**7,700**	7,474
(Write-back of provision)/provision against inventories, net		**(8,377)**	3,183
Impairment on an amount due from an associate		**4,500**	474
Impairment on trade receivables		**48,398**	34,855
Impairment on other receivables		**22,445**	60,300
Fair value losses on financial assets at fair value through profit or loss, net		**4,132**	4,570
Employee benefits expense (excluding directors' remuneration – *note 7*):			
Wages, salaries and benefits in kind		**893,723**	642,307
Net pension scheme contributions		**83,063**	50,528
		976,786	692,835
Foreign exchange differences, net		**(7,237)**	1,094
Net rental income		**(40,382)**	(33,753)
Investment income:			
Listed		**–**	(1,116)
Unlisted		**(3,271)**	(1,937)

5. PROFIT FROM OPERATING ACTIVITIES *(continued)*

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

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

*** Included in the proceeds from the disposal of property, plant and equipment for the year ended 31 December 2004 were compensations of HK$17,237,000 in aggregate received from third parties for those property, plant and equipment that were demolished or given up.

6. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**140,185**	123,744
Interest on convertible bonds	**6,755**	7,193
Interest on other loans	**3,975**	8,215
Imputed interest on an interest-free other loan from a minority shareholder	**5,609**	–
Total finance costs	**156,524**	139,152
Less: Interest capitalised in property, plant and equipment	**(304)**	(1,104)
	156,220	138,048

7. 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 Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Fees:		
Executive directors	**560**	640
Independent non-executive directors	**550**	540
	1,110	1,180
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**6,087**	5,103
Pension scheme contributions	**335**	260
	6,422	5,363
	7,532	6,543

(a) Independent non-executive directors

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

	2005	2004
	HK$'000	HK$'000
Mr. Lau Hon Chuen, Ambrose	**100**	100
Dr. Lee Tung Hai, Leo	**120**	120
Mr. Wang Xian Zhang	**120**	120
Mr. Wu Jiesi	**110**	100
Mr. Robert A. Theleen	**100**	100
	550	540

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

7. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2005				
Mr. Yi Xi Qun	–	2,341	97	2,438
Mr. Zhang Hong Hai	–	1,623	88	1,711
Mr. Li Fu Cheng	80	–	–	80
Mr. Bai Jin Rong	80	–	–	80
Mr. Guo Ying Ming	80	–	–	80
Mr. Liu Kai	–	1,359	75	1,434
Mr. Zheng Wan He	80	–	–	80
Mr. Li Man	80	–	–	80
Mr. Guo Pu Jin	80	–	–	80
Mr. Zhou Si	80	–	–	80
Mr. E Meng	–	764	75	839
	560	6,087	335	6,982
Year ended 31 December 2004				
Mr. Yi Xi Qun	–	2,274	97	2,371
Mr. Zhang Hong Hai	–	1,513	88	1,601
Mr. Li Fu Cheng	80	–	–	80
Mr. Guo Ying Ming	80	–	–	80
Mr. Liu Kai	–	1,316	75	1,391
Mr. Zheng Wan He	80	–	–	80
Mr. Guo Pu Jin	80	–	–	80
Mr. Li Man	80	–	–	80
Mr. Bao Zong Ye	80	–	–	80
Mr. Wei En Hong	80	–	–	80
Mr. Bi Yu Xi	–	–	–	–
Mr. Li Zhong Gen	80	–	–	80
	640	5,103	260	6,003

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2004: three) directors. Details of the remuneration of the five highest paid employees for the year are set out below:

	2005 HK$'000	2004 HK$'000
Salaries, allowances and benefits in kind	**7,387**	7,887
Performance related bonuses	**–**	–
Pension scheme contributions	**347**	342
	7,734	8,229

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

	2005 Number of employees	2004 Number of employees
Nil – HK$1,000,000	**1**	–
HK$1,000,001 – HK$1,500,000	**2**	2
HK$1,500,001 – HK$2,000,000	**1**	2
HK$2,000,001 – HK$2,500,000	**1**	1
	5	5

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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.

	Group	
	2005	2004
	HK$'000	HK$'000
Continuing operations:		
Current – PRC		
Hong Kong	**165**	712
Mainland China	**200,060**	239,301
(Overprovision)/underprovision in prior years	**(23,765)**	5
Current – Overseas	**1,097**	486
Deferred – *note 40*	**(2,471)**	(7,348)
Tax charge from continuing operations	**175,086**	233,156
Discontinued operation:		
Current – Mainland China, the PRC	**–**	1,693
Deferred – *note 40*	**–**	(5,380)
Tax credit from the discontinued operation – *note 10(a)*	**–**	(3,687)
Total tax charge for the year	**175,086**	229,469

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9. TAX *(continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(income) 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 – 2005

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

9. TAX *(continued)*

Group – 2004

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(141,952)		1,029,007		7,174		894,229	
Tax at the statutory tax rate	(24,841)	17.5	339,573	33.0	2,152	30.0	316,884	35.4
Lower tax rate for specific provinces or local authority	–	–	(85,686)	(8.3)	(1,530)	(21.3)	(87,216)	(9.7)
Adjustments in respect of current tax of previous periods	–	–	5	–	–	–	5	–
Profit and losses attributable to jointly-controlled entities and associates	6,691	(4.7)	(33,831)	(3.3)	–	–	(27,140)	(3.0)
Income not subject to tax	(12,220)	8.6	(72,567)	(7.1)	(86)	(1.2)	(84,873)	(9.5)
Expenses not deductible for tax	20,917	(14.7)	19,179	1.9	307	4.3	40,403	4.5
Tax losses not recognised as deferred tax assets	10,387	(7.3)	66,004	6.4	764	10.6	77,155	8.6
Tax losses utilised from previous periods	(6)	–	(4,622)	(0.4)	(1,121)	(15.6)	(5,749)	(0.6)
Tax charge at the Group's effective rate	928	(0.6)	228,055	22.2	486	6.8	229,469	25.7

In accordance with the relevant tax rules and regulations in the PRC, certain of the Company's subsidiaries enjoy income tax exemptions and reductions.

10. DISCONTINUED OPERATION

On 6 December 2004, the Company publicly announced that it had entered into two separate share transfer agreements on 3 December 2004 with 北京三元集團有限責任公司 ("San Yuan Group"), a related company, and BHL, the ultimate holding company, to conditionally dispose of all its interest in BE Dairy, a wholly-owned subsidiary of the Company, as to 65.46% and 34.54% to San Yuan Group and BHL at cash considerations of RMB323,621,000 and RMB237,392,000, respectively. The disposal transactions were approved by the shareholders of the Company in the extraordinary general meeting held on 7 January 2005 and the Company ceased to have control over BE Dairy since that day.

In accordance with the share transfer agreement entered into with San Yuan Group, the cash consideration of RMB323,621,000 is to be settled by three instalments, with the first instalment of RMB258,896,800, the second and final instalments of RMB32,362,100 each being due on 12 January 2005, 31 January 2006 and 31 December 2006, respectively. As at 31 December 2005, RMB216,630,000 of the first instalment had been settled and the remaining portion of RMB42,266,800 was settled subsequent to the balance sheet date in March 2006. The whole second instalment, which has been overdue, remains unsettled as at the date of approval of these financial statements. Despite this, in the opinion of the directors, no impairment loss on the amount due is foreseen.

In accordance with the share transfer agreement entered into with BHL, the cash consideration of RMB237,392,000 is to be settled by four instalments, with the first instalment of RMB23,739,200, the second, third and final instalments of RMB71,217,600 each being due on 12 January 2005, 7 January 2006, 7 January 2007 and 7 January 2008, respectively. As at 31 December 2005, the first instalment had been fully settled but the whole amount of the second instalment, which has been overdue, remains unsettled as at the date of approval of these financial statements. Despite this, in the opinion of the directors, no impairment loss on the amount due is foreseen.

The major asset of BE Dairy is its 55% equity interest in Sanyuan Foods, a company whose shares are listed on the Shanghai Stock Exchange and principally engaged in the production and sale of dairy products in Mainland China. Dairy operation represented a separate major business segment of the Group and was solely undertaken by Sanyuan Foods. As at 31 December 2004, Sanyuan Foods was classified as a disposal group held for sale.

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10. DISCONTINUED OPERATION *(continued)*

(a) The results of the discontinued operation dealt with in the consolidated financial statements for the years ended 31 December 2005 and 2004 are summarised as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Turnover	**–**	885,684
Expenses	**–**	(1,010,217)
Loss before tax of the discontinued operation	**–**	(124,533)
Gain on disposal of the discontinued operation	**79,987**	–
Profit/(loss) before tax from the discontinued operation	**79,987**	(124,533)
Tax:		
Related to loss before tax of the discontinued operation	**–**	3,687
Related to gain on disposal of the discontinued operation	**–**	–
	–	3,687
Profit/(loss) for the year from the discontinued operation	**79,987**	(120,846)

10. DISCONTINUED OPERATION *(continued)*

(b) The major classes of assets and liabilities of the discontinued operation as at the balance sheet date are as follows:

		Group	
	Notes	**2005** **HK$'000**	2004 HK$'000
Assets:			
Property, plant and equipment	*14*	–	665,406
Investment properties	*15*	–	2,420
Prepaid land premiums	*16*	–	60,950
Goodwill	*17*	–	2,196
Interests in jointly-controlled entities		–	125,113
Available-for-sale financial assets		–	22,892
Inventories		–	85,280
Trade and bills receivables		–	120,424
Other receivables		–	81,650
Taxes recoverable		–	3,649
Pledged bank balances		–	156
Cash and cash equivalents		–	134,597
Assets of a disposal group classified as held for sale	*33*	–	1,304,733
Liabilities:			
Trade and bills payables		–	(64,171)
Other payables and accruals		–	(166,592)
Bank and other borrowings		–	(262,281)
Deferred tax liabilities	*40*	–	(751)
Liabilities directly associated with assets of a disposal group classified as held for sale	*33*	–	(493,795)
Net assets attributable to the discontinued operation		–	810,938

10. DISCONTINUED OPERATION *(continued)*

(c) The net cash flows of the discontinued operation dealt with in the consolidated financial statements for the years ended 31 December 2005 and 2004 are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Net cash inflow from operating activities	**–**	41,910
Net cash outflow from investing activities	**–**	(47,014)
Net cash inflow from financing activities	**–**	7,183
Net cash inflow incurred by the discontinued operation	**–**	2,079

(d) Earnings/(loss) per share from the discontinued operation

	2005	2004
Basic from the discontinued operation	**HK$0.13**	(HK$0.11)
Diluted from the discontinued operation	**N/A**	N/A

The calculation of basic earnings/(loss) per share amounts from the discontinued operation is based on:

	2005	2004
Profit/(loss) for the year attributable to shareholders of the Company from the discontinued operation	**HK$79,987,000**	(HK$68,704,000)
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**622,500,000**	622,500,000

11. PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The loss for the year attributable to shareholders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$111,190,000 (2004: profit of HK$383,143,000) *(note 36(b))*.

12. DIVIDENDS

	2005 **HK$'000**	2004 HK$'000
Interim – HK$0.10 (2004: HK$0.10) per ordinary share	**62,250**	62,250
Proposed final – HK$0.20 (2004: HK$0.20) per ordinary share	**124,500**	124,500
	186,750	186,750

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to shareholders of the Company, adjusted to reflect the effect of the convertible bonds issued by Yanjing Brewery, a subsidiary of the Company, on the profit for the year attributable to shareholders of the Company assuming the exercise or conversion of all outstanding convertible bonds issued by Yanjing Brewery, and the weighted average number of ordinary shares in issue during the year.

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

The calculations of the basic and diluted earnings per share amounts for the year ended 31 December 2005 are based on the following data:

Earnings:

		2005 **HK$'000**	2004 HK$'000
(i)	For profit for the year:		
	Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	**570,422**	503,188
	Interest expense for the year relating to the liability component of the convertible bonds of Yanjing Brewery, net of current tax	**4,526**	4,819
	Decrease in profit for the year of Yanjing Brewery attributable to the Group, as a result of the dilution of interest in Yanjing Brewery assuming the exercise of all the outstanding convertible bonds issued by Yanjing Brewery	**(12,466)**	(14,077)
	Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	**562,482**	493,930

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

Earnings: *(continued)*

	2005	2004
	HK$'000	HK$'000
(ii) For profit for the year from continuing operations:		
Profit for the year from continuing operations attributable to shareholders of the Company, used in the basic earnings per share calculation	**490,435**	571,892
Interest expense for the year relating to the liability component of the convertible bonds of Yanjing Brewery, net of current tax	**4,526**	4,819
Decrease in profit for the year of Yanjing Brewery attributable to the Group, as a result of the dilution of interest in Yanjing Brewery assuming the exercise of all the outstanding convertible bonds issued by Yanjing Brewery	**(12,466)**	(14,077)
Profit for the year from continuing operations attributable to shareholders of the Company, used in the diluted earnings per share calculation	**482,495**	562,634

Number of ordinary shares:

	2005	2004
Weighted average number of ordinary shares in issue during the year used in basic and diluted earnings per share calculations	**622,500,000**	622,500,000

The exercise of the outstanding share options of the Company, Beijing Development and Xteam, subsidiaries of the Company, during the years ended 31 December 2005 and 2004 did not have a diluting effect on the Group's basic earnings per share for these years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Expressway and related structures HK$'000 *(note (a))*	Buildings HK$'000 *(notes (a), (c), (d), (e))*	Leasehold improvements HK$'000	Plant and machinery HK$'000 *(note (c))*	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 *(note (b))*	Hotel properties HK$'000	Total HK$'000
Year ended 31 December 2005										
At 31 December 2004 and 1 January 2005:										
Cost		1,205,746	2,963,825	413,991	3,986,313	373,732	243,089	540,049	–	9,726,745
Accumulated depreciation and impairment		(167,671)	(685,981)	(306,648)	(1,906,982)	(201,795)	(119,097)	–	–	(3,388,174)
Net carrying amount		1,038,075	2,277,844	107,343	2,079,331	171,937	123,992	540,049	–	6,338,571
Net carrying amount:										
At 1 January 2005		1,038,075	2,277,844	107,343	2,079,331	171,937	123,992	540,049	–	6,338,571
Acquisition of subsidiaries	44	–	377,047	1,705	445,436	8,089	8,572	109,135	–	949,984
Additions		–	48,822	56,316	197,093	61,282	29,164	973,935	–	1,366,612
Transfer from construction in progress		–	625,748	49,177	458,739	32,829	3,737	(1,170,230)	–	–
Transfer to investment properties	15	–	(88,073)	–	–	–	–	–	–	(88,073)
Transfer to non-current assets held for sale	33	–	(15,222)	–	–	–	–	–	–	(15,222)
Depreciation provided for the year		(32,890)	(95,525)	(39,103)	(342,117)	(58,911)	(26,315)	–	–	(594,861)
Impairment during the year recognised in the income statement		–	(3,780)	–	–	–	–	–	–	(3,780)
Fair value gain on revaluation upon transfer to investment properties		–	12,712	–	–	–	–	–	–	12,712
Disposals		–	(11,303)	(9,433)	(7,070)	(9,756)	(5,590)	(15,299)	–	(58,451)
Disposal of subsidiaries	45	–	(11,755)	–	(4,422)	(402)	(1,652)	–	–	(18,231)
Reclassifications		–	20,226	–	(36,403)	16,131	46	–	–	–
Exchange realignment		21,064	56,808	2,577	51,280	3,488	2,541	9,998	–	147,756
At 31 December 2005		**1,026,249**	**3,193,549**	**168,582**	**2,841,867**	**224,687**	**134,495**	**447,588**	**–**	**8,037,017**
At 31 December 2005:										
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**

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

Group *(continued)*

	Notes	Expressway and related structures HK$'000 *(note (a))*	Buildings HK$'000 *(notes (a), (c), (d), (e))*	Leasehold improvements HK$'000	Plant and machinery HK$'000 *(note (c))*	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 *(note (b))*	Hotel properties HK$'000	Total HK$'000
Year ended 31 December 2004										
At 1 January 2004:										
Cost or valuation		1,204,937	2,883,608	345,633	3,942,455	274,444	273,238	556,774	17,759	9,498,848
Accumulated depreciation and impairment		(137,603)	(562,917)	(292,324)	(1,737,513)	(136,047)	(134,943)	–	–	(3,001,347)
Net carrying amount		1,067,334	2,320,691	53,309	2,204,942	138,397	138,295	556,774	17,759	6,497,501
Net carrying amount:										
At 1 January 2004		1,067,334	2,320,691	53,309	2,204,942	138,397	138,295	556,774	17,759	6,497,501
Acquisition of subsidiaries	44	–	191,482	1,804	143,424	7,668	9,267	985	–	354,630
Additions		–	181,913	23,363	158,797	47,378	31,520	616,194	–	1,059,165
Transfer from construction in progress		809	155,644	64,397	272,476	28,282	7,663	(529,271)	–	–
Transfer to investment properties	15	–	(16,544)	–	–	–	–	(43,793)	–	(60,337)
Depreciation provided for the year		(30,068)	(143,992)	(26,199)	(311,168)	(48,439)	(33,119)	–	–	(592,985)
Impairment during the year recognised in the income statement		–	(28,370)	–	(1,016)	–	–	–	–	(29,386)
Disposals		–	(81,910)	(8,481)	(5,732)	(1,284)	(9,561)	(25,074)	(4,234)	(136,276)
Attributable to the discontinued operation	10(b)	–	(292,472)	–	(306,554)	–	(17,911)	(34,944)	(13,525)	(665,406)
Disposal of subsidiaries	45	–	(8,598)	(850)	(75,838)	(65)	(2,162)	(822)	–	(88,335)
At 31 December 2004		1,038,075	2,277,844	107,343	2,079,331	171,937	123,992	540,049	–	6,338,571

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

(a) The expressway and related structures, and buildings included above as at 31 December 2005 are held under the following lease terms:

Group

	Hong Kong HK$'000	**Elsewhere** HK$'000	**Total** HK$'000
Cost:			
Long term leases	51,580	–	51,580
Medium term leases	43,500	5,107,728	5,151,228
	95,080	5,107,728	5,202,808

(b) Construction in progress

Construction in progress represents the following major projects which remained incomplete as at 31 December 2005:

Group

Name of project	**Expected year of completion**	HK$'000
Wangfujing Beixia	2006	189,550
Brewery production plants	2006	212,932
Other projects	Various	45,106
		447,588

(c) Certain of the above buildings, plant and machinery with an aggregate net carrying amount at the balance sheet date of HK$275,857,000 (2004: HK$519,673,000) were pledged to secure certain bank and other loans granted to the Group (*note 37(d)(i)*).

(d) Certain buildings of the Group and the Company were reclassified from investment properties during the year ended 31 December 2000 at the then carrying amount of HK$41,000,000, as valued on 31 December 1999 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on the open market value basis. Had the carrying values of these buildings been carried at historical cost less accumulated depreciation, their net carrying amounts would have been HK$34,380,000 (2004: HK$35,304,000).

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

(e) The impairment losses recognised during the year ended 31 December 2004 mainly represent the write-down of certain properties in Hong Kong in the "Corporate and others" segment to their recoverable amounts upon their being transferred to investment properties during that year. The recoverable amount was based on fair value less costs to sell and was determined based on valuations performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers. The valuations undertaken were based on the open market value basis using the Direct Comparison Approach.

Company

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2005					
At 31 December 2004 and 1 January 2005:					
Cost	42,319	10,008	5,354	2,056	59,737
Accumulated depreciation	(4,248)	(9,206)	(4,565)	(1,050)	(19,069)
Net carrying amount	38,071	802	789	1,006	40,668
Net carrying amount:					
At 1 January 2005	38,071	802	789	1,006	40,668
Additions	1,292	1,961	393	–	3,646
Depreciation provided for the year	(972)	(148)	(323)	(262)	(1,705)
Disposals	–	(615)	–	–	(615)
At 31 December 2005	**38,391**	**2,000**	**859**	**744**	**41,994**
At 31 December 2005:					
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**

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

Company *(continued)*

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2004					
At 1 January 2004:					
Cost	42,319	9,239	4,838	2,056	58,452
Accumulated depreciation	(3,286)	(9,129)	(4,303)	(789)	(17,507)
Net carrying amount	39,033	110	535	1,267	40,945
Net carrying amount:					
At 1 January 2004	39,033	110	535	1,267	40,945
Additions	–	769	516	–	1,285
Depreciation provided for the year	(962)	(77)	(262)	(261)	(1,562)
At 31 December 2004	38,071	802	789	1,006	40,668

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

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15. INVESTMENT PROPERTIES

		Group		Company	
		2005	2004	**2005**	2004
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Carrying amount at 1 January		**342,722**	277,461	**134,000**	134,000
Transfer from buildings	*14*	**88,073**	16,544	**–**	–
Transfer from construction in progress	*14*	**–**	43,793	**–**	–
Disposals		**(1,008)**	(6,441)	**–**	–
Attributable to the discontinued operation	*10(b)*	**–**	(2,420)	**–**	–
Fair value gains on revaluation, net		**13,635**	13,785	**–**	–
Exchange realignment		**3,398**	–	**–**	–
Carrying amount at 31 December		**446,820**	342,722	**134,000**	134,000

(a) Investment properties of the Group as at 31 December 2005 are held under the following lease terms:

Group

	Hong Kong	**Elsewhere**	**Total**
	HK$'000	HK$'000	HK$'000
Long term leases	49,650	–	49,650
Medium term leases	9,000	388,170	397,170
	58,650	388,170	446,820

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

15. INVESTMENT PROPERTIES *(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	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Gross rental income	**25,954**	22,249	**6,353**	6,598
Direct expenses	**(4,534)**	(3,700)	**(582)**	(742)
Net rental income	**21,420**	18,549	**5,771**	5,856

(c) In the prior year, as at 31 December 2004, one of the Group's investment properties with a carrying amount at that date of HK$6,500,000 was pledged to secure a bank loan granted to the Group (*note 37(d)*).

(d) At 31 December 2005, the investment properties were revalued by DTZ Debenham Tie Leung Limited and CB Richard Ellis Limited, independent professionally qualified valuers, on the open market income capitalisation basis or the open market value basis using the Direct Comparison Approach.

16. PREPAID LAND PREMIUMS

Group

	Notes	2005 HK$'000	2004 HK$'000
Carrying amount at 1 January		**438,369**	445,719
Acquisition of subsidiaries	*44*	**19,781**	74,368
Additions		**9,569**	18,771
Transfer to non-current assets held for sale	*33*	**(4,097)**	–
Amortisation provided for the year		**(12,028)**	(9,693)
Disposals		**(68,825)**	(24,787)
Attributable to the discontinued operation	*10(b)*	**–**	(60,950)
Disposal of subsidiaries	*45*	**–**	(5,059)
Exchange realignment		**7,235**	–
Carrying amount at 31 December		**390,004**	438,369
Less: Portion classified as current assets		**(12,684)**	(8,176)
Non-current portion		**377,320**	430,193

All leasehold land of the Group as at 31 December 2005 are held under medium term leases.

17. 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	**2005 HK$'000**	2004 HK$'000
At 1 January:			
Cost		**330,198**	302,767
Accumulated impairment		**–**	(2,356)
Net carrying amount		**330,198**	300,411
Net carrying amount:			
At 1 January		**330,198**	300,411
Acquisition of subsidiaries	*44*	**8,916**	27,052
Acquisition of minority interests		**3,061**	4,761
Reclassification from interests in jointly-controlled entities as a result of the related jointly-controlled entities becoming subsidiaries during the year	*20(a)*	**–**	17,682
Impairment during the year recognised in the income statement		**(59,658)**	(17,512)
Partial disposal of subsidiaries		**(7,764)**	–
Attributable to the discontinued operation	*10(b)*	**–**	(2,196)
Exchange realignment		**1,024**	–
At 31 December		**275,777**	330,198
At 31 December:			
Cost		**335,435**	330,198
Accumulated impairment		**(59,658)**	–
Net carrying amount		**275,777**	330,198

17. GOODWILL *(continued)*

As detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of 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, is as follows:

Group

	2005 **HK$'000**	2004 HK$'000
At 1 January:		
Cost	**429,693**	429,693
Accumulated impairment	**(5,132)**	(5,132)
Net carrying amount	**424,561**	424,561
Net carrying amount:		
At 1 January	**424,561**	424,561
Disposal of subsidiaries	**(79,457)**	–
At 31 December	**345,104**	424,561
At 31 December:		
Cost	**345,104**	429,693
Accumulated impairment	**–**	(5,132)
Net carrying amount	**345,104**	424,561

17. GOODWILL *(continued)*

Impairment testing of goodwill

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 as follows:

Group

	Notes	**2005 HK$'000**	2004 HK$'000
Continuing operations:			
Retail operation	*(i)*	**34,520**	33,822
Expressway and toll road operations	*(ii)*	**21,687**	21,687
Telecommunications and IT related services and products operation	*(iii)*	**132,230**	132,622
Geothermal energy systems operation	*(iii)*	**44,625**	104,283
Others		**42,715**	37,784
		275,777	330,198
Discontinued operation – Dairy operation	*10(b)*	**–**	2,196
Total goodwill		**275,777**	332,394

(i) The recoverable amounts of the relevant business units in the retail operation have been determined based on (a) the fair value of the assets and liabilities of the relevant business unit less the costs to sell; and (b) a value in use calculation using a cash flow projection which is based on financial budgets approved by management covering a period of 5 years. The discount rate applied to the cash flow projection is 16%, which reflects the average discount rate for the relevant industry and the business risk of the relevant business unit.

17. GOODWILL *(continued)*

Impairment testing of goodwill *(continued)*

(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 projection is made based on financial budgets approved by senior management covering a period of approximately 16 years, which represents the remaining period of the operating right of the relevant business unit. The discount rate applied to the cash flow projection is 13.5%, which is based on the average discount rate for the toll road industry and the business risk of the relevant business unit. No growth is expected after the first five-year period in the cash flow projection.

(iii) The recoverable amounts of those business operations have been determined by reference to business valuations performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial budgets approved by management covering a period of 5 years. The discount rate applied to the cash flow projection is 25%, which is determined by reference to the average discount rates for the relevant industries and the business risks of the relevant business units.

During the year ended 31 December 2005, an impairment loss of HK$59,658,000 (2004: HK$17,512,000) has been recognised in the income statement for the goodwill attributable to the Group's geothermal energy systems operation (2004: a business unit of the Group's dairy operation) as the senior management of the Group believes that the recoverable amount of the relevant business unit is less than the carrying amount with reference to the business valuation.

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

17. GOODWILL *(continued)*

Impairment testing of goodwill *(continued)*

Key assumptions used in value in use calculations
The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- **Budgeted turnover**

  Budgeted turnover are based on the following assumptions:

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

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

- **Budgeted gross margins**

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

- **Business environment**

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

18. OTHER INTANGIBLE ASSETS

Group

	Operating concessions HK$'000 (note (a))	Management information systems HK$'000	Licences HK$'000	Deferred development costs* HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2005					
At 31 December 2004 and 1 January 2005:					
Cost	2,027,321	18,868	21,994	16,936	2,085,119
Accumulated amortisation and impairment	(503,268)	(5,974)	(2,170)	(13,294)	(524,706)
Net carrying amount	1,524,053	12,894	19,824	3,642	1,560,413
Net carrying amount:					
At 1 January 2005	1,524,053	12,894	19,824	3,642	1,560,413
Acquisition of a subsidiary – *note 44*	47,596	–	–	–	47,596
Additions	–	–	471	2,197	2,668
Amortisation provided for the year	(102,605)	(1,887)	(1,491)	–	(105,983)
Impairment during the year recognised in the income statement	–	–	(12,000)	(5,870)	(17,870)
Exchange realignment	30,650	212	149	31	31,042
At 31 December 2005	**1,499,694**	**11,219**	**6,953**	**–**	**1,517,866**
At 31 December 2005:					
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**

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18. OTHER INTANGIBLE ASSETS *(continued)*

Group *(continued)*

	Operating concessions HK$'000 *(note (a))*	Management information systems HK$'000	Licences HK$'000	Deferred development costs* HK$'000 *(note (b))*	Total HK$'000
Year ended 31 December 2004					
At 1 January 2004:					
Cost	2,027,321	18,868	9,994	13,294	2,069,477
Accumulated amortisation and impairment	(401,901)	(4,088)	(735)	(13,294)	(420,018)
Net carrying amount	1,625,420	14,780	9,259	–	1,649,459
Net carrying amount:					
At 1 January 2004	1,625,420	14,780	9,259	–	1,649,459
Additions	–	–	12,000	3,642	15,642
Amortisation provided for the year	(101,367)	(1,886)	(1,435)	–	(104,688)
At 31 December 2004	1,524,053	12,894	19,824	3,642	1,560,413

* Internally generated

18. OTHER INTANGIBLE ASSETS *(continued)*

(a) 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 2005, the remaining amortisation period of this operating concession is approximately 13 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 2005, the remaining amortisation period of this operating concession is approximately 16 years and 4 months.

18. OTHER INTANGIBLE ASSETS *(continued)*

(a) Operating concessions *(continued)*

(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% owned subsidiary acquired during the year, 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 2004, LQX Tourism was a 75% indirectly owned jointly-controlled entity of the Company and became a subsidiary of the Company upon the acquisition of a 100% equity interest in an intermediate holding company of LQX Tourism by the Group during the year ended 31 December 2005, further details of which are set out in note 52(b)(iv) to the financial statements. Following the acquisition, the operation concession became an asset of the Group.

As at 31 December 2005, the remaining amortisation period of this operating concession was approximately 32 years and 7 months.

18. OTHER INTANGIBLE ASSETS *(continued)*

(b) Deferred development costs

In 2002, government assistance of HK$4,710,000 was received from a government authority of the PRC in relation to a technology development project undertaken by the Group and was accounted for as a deduction in arriving at the carrying amount of the deferred development costs as at 31 December 2004.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**3,711,852**	4,100,247
Due from subsidiaries	**2,480,986**	2,890,020
Loans to a subsidiary	**50,000**	–
Due to subsidiaries	**(741,785)**	(813,280)
	5,501,053	6,176,987
Impairment	**(441,174)**	(261,751)
	5,059,879	5,915,236

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The loans to a subsidiary comprise two loans of HK$12 million and HK$38 million, respectively, which are unsecured, bear interest at a rate of 4% per annum and are repayable in November 2006. The carrying amounts of these amounts due from/to subsidiaries and loans to a subsidiary approximate to their fair values.

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19. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
Beijing Yanjing Brewery Company Limited *	PRC/ Mainland China	RMB1,019,446,039	–	54.46	Production and sale of beer
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan") # δ	PRC/ Mainland China	RMB250,000,000	–	28.52†	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司(Baotou Yanjing Brewery Company Limited) ("Yanjing Baotou")	PRC/ Mainland China	RMB193,219,374	–	42.76†	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	RMB160,776,000	–	41.15†	Production and sale of beer
燕京啤酒(赤峰)有限責任公司(Yanjing Brewery (Chifeng) Company Limited)	PRC/ Mainland China	RMB153,070,200	–	42.70†	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	–	52.23	Production and sale of beer

19. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
燕京啤酒(衡陽)有限公司 (Yanjing Brewery (Hengyang) Company Limited)	PRC/ Mainland China	RMB180,660,000	–	51.06	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	–	50.45	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	–	41.35†	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
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	–	30.35†	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	–	53.18	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	–	52.51	Production and sale of beer

19. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
燕京啤酒(浙江仙都)有限公司 (Yanjing Brewery (Zhejiang Xiandu) Company Limited)	PRC/ Mainland China	RMB133,350,000	–	40.84†	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	–	51.74	Production and sale of beer
長沙華南燕京啤酒銷售有限公司 (Changsha Huanan Yanjing Brewery Sales Co., Ltd.)	PRC/ Mainland China	RMB20,000,000	–	51.74	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	–	40.84†	Production and sale of beverages
燕京啤酒(仙桃)有限公司 (Yanjing Brewery (Xiantao) Company Limited) δ	PRC/ Mainland China	RMB100,000,000	–	54.27	Production and sale of beer
廣東燕京啤酒有限公司 (Guangdong Yanjing Brewery Company Limited) δ	PRC/ Mainland China	RMB100,000,000	–	65.84	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

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19. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
燕京惠泉啤酒(撫州)有限公司 (Yanjing Huiquan Brewery (Huzhou) Co., Ltd.) δ	PRC/ Mainland China	RMB130,000,000	–	28.46†	Production and sale of beer
Beijing Wangfujing Department Store (Group) Co., Ltd. ("Wangfujing") #	PRC/ Mainland China	RMB392,973,026	–	50.1	Department store operations
北京雙安商場有限責任公司 (Beijing Shuang An Department Store Co., Ltd.) ("Shuang An")	PRC/ Mainland China	RMB280,000,000	–	50.1	Department store operations
成都王府井百貨有限公司 (Chengdu Wang Fu Jing Department Store Co., Ltd.)	PRC/ Mainland China	RMB50,000,000	–	35.07†	Department store operations and property development
廣州王府井百貨大樓有限責任公司 (Guangzhou Wangfujing Department Store Company Limited)	PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations
武漢王府井百貨有限責任公司 (Wuhan Wangfujing Department Store Company Limited)	PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations
長沙王府井百貨有限責任公司 (Changsha Wangfujing Department Store Co., Ltd.)	PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations

19. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
包頭王府井百貨有限責任公司 (Baotou Wangfujing Department Store Co., Ltd.)	PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations
重慶王府井百貨有限責任公司 (Chongqing Wangfujing Department Store Co., Ltd.)	PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations
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. [δ]	PRC/ Mainland China	RMB120,000,000	–	75	Operations of tourism businesses
恆有源科技發展有限公司 (Ever Source Scientific and Technology Development Co., Ltd.)	PRC/ Mainland China	RMB118,685,285	10.41	68.65	Production and sale of geothermal energy systems
北京北控恆有源科技發展有限公司(Beijing Enterprises Ever Source (Beijing) Company Limited) [Ω]	PRC/ Mainland China	US$3,000,000	–	69.81	Licence holding
北京永源熱泵有限責任公司 (Beijing Ever Hot Pumps Co., Ltd.) ("Ever Hot Pumps")	PRC/ Mainland China	RMB2,483,160	–	35.60[†]	Production and sale of machineries for geothermal energy systems

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19. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
北京恆有源環境系統設備安裝工程有限公司 (Beijing Ever Source Environmental Equipment Installation Co., Ltd.)	PRC/ Mainland China	RMB10,000,000	–	69.81	Installation of geothermal energy systems
Beijing Bei Kong Water Production Co., Ltd. Ω	PRC/ Mainland China	US$1,000,000	100	100	Operations of a water treatment plant
北京北控水務有限公司 (Beijing Beikong Waterworks Co., Ltd.)δ	PRC/ Mainland China	RMB100,000,000	–	99.9	Investment holding
北京宏業房地產開發有限責任公司 (Beijing Hongye Real Estate Development Co. Ltd.)	PRC/ Mainland China	RMB30,000,000	–	50.1	Property investment and development
Beijing Development (Hong Kong) Limited π	Hong Kong	HK$493,981,150	–	55.81	Investment holding
Xteam Software International Limited π	Cayman Islands/ Hong Kong	HK$37,584,718	–	30.75†	Investment holding
衝浪平台(中國)軟件技術有限公司(Xteam Software (China) Co., Limited) Ω	PRC/ Mainland China	US$3,000,000	–	30.75†	Sale of computer software and provision of related services
北京博大電信通網絡技術有限公司 ("Beijing Boda")	PRC/ Mainland China	RMB8,000,000	–	20.48†	Lease of underground optical fiber pores

19. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
北京發展物業投資管理有限公司(Beijing Development Property Investment and Management Co., Ltd.)	PRC/ Mainland China	US$4,000,000	–	47.72†	Property investment
北控軟件有限公司 (Becom Software Co., Ltd.)	PRC/ Mainland China	RMB50,000,000	–	38.17†	Provision of management information system services
北京北控電信通信息技術有限公司 (Beijing Enterprises Teletron Information Technology Co., Ltd.) Ω	PRC/ Mainland China	RMB100,000,000	–	40.18†	Construction of information networks, provision of IT technical support and consultation services
湖南教育信息服務有限公司 (Hunan Education Information Service Co., Ltd.)	PRC/ Mainland China	RMB10,000,000	–	22.88†	Construction of information networks and provision of IT technical support services
北京北控偉仕軟件工程技術有限公司 (Beijing Enterprises VST Software Technology Co., Ltd.) ("VST Software")	PRC/ Mainland China	RMB2,000,000	–	30.75†	Software development

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19. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
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. ("Investment Management")	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
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	–	43.89†	Production and sale of biochemical products

19. INTERESTS IN SUBSIDIARIES *(continued)*

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

* Domestic A shares of Yanjing Brewery are listed on the Shenzhen Stock Exchange. The shares in Yanjing Brewery held by the Group are legal person shares and cannot be traded on any stock exchange.

Domestic A shares of Yanjing Huiquan and Wangfujing are listed on the Shanghai Stock Exchange. All of the shares of Yanjing Huiquan and approximately 194,594,400 shares (or a 49.52% interest) in Wangfujing held by the Group are legal person shares and cannot be traded on any stock exchange.

π Shares of Beijing Development and Xteam are listed on the Main Board and The Growth Enterprise Market of the Stock Exchange, respectively.

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

δ Acquired/incorporated during the year.

The principal subsidiaries acquired by the Group during the year include LQX Tourism and Yanjing Huiquan, further details of the business combinations are included in notes 44 and 52(b)(iv) to the financial statements.

The principal subsidiaries disposed of by the Group during the year included Sanyuan Foods, Western Food and 北京控股磁懸浮技術發展有限公司 (Beijing Enterprises Maglev Technology Development Co., Ltd.) ("Beijing Maglev"), further details of these disposals are included in notes 10, 45 and 52(b)(v) 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.

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20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Share of net assets	**196,428**	591,829	**–**	–
Due from jointly-controlled entities	**21,564**	19,942	**516**	13,406
Due to jointly-controlled entities	**(35,074)**	(55,093)	**(14,132)**	(14,195)
	182,918	556,678	**(13,616)**	(789)

(a) The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising on the acquisition of jointly-controlled entities, is as follows:

	2005	2004
	HK$'000	HK$'000
Cost and net carrying amount at 1 January	**–**	17,682
Reclassification to goodwill arising on acquisition of subsidiaries as a result of the related jointly-controlled entities becoming subsidiaries during the year – *note 17*	**–**	(17,682)
Cost and net carrying amount at 31 December	**–**	–

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

(a) *(continued)*

As detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of the acquisitions of jointly-controlled entities 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 jointly-controlled entities prior to 1 January 2001, is as follows:

Group

	2005 **HK$'000**	2004 HK$'000
Cost and net carrying amount at 1 January	**118,431**	159,188
Disposal of a jointly-controlled entity – *note 52(b)(v)*	**(118,431)**	(40,757)
Cost and net carrying amount at 31 December	**–**	118,431

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

(c) The following is a condensed summary of financial information of the Group's jointly-controlled entities:

	2005 **HK$'000**	2004 HK$'000
SHARE OF RESULTS ATTRIBUTABLE TO THE GROUP		
Turnover	**166,432**	961,800
Other revenue	**10,350**	151,648
Total revenue	**176,782**	1,113,448
Total expenses	**(199,551)**	(1,046,742)
Profit/(loss) before tax	**(22,769)**	66,706
Tax	**(6,317)**	(10,253)
Minority interest	**2,194**	–
Profit/(loss) for the year	**(26,892)**	56,453

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

(c) *(continued)*

	2005 HK$'000	2004 HK$'000
SHARE OF ASSETS AND LIABILITIES ATTRIBUTABLE TO THE GROUP		
Property, plant and equipment	**9,172**	469,528
Operating concession (note)	**–**	36,034
Other non-current assets	**187,277**	93,338
Current assets	**137,471**	278,602
Non-current liabilities	**(97,560)**	(116,410)
Current liabilities	**(47,117)**	(176,302)
Losses in excess of investment costs not absorbed by the Group	**7,185**	7,039
Net assets	**196,428**	591,829

Note: The operating concession as at 31 December 2004 was the operating concession of LQX Tourism to sell entrance tickets and provide tourism services in Longqingxia, a scenic area in Beijing, for a period of 40 years commencing on 19 August 1998. The operating concession became an asset of the Group as detailed in note 18(a)(iii) to the financial statements.

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

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

			Percentage of			
Company name	Place of incorporation/ registration and operations	Registered capital	Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activities
北京王府井百貨商業物業管理有限公司 (Beijing Wang Fu Jing Retail Management Company Limited)	PRC/ Mainland China	US$59,600,000	25.05	50	50	Provision of retail management services
北京教育信息網服務中心有限公司 (Beijing Education Information Network Service Centre Co., Ltd.)	PRC/ Mainland China	RMB12,000,000	20.09	50	36	Provision of information network service
北京市政交通一卡通有限公司 (Beijing Municipal Administration & Communications Card Co., Ltd.)	PRC/ Mainland China	RMB50,000,000	24	44.4	43	Operations of contactless multipurpose electronics payment cards
Beijing Wang Fu Jing Yokado Commercial Co., Ltd.	PRC/ Mainland China	US$12,000,000	20.04	42.86	40	Operations of a chain network of supermarkets

The above table lists the jointly-controlled entities 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 jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

21. INTERESTS IN ASSOCIATES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost	**–**	–	**46,168**	141,742
Share of net assets	**253,206**	550,310	**–**	–
Due from associates	**9,573**	41,033	**–**	3,505
Due to associates	**(8,956)**	–	**–**	–
	253,823	591,343	**46,168**	145,247
Impairment for amounts due from associates	**(4,974)**	(474)	**–**	–
	248,849	590,869	**46,168**	145,247

(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 the acquisitions of associates before 1 January 2001 to remain eliminated against the consolidated capital reserve.

The amount of goodwill remaining in the consolidated capital reserve, arising on the acquisition of associates prior to 1 January 2001, is as follows:

Group

	2005	2004
	HK$'000	HK$'000
Cost and net carrying amount at 1 January	**150,402**	224,569
Partial disposal of an associate	**–**	(74,167)
Cost and net carrying amount at 31 December	**150,402**	150,402

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

21. INTERESTS IN ASSOCIATES *(continued)*

(c) The following is a condensed summary of financial information of the Group's associates:

	2005 HK$'000	2004 HK$'000
SHARE OF RESULTS ATTRIBUTABLE TO THE GROUP		
Turnover	**186,803**	446,024
Other revenue	**4,355**	5,046
Total revenue	**191,158**	451,070
Total expenses	**(168,162)**	(391,888)
Profit before tax	**22,996**	59,182
Tax	**(1,203)**	(8,007)
Profit for the year	**21,793**	51,175
SHARE OF ASSETS AND LIABILITIES ATTRIBUTABLE TO THE GROUP		
Property, plant and equipment	**181,888**	454,060
Other non-current assets	**73,546**	88,943
Current assets	**194,290**	248,089
Non-current liabilities	**(60,083)**	(21,169)
Current liabilities	**(132,884)**	(201,384)
Minority interests	**(3,551)**	(20,575)
Losses in excess of investment costs not absorbed by the Group	**–**	2,346
Net assets	**253,206**	550,310

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21. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of Ownership interest attributable to the Group	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Beijing 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	RMB70,017,528	34.29	33.3	35	Production and sale of magnet diagnostic and pharmaceutical products
北京機電院高技術股份有限公司 (BMEI Co., Ltd.)*	PRC/ Mainland China	RMB135,872,209	38.27	36.4	38.27	Production and sale of and mechanical electrical equipment

† The interest in this associate, which was previously directly held by the Company, was transferred to a subsidiary of the Company during the year.

π The interest in BioSino is indirectly held by the Company. Subsequent to the balance sheet date, on 27 February 2006, the H shares of BioSino were 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.

22. PLEDGED BANK BALANCES

	Group	
	2005	2004
	HK$'000	HK$'000
Pledged bank balances – *note 32*	**50,241**	53,911
Less: Portion classified as current assets	**(15,557)**	(45,168)
Non-current portion	**34,684**	8,743

(a) Short term pledged bank balances of HK$4,377,000 (2004: HK$23,785,000) were pledged to banks to secure certain short term bank loans *(note 37 (d)(ii))*.

(b) Short term pledged bank balances of HK$9,430,000 (2004: HK$21,383,000) and long term pledged bank balances of HK$8,135,000 (2004: HK$8,743,000) were pledged to banks as security for mortgage loans granted to certain purchasers of the Group's properties held for sale.

(c) Short term pledged bank balances of HK$1,750,000 (2004: Nil) and long term pledged bank balances of HK$26,549,000 (2004: Nil) were pledged to secure certain trade finance facilities granted to the Group *(note 41)*.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity investments in Hong Kong, at fair value	**250**	250	**250**	250
Unlisted equity investments, at cost	**532,758**	306,238	**141,187**	80,212
	533,008	306,488	**141,437**	80,462
Impairment	**(22,971)**	(21,432)	**–**	–
	510,037	285,056	**141,437**	80,462

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(continued)*

(a) The unlisted equity investments of available-for-sale financial assets as at 31 December 2005 included the Group's remaining 20% and 2.11% effective equity interests in Beijing Siemens, a then 40% indirectly owned associate of the Company, and Sanyuan Foods, a then 57.11% indirectly owned subsidiary of the Company, respectively. Following the Group selling its 20% and 55% equity interests in Beijing Siemens and Sanyuan Foods during the years ended 31 December 2004 and 2005, respectively, as detailed in notes 4 and 10 to the financial statements, respectively, the carrying amounts of the remaining effective equity interests in Beijing Siemens and Sanyuan Foods held by the Group, which amounted to HK$90,763,000 and HK$27,903,000, respectively, at their respective dates of disposal are accounted for as available-for-sale financial assets as the Group has neither control nor any significant influence over the two companies and no longer involves in any of their operating and financial decisions.

(b) Certain unlisted equity investments of the Group and the Company are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

24. PROPERTIES UNDER DEVELOPMENT

	Group	
	2005	2004
	HK$'000	HK$'000
At cost	**322,301**	132,032
Less: Portion classified as current assets	**(322,301)**	–
Non-current portion	**–**	132,032

25. PROPERTIES HELD FOR SALE

The carrying amount of the Group's properties held for sale that are carried at net realisable value was HK$28,713,000 (2004: HK$53,195,000) as at the balance sheet date.

As at 31 December 2004, certain of the Group's properties held for sale with an aggregate carrying amount of HK$1,250,000 were pledged to secure certain bank and other loans granted to the Group *(note 37(d))*.

26. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**1,181,061**	963,351
Work in progress	**112,234**	84,508
Finished goods	**180,007**	112,585
Trading stocks	**101,621**	79,525
	1,574,923	1,239,969

At 31 December 2005, none of the inventories was carried at fair value less cost to sell (2004: Nil).

27. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	Group	
	2005	2004
	HK$'000	HK$'000
Amounts due from customers for contract work	**25,238**	16,915
Amounts due to customers for contract work	**(48,580)**	(51,770)
	(23,342)	(34,855)
Contract costs incurred plus recognised profits less recognised losses to date	**67,695**	53,567
Less: Progress billings received and receivable	**(91,037)**	(88,422)
	(23,342)	(34,855)

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28. TRADE AND BILLS RECEIVABLES

The various group companies have different credit policies, depending on the requirements of their markets and the businesses which they operate. Certain customers are allowed to settle the construction contract sum by three annual instalments. Aged analyses of trade and bills receivables are prepared and closely monitored in order to minimise any credit risk associated with receivables.

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**769,933**	755,437	**4,844**	3,742
One to two years	**112,168**	79,490	**–**	–
Two to three years	**66,728**	15,651	**–**	–
Over three years	**13,082**	8,766	**–**	–
	961,911	859,344	**4,844**	3,742
Less: Portion classified as current assets	**(928,709)**	(790,034)	**(4,844)**	(3,742)
Non-current portion	**33,202**	69,310	**–**	–

29. OTHER RECEIVABLES

		Group		Company	
		2005	2004	**2005**	2004
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments		**46,812**	24,243	**1,632**	4,541
Deposits and other debtors		**592,822**	867,382	**3,286**	154,438
Due from holding companies	*30*	**435,383**	7,992	**219,220**	1,883
Due from fellow subsidiaries	*30*	**29,108**	–	**29,108**	–
Due from related companies	*30*	**264,723**	102,623	**122,778**	21,670
		1,368,848	1,002,240	**376,024**	182,532
Less: Portion classified as current assets		**(1,055,066)**	(825,359)	**(236,080)**	(178,477)
Non-current portion		**313,782**	176,881	**139,944**	4,055

29. OTHER RECEIVABLES *(continued)*

(a) The non-current portion of other receivables of the Group as at 31 December 2005 mainly included the following:

(i) the amortised cost of the amounts due from the ultimate holding company, an intermediate holding company and a fellow subsidiary of the Company in an aggregate amount of RMB267,997,000 (approximately HK$257,483,000) in respect of their acquisitions of the Company's equity interests in BE Dairy, BE Tourism and Beijing Maglev. Further details of the transactions are set out in notes 10 and 52(b)(v) to the financial statements.

(ii) an investment deposit of HK$36,743,000 paid by the Group for a new investment in Mainland China.

(b) The non-current portion of the Group's other receivables as at 31 December 2004 mainly included the following:

(i) an investment deposit of HK$61,715,000 paid for the acquisition of an additional 14.2244% equity interest in Yanjing Huiquan by Yanjing Brewery from other five shareholders of Yanjing Huiquan. The acquisition of Yanjing Huiquan was approved by relevant PRC government authorities and completed in March 2005, and Yanjing Huiquan became a subsidiary of the Group since then.

(ii) investment deposits of HK$95,112,000 in aggregate paid by the Group for certain new investments in Mainland China.

(c) Included in the Group's deposits and other debtors as at the balance sheet date is an aggregate amount of HK$90,346,000 (2004: HK$139,759,000) 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.

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

The amounts due from/to holding companies are unsecured, interest-free and have no fixed terms of repayment, except that an aggregate amount of RMB421,336,000 (approximately HK$404,824,000), being the amortised cost of the amounts due from BHL and Beijing Holdings (BVI) Limited of HK$205,128,000 and HK$226,716,000, respectively, in respect of their respective acquisitions of the Group's equity interests in BE Dairy and BE Tourism, are repayable by instalments as detailed in notes 10 and 52(b)(v) to the financial statements.

The amounts due from/to fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except that an amount of RMB24,774,000 (approximately HK$23,821,000), being the amortised cost of the amount due from Canfort Investment Limited of HK$25,705,000 in respect of its acquisitions of the Group's equity interest in Beijing Maglev, is repayable by instalments as detailed in note 52(b)(v) to the financial statements.

The amounts due from/to related companies are unsecured, interest-free and have no fixed terms of repayment, except for an amount of RMB105,199,000 (approximately HK$100,999,000), being the amortised cost of HK$106,991,000 of the amount due from San Yuan Group in respect of its acquisition of the Company's 65.46% equity interest in BE Dairy. Further details of which are set out in note 10 to the financial statements.

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

31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity investments in Hong Kong	**16,682**	21,937	**5,760**	9,366
Unlisted equity investments in Mainland China	**–**	290	**–**	–
Unlisted fund	**28,869**	27,975	**28,869**	27,725
	45,551	50,202	**34,629**	37,091

The above equity investments as at 31 December 2005 were classified as held for trading.

32. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**2,917,382**	2,990,437	**24,685**	83,168
Cash equivalents	**59,326**	41,136	**59,326**	41,136
Time deposits	**581,588**	1,163,802	**108,496**	365,155
	3,558,296	4,195,375	**192,507**	489,459
Less: Pledged bank balances – *note 22*	**(50,241)**	(53,911)	**–**	–
Cash and cash equivalents	**3,508,055**	4,141,464	**192,507**	489,459

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in RMB amounted to HK$2,745,914,000 (2004: HK$2,729,703,000). 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.

33. ASSETS OF A DISPOSAL GROUP AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DIRECTLY ASSOCIATED LIABILITIES

Group

	Notes	**2005 HK$'000**	2004 HK$'000
Assets of a disposal group classified as held for sale	*10(b)*	**–**	1,304,733
Non-current assets classified as held for sale		**19,319**	–
Assets of a disposal group and non-current assets classified as held for sale		**19,319**	1,304,733
Liabilities directly associated with:			
Assets of a disposal group classified as held for sale	*10(b)*	**–**	493,795
Non-current assets classified as held for sale		**46,154**	–
Liabilities directly associated with assets of a disposal group and non-current assets classified as held for sale		**46,154**	493,795

The non-current assets classified as held for sale as at 31 December 2005 are certain buildings and prepaid land premium of the Group in Mainland China with net carrying amounts of HK$15,222,000 and HK$4,097,000 at that date, respectively, that are to be sold by the Group at a total cash consideration of approximately HK$76,923,000. A deposit of approximately HK$46,154,000 had been received from the purchaser as at 31 December 2005.

34. SHARE CAPITAL

Shares

	Company	
	2005	2004
	HK$'000	HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
622,500,000 ordinary shares of HK$0.10 each	**62,250**	62,250

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 35 to the financial statements. No share options were granted or exercised during the year.

35. SHARE OPTION SCHEMES

The Company

The Company adopted a share option scheme (the "Old Scheme"), which became effective on 16 May 1997, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Old Scheme was terminated and replaced by a new share option scheme (the "New Scheme") effective 17 October 2005 pursuant to an ordinary resolution passed by the shareholders of the Company at the extraordinary general meeting held on the same date.

35. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

All options granted under the Old Scheme either lapsed or were cancelled before the Old Scheme was terminated on 17 October 2005 and the following sets out the movements of the share options granted under the Old Scheme during the year ended 31 December 2005:

Name or category of participant	*Notes*	Number of share options: At 1 January 2005	Cancelled during the year	At 31 December 2005
Directors:				
Mr. Li Fu Cheng	*(a)*	200,000	(200,000)	–
	(b)	1,800,000	(1,800,000)	–
		2,000,000	(2,000,000)	–
Mr. Zheng Wan He	*(a)*	200,000	(200,000)	–
	(b)	1,800,000	(1,800,000)	–
		2,000,000	(2,000,000)	–
Other employees:				
In aggregate	*(a)*	210,000	(210,000)	–
In aggregate	*(b)*	1,840,000	(1,840,000)	–
		2,050,000	(2,050,000)	–
		6,050,000	(6,050,000)	–

Notes:

(a) These options were granted on 3 March 1998, at an exercise price of HK$17.03 per share. The cash consideration paid by each director and employee for the options granted was HK$1 per grant of options.

(b) These options were granted on 23 June 1998 at an exercise price of HK$17.03 per share. The consideration paid by each director and employee for the options granted was HK$1 per grant of options.

35. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

The purpose of the New 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 shareholders. The directors of the Company may, at their discretion, invite employees (including executive directors) and non-executive directors of the Company and any of its subsidiaries, to take up options to subscribe for ordinary shares of the Company at HK$1 per grant of options. The New Scheme became effective on 17 October 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New 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. No option may be granted to any one person which if exercised in full would result in the total number of ordinary shares of the Company issued and issuable to him/her under all the options granted to him/her in any 12-month period and the said option exceeding 1% of the total number of ordinary shares of the Company in issue at any time.

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

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

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

At 31 December 2005, no share option has been granted under the New Scheme.

35. SHARE OPTION SCHEMES *(continued)*

Beijing Development

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

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

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

The exercise price of the share options is determinable by the directors of Beijing Development, but may not be less than the highest of (i) the closing price of the ordinary shares of Beijing Development on the Stock Exchange on the date of the offer of the share options; (ii) the average closing price of the ordinary shares of Beijing Development on the Stock Exchange on the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share of Beijing Development.

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

35. SHARE OPTION SCHEMES *(continued)*

Beijing Development *(continued)*

The following sets out the movements of the share options granted under the BDHK Scheme during the year ended 31 December 2005:

Name or category of participant	Notes	Number of share options: At 1 January 2005	Cancelled during the year	At 31 December 2005
Director of the Company:				
Mr. E Meng	*(a)*	1,600,000	–	1,600,000
	(b)	1,200,000	–	1,200,000
		2,800,000	–	2,800,000
Other employees:				
In aggregate	*(a), (d)*	6,540,000	(180,000)	6,360,000
In aggregate	*(b)*	18,900,000	–	18,900,000
In aggregate	*(c)*	2,800,000	(2,800,000)	–
		28,240,000	(2,980,000)	25,260,000
		31,040,000	(2,980,000)	28,060,000

Notes:

(a) These options were granted on 19 June 2001 at an exercise price of HK$1.13 per share of Beijing Development. The options may be exercised in two or three equal portions. The first portion is exercisable at any time commencing on 1 January 2002, and each further portion becomes exercisable at any time commencing on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26 June 2006. No portion of these share options was exercised during the year.

(b) These options were granted on 18 January 2002 at an exercise price of HK$1.00 per share of Beijing Development. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17 January 2007. No portion of these share options was exercised during the year.

35. SHARE OPTION SCHEMES *(continued)*

Beijing Development *(continued)*

Notes: (continued)

(c) These options were granted on 2 October 2003 at an exercise price of HK$1.05 per share of Beijing Development. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 2 October 2003, and each further portion becomes exercisable on 1 January in each of the following years. Owing to the resignation of a director of Beijing Development during the year, all of these options were forfeited accordingly.

(d) Owing to the resignation of certain employees of Beijing Development during the year, the share options granted to them were forfeited accordingly.

At 31 December 2005, Beijing Development had 28,060,000 share options outstanding under the BDHK Scheme, which represented approximately 5.7% of the shares of Beijing Development in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of Beijing Development, result in the issue of 28,060,000 additional ordinary shares of Beijing Development and additional share capital of HK$28,060,000 and share premium of HK$1,035,000 (before issue expenses).

Xteam

(a) Pre-IPO share option scheme

Xteam, a subsidiary of the Company whose shares are listed on The Growth Enterprise Market of the Stock Exchange, adopted a Pre-IPO share option scheme (the "Xteam Pre-IPO Scheme") on 30 May 2001. The Xteam Pre-IPO Scheme was terminated on 11 December 2001 and no further options can be granted under the Xteam Pre-IPO Scheme. However, all options granted prior to the termination of the Xteam Pre-IPO Scheme will remain in full force and effect.

35. SHARE OPTION SCHEMES *(continued)*

Xteam *(continued)*

(a) *Pre-IPO share option scheme (continued)*

The following sets out the movements of the share options granted under the Xteam Pre-IPO Scheme during the year ended 31 December 2005:

	Number of share options		
Category of participant	**At 1 January 2005**	**Forfeited during the year**	**At 31 December 2005**
Other employees:			
In aggregate (note)	80,000,000	(30,000,000)	50,000,000

Note: These options were granted on 14 November 2001 at an exercise price of HK$0.266 per share of Xteam. The options are exercisable at any time commencing on 11 June 2002 and, if not otherwise exercised, will lapse on 13 November 2011. No portion of these share options was exercised during the year. Owing to the resignation of a director of Xteam during the year, the 30,000,000 share options granted to him were forfeited accordingly.

At 31 December 2005, Xteam had 50,000,000 share options outstanding under the Xteam Pre-IPO Scheme, which represented approximately 1.3% of Xteam's shares in issue at that date. The exercise in full of the remaining share options under the Xteam IPO Scheme would, under the present capital structure of Xteam, result in the issue of 50,000,000 additional ordinary shares of Xteam and additional share capital of HK$500,000 and share premium of HK$12,800,000 (before issue expenses).

(b) *Share option scheme*

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

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

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35. SHARE OPTION SCHEMES *(continued)*

Xteam *(continued)*

(b) *Share option scheme (continued)*

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

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

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

The following sets out the movements of the share options granted under the Xteam Scheme during the year ended 31 December 2005:

	Number of share options		
Category of participant	**At 1 January 2005**	**Forfeited during the year**	**At 31 December 2005**
Other employees:			
In aggregate (note)	30,000,000	(16,500,000)	13,500,000
Advisers and consultants:			
In aggregate (note)	33,000,000	–	33,000,000
	63,000,000	(16,500,000)	46,500,000

Note: These options were granted on 19 December 2003 at an exercise price of HK$0.14 per share of Xteam. The options are exercisable at any time commencing on 19 December 2003 and, if not otherwise exercised, will lapse on 18 December 2013. No portion of these share options was exercised during the year. Owing to the resignation of certain directors and employees of Xteam during the year, the 16,500,000 share options in total granted to them were forfeited accordingly.

At 31 December 2005, Xteam had 46,500,000 share options outstanding under the Xteam Scheme, which represented approximately 1.2% of Xteam's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of Xteam, result in the issue of 46,500,000 additional ordinary shares of Xteam and additional share capital of HK$465,000 and share premium of HK$6,045,000 (before issue expenses).

36. RESERVES

(a) Group

(i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 42 to 43 of the financial statements.

(ii) PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries, jointly-controlled entities and associates. None of the Group's PRC reserve funds as of 31 December 2005 was distributable in the form of cash dividends.

(iii) Certain amounts of goodwill arising on the acquisition of subsidiaries and associates in prior years remain eliminated against the consolidated capital reserve as further explained in notes 17 and 21 to the financial statements, respectively.

(b) Company

	Notes	**Share premium account** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2004		4,839,497	321,128	5,160,625
Profit for the year	*11*	–	383,143	383,143
Interim 2004 dividend	*12*	–	(62,250)	(62,250)
Proposed final 2004 dividend	*12*	–	(124,500)	(124,500)
At 31 December 2004 and 1 January 2005		4,839,497	517,521	5,357,018
Loss for the year	*11*	–	(111,190)	(111,190)
Interim 2005 dividend	*12*	–	(62,250)	(62,250)
Proposed final 2005 dividend	*12*	–	(124,500)	(124,500)
At 31 December 2005		**4,839,497**	**219,581**	**5,059,078**

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37. BANK AND OTHER BORROWINGS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank overdrafts, unsecured	**8,068**	–	**–**	–
Bank loans:				
Secured	**543,456**	651,869	**–**	–
Unsecured	**2,005,902**	2,712,495	**664,775**	1,400,850
	2,549,358	3,364,364	**664,775**	1,400,850
Other loans, unsecured	**321,017**	440,407	**–**	–
Total bank and other loans	**2,878,443**	3,804,771	**664,775**	1,400,850
Bank overdrafts repayable within one year or on demand	**8,068**	–	**–**	–
Bank loans repayable:				
Within one year	**2,335,132**	1,936,928	**664,775**	–
In the second year	**1,420**	1,403,136	**–**	1,400,850
In the third to fifth years, inclusive	**196,746**	6,339	**–**	–
Beyond five years	**16,060**	17,961	**–**	–
	2,549,358	3,364,364	**664,775**	1,400,850
Other loans repayable:				
Within one year	**161,932**	162,709	**–**	–
In the second year	**37,577**	41,164	**–**	–
In the third to fifth years, inclusive	**51,354**	92,404	**–**	–
Beyond five years	**70,154**	144,130	**–**	–
	321,017	440,407	**–**	–
Total bank and other loans	**2,878,443**	3,804,771	**664,775**	1,400,850
Less: Portion classified as current liabilities	**(2,505,132)**	(2,099,637)	**(664,775)**	–
Non-current portion	**373,311**	1,705,134	**–**	1,400,850

37. BANK AND OTHER BORROWINGS *(continued)*

(a) The bank loans of the Group and the Company include a five-year US$180 million syndicated loan facility obtained by the Company in 2001. The syndicated loan bears interest at LIBOR+0.6% and is fully repayable on 12 June 2006. The Company early repaid a principal amount of US$110 million during the year ended 31 December 2005, resulting the principal amount outstanding under the syndicated loan facility being reduced to US$70 million as at 31 December 2005.

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 in more than 50% of the entire issued capital of the Company ceases to be owned by persons or entities controlled by the Beijing Municipal People's Government of China (the "Beijing Government"); or

(ii) If any of the Company's holding companies stops or suspends payments to its creditors generally, or is unable to or admits its inability to pay off its debts as and when they fall due, or is declared or becomes bankrupt or insolvent.

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.

(b) The other loans include amortised cost of interest-free loans of HK$99,384,000 (2004: HK$215,749,000) granted from related companies. The remaining other loans of HK$221,633,000 (2004: HK$224,658,000) bear interest at rates ranging from 5% to 9% (2004: 5% to 9%) per annum.

(c) HK$188,873,000 (2004: HK$185,884,000) 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 the following:

(i) Mortgages over the Group's buildings and plant and machinery with an aggregate carrying amount at the balance sheet date of HK$275,857,000 (2004: HK$519,673,000) *(note 14(c))*; and

(ii) Mortgages over certain of the Group's bank balances at the balance sheet date of HK$4,377,000 (2004: HK$23,785,000) in aggregate *(note 22(a))*.

37. BANK AND OTHER BORROWINGS *(continued)*

(d) *(continued)*

Certain of the Group's bank loans as at 31 December 2004 were also secured by an investment property with a carrying amount of HK$6,500,000 at that date *(note 15(c))* and mortgages over certain of the Group's properties held for sale with an aggregate carrying amount at that date of HK$1,250,000 *(note 25)*.

38. CONVERTIBLE BONDS

On 16 October 2002, Yanjing Brewery, a subsidiary held indirectly as to 54.46% by the Company, 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 and is subject to further adjustments in certain events. The conversion period for the Convertible Bonds is from 16 October 2003 to 16 October 2007 (the "Conversion Period"), both dates inclusive. Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds are redeemable at face value at the end of the Conversion Period, together with any accrued interest.

Yanjing Brewery has the right to redeem the Convertible Bonds, in whole or in part, during the Conversion Period, at a redemption price of RMB102 each, subject to adjustments in certain events, when the closing price of the ordinary shares of Yanjing Brewery is higher than the then conversion price of the Convertible Bonds by more than 30% for 20 consecutive days. On the other hand, the bondholders have the right to have Yanjing Brewery redeem the Convertible Bonds at 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 beneficial interests in Yanjing Brewery, has undertaken to counter-indemnify the Company in respect of any contingencies arising from the portion of the guarantee exceeding the Company's effective proportional equity interest of 54.46% in Yanjing Brewery.

38. CONVERTIBLE BONDS *(continued)*

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

During the year ended 31 December 2005, 465,132 units (2004: 764,484 units) and 63,020 units (2004: Nil) of the Convertible Bonds issued by Yanjing Brewery with an aggregate principal amount of approximately HK$50,079,000 (2004: HK$72,020,000) were exercised by certain bondholders in exchange for ordinary shares of Yanjing Brewery at respective conversion prices of RMB10.59 and RMB7.06 per share (as adjusted to take into account the bonus issue made by Yanjing Brewery during the year) and as a result of which, the Company's effective equity interest in Yanjing Brewery was diluted to 54.46% (2004: 54.86%) and a gain on deemed disposal of HK$14,498,000 (2004: HK$20,715,000) is recognised in the consolidated income statement for the year.

39. OTHER LONG TERM LIABILITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Deferred income (note)	**15,559**	–
Others	**17,123**	8,466
	32,682	8,466

Note: Various government grants were received by the Group for the construction of specific projects or for setting up research activities in Mainland China and were included in deferred income in the balance sheet. Upon completion of the construction of the specific projects or research activities and with approvals from relevant government authorities, the relevant government grants would be released and recognised as other revenue in the income statement over the estimated useful lives of the property, plant and equipment or the deferred development costs to which they related. There were no unfulfilled conditions or contingencies relating to these grants.

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

40. DEFERRED TAX

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

	Group	
	2005	2004
	HK$'000	HK$'000
Deferred tax assets	**67,772**	62,747
Deferred tax liabilities	**(168,527)**	(163,735)
	(100,755)	(100,988)

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

Group – 2005

	Revaluation of properties HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Accelerated tax depreciation HK$'000	Impairment and provisions HK$'000	Total HK$'000
Net deferred tax assets/(liabilities) at 1 January 2005	(3,302)	(134,956)	3,353	33,917	(100,988)
Arising on acquisition of a subsidiary – *note 44*	–	–	(382)	–	(382)
Deferred tax credited/(charged) to income statement during the year – *note 9*	–	–	(2,469)	4,940	2,471
Exchange realignment	(68)	(2,790)	41	961	(1,856)
Net deferred tax assets/(liabilities) at 31 December 2005	(3,370)	(137,746)	543	39,818	(100,755)

40. DEFERRED TAX *(continued)*

Group – 2004

	Revaluation of properties HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Accelerated tax depreciation HK$'000	Impairment and provisions HK$'000	Total HK$'000
Net deferred tax assets/(liabilities) at 1 January 2004	(2,168)	(149,114)	(1,857)	34,534	(118,605)
Arising on acquisition of a subsidiary – *note 44*	–	–	4,138	–	4,138
Deferred tax credited to income statement during the year – *note 9*	–	–	243	12,485	12,728
Attributable to the discontinued operation – *note 10(b)*	(1,134)	14,158	829	(13,102)	751
Net deferred tax assets/(liabilities) at 31 December 2004	(3,302)	(134,956)	3,353	33,917	(100,988)

At 31 December 2005, deferred tax assets have not been recognised in respect of unused tax losses of HK$324,645,000 (2004: HK$280,777,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

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

41. TRADE AND BILLS PAYABLES

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**1,120,017**	724,357
One to two years	**25,677**	18,703
Two to three years	**7,313**	8,141
Over three years	**12,548**	14,581
	1,165,555	765,782

Included in the Group's trade and bills payables are amounts of HK$195,132,000 (2004: HK$153,347,000) due to related companies arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related companies to their major customers.

Certain of the Group's bills payables are secured by mortgages over certain of the Group's bank balances with an aggregate amount of HK$28,299,000 (2004: Nil) *(note 22(c))*.

42. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2005	2004	**2005**	2004
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Accruals		**295,874**	212,275	**47,081**	47,244
Other liabilities		**1,257,348**	1,104,018	**42,013**	5,170
Due to holding companies	*30*	**–**	13,415	**–**	12,969
Due to fellow subsidiaries	*30*	**8,523**	8,523	**8,523**	8,523
Due to related companies	*30*	**277,672**	206,050	**–**	–
		1,839,417	1,544,281	**97,617**	73,906

43. TAXES PAYABLE

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Income/profits tax	**170,427**	195,635	**–**	–
Consumption tax	**77,370**	64,262	**–**	–
Value-added tax	**96,580**	85,605	**–**	–
Business tax	**9,385**	9,761	**–**	–
Others	**41,370**	13,106	**9,646**	9,124
	395,132	368,369	**9,646**	9,124

44. BUSINESS COMBINATIONS

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

	Notes	LQX Tourism HK$'000 *(note (i))*	Yanjing Huiquan HK$'000 *(note (ii))*	Others HK$'000 *(note (iii))*	2005 Total HK$'000	2004 Total HK$'000
Net assets acquired:						
Property, plant and equipment	*14*	**45,917**	**903,995**	**72**	**949,984**	354,630
Prepaid land premiums	*16*	**3,351**	**16,430**	**–**	**19,781**	74,368
Operating concession	*18*	**47,596**	**–**	**–**	**47,596**	–
Non-current other receivables		**–**	**1,433**	**–**	**1,433**	–
Available-for-sale financial assets		**–**	**4,375**	**–**	**4,375**	282
Deferred tax assets	*40*	**–**	**–**	**–**	**–**	4,138
Inventories		**813**	**117,509**	**25**	**118,347**	110,374
Trade and bills receivables		**–**	**15,191**	**9**	**15,200**	16,228
Other receivables		**3,302**	**19,531**	**10,007**	**32,840**	25,903
Cash and bank balances		**14,944**	**55,122**	**6,850**	**76,916**	337,927
Trade and bills payables		**–**	**(59,836)**	**–**	**(59,836)**	(106,609)
Accruals and other liabilities		**(24,189)**	**(47,743)**	**(2,813)**	**(74,745)**	(243,948)
Taxes payable		**(372)**	**(2,771)**	**–**	**(3,143)**	(3,679)
Bank and other borrowings		**(5,769)**	**(143,468)**	**–**	**(149,237)**	(71,879)
Deferred tax liabilities	*40*	**(382)**	**–**	**–**	**(382)**	–
Minority interests		**(20,104)**	**(430,147)**	**(7,633)**	**(457,884)**	(69,389)
Net assets		**65,107**	**449,621**	**6,517**	**521,245**	428,346
Goodwill arising on acquisition	*17*	**–**	**1,544**	**7,372**	**8,916**	27,052
Goodwill reclassified from interests in jointly-controlled entities		**–**	**–**	**–**	**–**	20,404
Excess over the cost of a business combination recognised as income		**–**	**–**	**–**	**–**	(5,738)
		65,107	**451,165**	**13,889**	**530,161**	470,064

44. BUSINESS COMBINATIONS *(continued)*

	LQX Tourism HK$'000 *(note (i))*	Yanjing Huiquan HK$'000 *(note (ii))*	Others HK$'000 *(note (iii))*	2005 Total HK$'000	2004 Total HK$'000
Satisfied by:					
Cash	–	125,013	3,849	128,862	196,615
Costs associated with the acquisition	–	–	425	425	4,062
Reclassification to interests in subsidiaries from interests in jointly-controlled entities	65,107	–	–	65,107	269,387
Reclassification to interests in subsidiaries from interests in associates	–	326,152	–	326,152	–
Promissory note	–	–	9,615	9,615	–
	65,107	451,165	13,889	530,161	470,064
Profit for the year since acquisition	–*	9,585*	198	9,783	27,876

* The amounts disclosed above only included the profit for the year attributable to the additional interest acquired by the Group during the year.

44. BUSINESS COMBINATIONS *(continued)*

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

	LQX Tourism HK$'000 *(note (a))*	Yanjing Huiquan HK$'000 *(note (b))*	Others HK$'000 *(note (c))*	2005 Total HK$'000	2004 Total HK$'000
Cash and bank balances acquired	**14,944**	**55,122**	**6,850**	**76,916**	337,927
Cash paid for costs associated with the acquisition and cash consideration payable arising from acquisitions in the current year	**–**	**(125,013)**	**(4,274)**	**(129,287)**	(200,677)
Cash consideration payable arising from acquisitions in previous year	**–**	**–**	**(86,670)**	**(86,670)**	–
Investment deposit paid at beginning of year – *note 29(b)(i)*	**–**	**61,715**	**–**	**61,715**	–
Outstanding payable at end of year	**–**	**–**	**–**	**–**	86,670
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	**14,944**	**(8,176)**	**(84,094)**	**(77,326)**	223,920

Notes:

(a) Details of the acquisition of LQX Tourism are set out in note 52(b)(iv) to the financial statements.

(b) On 25 March 2005, Yanjing Brewery acquired an additional 14.2244% equity interest in Yanjing Huiquan, a then associate of the Group before the acquisition, for a cash consideration of RMB131,575,700 (approximately HK$125,013,000) from other five ex-shareholders of Yanjing Huiquan. Yanjing Huiquan is principally engaged in the production and sale of beer in Mainland China and the domestic A shares of which are listed on the Shanghai Stock Exchange. Upon completion of the acquisition, Yanjing Brewery has a 52.3724% equity interest in Yanjing Huiquan and Yanjing Huiquan became a subsidiary of the Group.

(c) Others

(i) On 1 January 2005, Beijing Development acquired a 51% equity interest in Beijing Boda from independent third parties for a cash consideration of approximately HK$3,849,000.

(ii) On 7 December 2005, a wholly-owned subsidiary of Xteam acquired 51% in Asren Holdings Limited ("Asren") from independent third parties. The purchase consideration for the acquisition of Asren was in the form of 84,134,616 new shares of Xteam at the market price of HK$0.058 per share of Xteam on 7 December 2005 and a promissory note amounting to HK$9,615,000 issued by the wholly-owned subsidiary of Xteam to Asren.

44. BUSINESS COMBINATIONS *(continued)*

Had the above business combinations taken place on 1 January 2005, the profit for the year of the Group and the profit for the year from continuing operations of the Group would have been HK$714,196,000 and HK$634,209,000, respectively, and the revenue (comprising turnover, interest income, other revenue and gains, net) for the year of the Group and revenue for the year from continuing operations of the Group would both have been HK$11,684,491,000.

45. DISPOSAL OF SUBSIDIARIES

	Notes	2005 HK$'000	2004 HK$'000
Net assets disposed of:			
Property, plant and equipment	14	**18,231**	88,335
Prepaid land premiums	16	**–**	5,059
Available-for-sale financial assets		**15**	3,860
Inventories		**3,441**	96,760
Trade and bills receivables		**7,371**	2,503
Other receivables		**29,468**	33,249
Tax recoverable		**107**	–
Cash and bank balances		**24,751**	46,154
Trade and bills payables		**(989)**	(55,981)
Accruals and other liabilities		**(32,053)**	(92,768)
Taxes payable		**(180)**	(12,796)
Bank and other borrowings		**–**	(32,973)
Minority interests		**(6,287)**	(43,148)
Assets of a disposal group held for sale	10(b)	**1,304,733**	–
Liabilities directly associated with assets of a disposal group held for sale	10(b)	**(493,795)**	–
Assets and liabilities of a disposal group attributable to minority interests		**(355,099)**	–
Net assets		**499,714**	38,254
Exchange fluctuation reserve realised		**(4,932)**	–
Gain/(loss) on disposal of subsidiaries, net	5	**81,097**	(6,433)
		575,879	31,821
Satisfied by cash consideration, at fair value		**547,976**	31,821
Reclassification to available-for-sale financial assets form interests in subsidiaries		**27,903**	–
		575,879	31,821

45. DISPOSAL OF SUBSIDIARIES *(continued)*

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

	2005 HK$'000	2004 HK$'000
Cash and bank balances disposed of	**(24,751)**	(46,154)
Cash and cash equivalent attributable to the discontinued operation – *note 10(b)*	**(134,597)**	–
Cash consideration, at fair value	**547,976**	31,821
Increase in fair value of cash consideration arising from the passage of time	**11,590**	–
Amortised cost of outstanding cash consideration at end of year	**(319,543)**	–
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**80,675**	(14,333)

46. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

Save as disclosed in notes 38 and 44(c)(ii) to the financial statements, there are no other major non-cash transactions of investing and financing activities for the year ended 31 December 2005.

In respect of the cash flows for the year ended 31 December 2004, on 16 August 2004, Prime Technology Group Limited ("PTG") and E-tron Limited ("E-tron"), wholly owned subsidiaries of Beijing Development, transferred the entire issued share capital of Wisdom Elite Holdings Limited ("Wisdom Elite", the holding company of VST Software, which is engaged in the development of software) and 51% of the issued share capital of Astoria Innovations Limited, respectively, to Xteam and 1,897,546,070 and 217,967,375 ordinary shares of Xteam were issued to PTG and E-tron, respectively, as consideration for the transactions. Upon completion of the transactions, Beijing Development held an approximately 56.3% interest in Xteam and Xteam became a subsidiary of the Group. Apart from the foregoing and save as disclosed in note 38 to the financial statements, there were no other major non-cash transactions of investing and financing activities for that year.

46. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Restricted cash and cash equivalent balances

Short term pledged bank balances of HK$4,377,000 (2004: HK$23,785,000) were pledged to banks to secure certain short term bank loans *(note 37 (d)(ii))*.

Short term pledged bank balances of HK$1,750,000 (2004: Nil) and long term pledged bank balances of HK$26,549,000 (2004: Nil) were pledged to secure certain trade finance facilities granted to the Group *(note 41)*.

Short term pledged bank balances of HK$9,430,000 (2004: HK$21,383,000) and long term pledged bank balances of HK$8,135,000 (2004: HK$8,743,000) and were pledged to banks as security for mortgage loans granted to certain purchasers of the Group's properties held for sale.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(i) Fair value and cash flow interest rate risks

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

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

(i) Fair value and cash flow interest rate risks *(continued)*

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

(ii) Foreign currency risk

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

The Group's revenue is predominately in RMB and certain portion of the bank loans is denominated in US$. As both US$ and HK$ are pegged to RMB, the Group does not expect any significant movements in the RMB/HK$ exchange rate.

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

(iii) Commodity price risk

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

(iv) Credit risk

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

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

(v) Liquidity risk

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

48. FINANCIAL INSTRUMENTS

Fair values

The following table sets out a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets:				
Non-current trade and bills receivables	**33,202**	69,310	**32,965**	68,815
Non-current other receivables	**313,782**	176,881	**313,642**	175,517
Non-current pledged bank balances	**34,684**	8,743	**33,542**	8,548
Financial liabilities:				
Non-current bank and other borrowings:				
Floating rate borrowing *(note (iii))*	**–**	1,407,636	**–**	1,407,636
Fixed rate borrowings *(note (iv))*	**279,773**	178,868	**278,456**	177,496
Interest-free borrowings *(note (v))*	**93,538**	181,369	**93,538**	110,832
Convertible bonds	**548,785**	587,424	**568,706**	663,730
Other long term liabilities (excluding deferred income)	**17,123**	8,466	**16,218**	8,039

(i) The carrying amounts of financial assets and liabilities which are due to receive or settle within one year are reasonable approximation of their respective fair value, and accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 23(a) to the financial statements, certain available-for-sale financial assets 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 fair values of these financial instruments have been calculated by discounting the expected future cash flows at prevailing interest rates.

(iii) The balance as at 31 December 2004 mainly represented the syndicated loan of US$180 million borrowed by the Company which is due for repayment in 2006 (*note 37(a)*). The outstanding portion of the syndicated loan of US$70 million as at 31 December 2005 is included in current liabilities in the balance sheet.

48. FINANCIAL INSTRUMENTS *(continued)*

Fair values *(continued)*

(iv) The balance as at 31 December 2004 comprised bank and other borrowings of HK$116,129,000 and HK$62,739,000 attributable to continuing operations and the discontinued operation, respectively.

(v) The balance as at 31 December 2005 represented an interest-free loan of HK$93,538,000 obtained by the Group from a joint venture partner of a subsidiary and is repayable within 20 years.

Interest rate risk

The following tables set out the carrying amount, by maturity, of the Group's financial instruments as at 31 December 2005 and 2004 that are exposed to interest rate risk:

At 31 December 2005

	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Effective interest rate %
Floating rate:								
Pledged bank balances	15,557	34,684	–	–	–	–	50,241	0.92
Cash and cash equivalents	2,926,467	–	–	–	–	–	2,926,467	0.97
Bank and other borrowings	(672,843)	–	–	–	–	–	(672,843)	4.95
Fixed rate:								
Cash and cash equivalents	581,588	–	–	–	–	–	581,588	1.36
Bank and other borrowings	(1,826,443)	(33,151)	(227,572)	(1,479)	(1,511)	(16,060)	(2,106,216)	5.05
Convertible bonds	–	(548,785)	–	–	–	–	(548,785)	1.20

48. FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk *(continued)*

At 31 December 2004

	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Effective interest rate %
Floating rate:								
Pledged bank balances *(note (i))*	45,324	8,743	–	–	–	–	54,067	0.72
Cash and cash equivalents *(note (ii))*	3,112,259	–	–	–	–	–	3,112,259	0.69
Bank and other borrowings	(58,750)	(1,401,758)	(936)	(964)	(994)	(2,984)	(1,466,386)	3.03
Fixed rate:								
Cash and cash equivalents *(note (ii))*	1,163,802	–	–	–	–	–	1,163,802	1.39
Bank and other borrowings *(note (iii))*	(2,206,049)	(33,972)	(93,718)	(32,511)	(1,464)	(17,203)	(2,384,917)	4.96
Convertible bonds	–	–	(587,424)	–	–	–	(587,424)	1.20

Notes:

(i) The balance comprised pledged bank balances of HK$53,911,000 and HK$156,000 attributable to continuing operations and the discontinued operation, respectively.

(ii) The balance comprised cash and cash equivalents of HK$4,141,464,000 and HK$134,597,000 attributable to continuing operations and the discontinued operation, respectively.

(iii) The balance comprised bank and other borrowings of HK$3,589,022,000 and HK$262,281,000 attributable to continuing operations and the discontinued operation, respectively.

| NOTES TO FINANCIAL STATEMENTS |

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49. CONTINGENT LIABILITIES

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given in respect of mortgage loans granted by banks to the Group's purchasers of properties held for sale	**17,567**	30,032	**–**	–
Guarantee given for banking facilities granted to a jointly-controlled entity	**43,846**	–	**43,846**	–
Guarantee given for the Convertible Bonds issued by Yanjing Brewery – *note 38*	**–**	–	**548,785**	587,424
	61,413	30,032	**592,631**	587,424

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

50. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (as included in note 15 to the financial statements) under operating lease arrangements, with leases negotiated for original terms ranging from 1 to 24 years. The terms of the leases generally require the tenants to pay security deposits.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2005 HK$'000	2004 HK$'000
Within one year	**27,683**	13,628
In the second to fifth years, inclusive	**67,868**	74,050
After five years	**35,491**	34,703
	131,042	122,381

(b) As lessee

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

At 31 December 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Within one year	**185,789**	210,652	**2,912**	619
In the second to fifth years, inclusive	**644,481**	999,102	**3,883**	–
After five years	**2,300,509**	1,795,164	**–**	–
	3,130,779	3,004,918	**6,795**	619

51. CAPITAL COMMITMENTS

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Buildings:				
Contracted, but not provided for	**56,413**	118,321	**–**	–
Plant and machinery:				
Contracted, but not provided for	**91,608**	109,915	**–**	–
Acquisition of subsidiaries and capital contribution to a jointly-controlled entity:				
Contracted, but not provided for	**–**	265,842	**–**	–
Purchases of available-for-sale financial assets:				
Contracted, but not provided for	**83,582**	–	**51,435**	–
Total capital commitments	**231,603**	494,078	**51,435**	–

52. RELATED PARTY TRANSACTIONS

(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*	2005 HK$'000	2004 HK$'000
The ultimate holding company				
BHL and its associates	Rental income	*(i)*	**1,115**	2,675
	Rental and related expenses	*(i)*	**1,340**	3,012
Joint venture partners of subsidiaries and their associates				
Yanjing Beer Group and its associates	Purchase of bottle labels	*(ii)*	**61,072**	65,701
	Purchase of bottle caps	*(ii)*	**54,778**	46,574
	Import of raw materials	*(iii)*	**367,472**	293,351
	Sale of beer	*(iv)*	**9,299**	10,504
	Canning service fees paid	*(v)*	**20,211**	18,498
	Comprehensive support service fees paid	*(vi)*	**14,770**	14,644
	Land rent expenses	*(vii)*	**1,657**	1,742
	Trademark licensing fees paid	*(viii)*	**16,996**	20,197
	Less: Refund for advertising subsidies	*(viii)*	**(2,986)**	(3,566)
包頭市國有資產監督管理委員會 (Baotou State-Owned Asset Supervision Management Commission)	Acquisition of a 27.56% equity interest in Yanjing Baotou	*(ix)*	**–**	37,992

52. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Name of related party	Nature of transaction	*Notes*	2005 HK$'000	2004 HK$'000
承德實達農業有限公司 ("Chengde Agriculture")	Sale of a 67% equity interest in 燕京啤酒承德有限責任公司 (Yanjing Chengde Sihai Co., Ltd.) ("Yanjing Chengde")	*(x)*	–	9,782
San Yuan Group and its associates	Purchase of raw milk	*(xi)*	–	138,237
	Land use fee paid	*(xii)*	–	3,024
	Sale of a hotel	*(xiii)*	–	4,720
北京嘉銘投資有限公司 (Beijing Jia Ming Investment Company Limited)	Sale of a 35% equity interest in 北京三元嘉銘房地產開發有限公司 (Beijing San Yuan Jia Ming Property Development Company Limited) ("Sanyuan Jia Ming")	*(xiv)*	–	16,104
China Major Holdings Limited	Acquisition of a 51% equity interest in Ever Hot Pumps	*(xv)*	–	1,209
Jointly-controlled entity				
Beijing McDonald's Food Co., Ltd.	Sale of dairy products	*(iv)*	–	71,111
Key management personnel of subsidiaries				
Mr. Xu Seng Heng	Acquisition of a licence	*(xvi)*	–	12,000
Director-controlled entity				
北京王府井東安集團有限責任公司 (Beijing Wangfujing Dongan Group Company Limited) ("WFJ Dongan")	Compensation income	*(xvii)*	**24,703**	–

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

52. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes:

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

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

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

(iv) The selling prices of the beer and dairy products were determined by reference to the then prevailing market rates.

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

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

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

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

(vii) The land rent expenses were charged at a mutually agreed amount of RMB1,744,000 (2004: RMB1,849,000) per annum.

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

52. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: (continued)

(ix) The equity interest in Yanjing Baotou was acquired at a mutually agreed amount of RMB40,328,000.

(x) The equity interest in Yanjing Chengde was sold at a price of RMB10,384,000 which was mutually agreed between the Group and Chengde Agriculture.

(xi) The purchase price for raw milk was determined by reference to the then prevailing market rate.

(xii) The land use fee was charged at a mutually agreed amount of RMB3,210,000 for the year ended 31 December 2004.

(xiii) The hotel located in Wuxian, Jiangxu Province, the PRC, was sold at a price of RMB5,010,000 by reference to the revaluation report prepared by an independent PRC valuer.

(xiv) The equity interest in Sanyuan Jia Ming, a then subsidiary of the Group, was sold at a mutually agreed amount of RMB17,094,175.

(xv) The equity interest in Ever Hot Pumps was acquired at a mutually agreed amount of US$153,000.

(xvi) The consideration paid was based on a mutually agreed amount of HK$12,000,000.

(xvii) The compensation income was based on the loss suffered by the Group as a result of the reduction in operating size of a department store as requested by WFJ Dongan, a related company in which the legal representative is a director of the Company.

(b) Other transactions with related parties

(i) Yanjing Beer Group has undertaken to indemnify the Group for an amount of HK$2,700,000 (2004: HK$19,500,000) which is equivalent to the net impact to the Group's profit for the year attributable to shareholders of the Company as a result of the corporate income tax of Yanjing Brewery and certain of its subsidiaries being in excess of 15% for the year ended 31 December 2005. The indemnification, which would be executed if the relevant tax payment is required to be made by Yanjing Brewery, was recognised by the Group in the current year to match with the corporate income tax charge of Yanjing Brewery accrued by the Group.

52. RELATED PARTY TRANSACTIONS *(continued)*

(b) Other transactions with related parties *(continued)*

(ii) In January 2005, the Company disposed of all its equity interest in BE Dairy to BHL and San Yuan Group for a total cash consideration of RMB561,013,000, pursuant to two separate equity transfer agreements entered into by the Company with each of BHL and San Yuan Group on 3 December 2004 and the resolution of the shareholders of the Company approving the transactions at an extraordinary general meeting held on 7 January 2005. Further details of the transactions are set out in note 10 to the financial statements.

(iii) On 30 April 2005, the Group and WFJ Dongan established 徐州王府井有限責任公司 (Xuzhou Wangfujing Co., Limited) ("Xuzhou WFJ") with respective equity interests of 10% and 90%, respectively. Xuzhou WFJ has a registered capital of RMB20 million and is engaged in the operation of a department store in Xu Zhou, Jiangsu Province, the PRC.

(iv) Pursuant to an equity transfer and share repurchase agreement entered into between the Company, Magic Melody Limited (a wholly-owned subsidiary of the Company) and Beijing Tourism Development Company Limited ("BTDC", a then jointly-controlled entity owned indirectly as to 32.86% by the Company) on 2 September 2005, BTDC repurchased all of its shares held by Magic Melody Limited, and 100% equity interest in Space Express Limited held by BTDC was transferred to Magic Melody Limited as consideration for the share repurchase. Upon completion of the share repurchase, the Group no longer holds any equity interest in BTDC, and Space Express became a wholly-owned subsidiary of the Company.

Space Express Limited is an investment holding company and the major assets of which at date of completion of the share repurchase included 75% equity interests in each of Beijing Badaling Tourism Co., Ltd. ("Badaling Tourism", which were disposed of during the year (see paragraph (v) below)) and LQX Tourism, which are engaged in the provision of tourism services in Badaling Great Wall and Longqingxia, scenic areas in Beijing, the PRC, respectively.

52. RELATED PARTY TRANSACTIONS *(continued)*

(b) Other transactions with related parties *(continued)*

(v) In October 2005, the Company disposed of its 63.75% equity interest in Beijing Maglev to Canfort Investment Limited, a wholly-owned subsidiary of BHL and a fellow subsidiary of the Company, for a cash consideration of RMB38,190,000 (approximately HK$36,721,000), pursuant to an equity transfer agreement (the "Maglev Agreement") entered into between the two parties on 6 September 2005. Beijing Maglev is a Sino-foreign joint venture established in the PRC and principally engaged in the research and development of magnetic levitation technology and provision of related services. In accordance with the Maglev Agreement, the cash consideration of RMB38,190,000 is to be settled by three instalments with the first and second instalments of RMB11,457,000 each and the final instalment of RMB15,276,000 being due on 6 September 2005, 31 December 2006 and 31 December 2007, respectively. The first instalment of RMB11,457,000 had been settled as at 31 December 2005.

In addition, Space Express Limited, a wholly-owned subsidiary of the Company, disposed of all of its 100% equity interest in BE Tourism to Beijing Holdings (BVI) Limited, a wholly-owned subsidiary of BHL and an intermediate holding company of the Company, in October 2005 for a cash consideration of RMB336,835,000 (approximately HK$323,880,000), pursuant to an equity transfer agreement (the "BE Tourism Agreement") entered into between the two parties on 6 September 2005. BE Tourism is an investment holding company and the major asset of which is a 75% equity interest in Badaling Tourism, which is a joint stock limited company established in the PRC and principally engaged in the operations of tourism businesses in Badaling Great Wall, a scenic area in Beijing, the PRC and a hotel in Yanqing County, Beijing, the PRC, and the holding of a 36.25% equity interest in Beijing Maglev. In accordance with the BE Tourism Agreement, the cash consideration of RMB336,835,000 is to be settled by three instalments with the first and second instalments of RMB101,050,500 each and the final instalment of RMB134,734,000 being due on 6 September 2005, 31 December 2006 and 31 December 2007, respectively. The first instalment of RMB101,050,500 had been settled as at 31 December 2005.

The two transactions were duly approved by shareholders at an extraordinary general meeting of shareholders of the Company held on 17 October 2005.

Loss on disposal of interest in Beijing Maglev and gain on disposal of interest in Badaling Tourism amounted to HK$9,499,000 and HK$111,478,000, respectively, which had been recognised in the consolidated income statement for the year ended 31 December 2005.

52. RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with other state-owned enterprises in the PRC

BHL, the Company's ultimate holding company, is controlled by the Beijing Government and is a PRC state-owned enterprise. The Group operates in an economic environment predominated by PRC state-owned enterprises. During the year, other than BHL and certain of its subsidiaries, the Group had transactions with certain other PRC state-owned enterprises (the "Other SOEs") including, but not limited to, the sale of finished goods and purchases of raw materials. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(d) Outstanding balances with related parties

(i) Details of the Group's balances with related parties included in deposits and other debtors and trade and bills payables are disclosed in notes 29 and 41 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 20, 21 and 30 to the financial statements.

(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 37 and 38 to the financial statements, respectively.

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

52. RELATED PARTY TRANSACTIONS *(continued)*

(e) Compensation of key management personnel of the Group

	2005 **HK$'000**	2004 HK$'000
Short term employee benefits	**7,484**	9,771
Post-employment benefits	**347**	354
Termination benefits	**–**	–
Share-based payments	**–**	–
Total compensation paid to key management personnel	**7,831**	10,125

Further details of directors' emoluments are included in note 7 to the financial statements.

53. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the following significant events occurred:

(i) In February 2006, BioSino, an associate of the Company, completed a placing of 33,000,000 ordinary H shares of RMB1 each in total, comprising 30,000,000 new H shares and 3,000,000 H shares converted from old domestic shares of BioSino, at a placing price of HK$2.0 per H share and these H shares have been listed on The Growth Enterprise Market of the Stock Exchange since 27 February 2006. Upon completion of the placing, the Group's interest in BioSino was diluted from 34.29% to 24.01% and the financial impact of which to the Group is not material.

(ii) On 24 March 2006, two agreements were entered into between Yanjing Brewery and Yanjing Beer Group, pursuant to which Yanjing Brewery will transfer two investments and a receivable to Yanjing Beer Group at their then aggregate carrying amount of RMB42.6 million.

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

(iii) On 31 March 2006, the Company and Yanjing Brewery announced that, pursuant to the relevant rules and regulations issued by the government authorities of the PRC, including "Certain opinions on Further Reform, Liquidity and Stable Development of the Capital Market"(關於推進資本市場改革開放和穩定發展的若干意見), "The Guidelines on Share Reform Proposals of Listed Companies"(關於上市公司股權分置改革的指導意見) and "Provisions on Management of Share Reform Proposals of Listed Companies"(上市公司股權分置改革管理辦法), a share reform plan on Yanjing Brewery has been initiated by the two shareholders of the non-tradable shares of Yanjing Brewery, namely Yanjing Beer Group and Beijing Yan Jing Brewery Co., Ltd. ("Yanjing Limited"), a 80% indirectly owned subsidiary of the Company. Yanjing Brewery is a joint stock company established under the laws of the PRC and the domestic A shares of which are listed on the Shenzhen Stock Exchange.

Pursuant to the circular on the share reform plan issued by Yanjing Brewery on 31 March 2006, both Yanjing Beer Group and Yanjing Limited proposed to offer 2.1 non-tradable shares of Yanjing Brewery to each shareholder of the tradable shares of Yanjing Brewery on the register of members of Yanjing Brewery on a share registration date that has yet to be determined, for every 10 tradable shares of Yanjing Brewery held by each of them as a consideration for these shareholders to agree the non-tradable shares of Yanjing Brewery to become tradable. If the share reform plan is fully implemented, the total issued share capital of Yanjing Brewery will comprise 100% tradable shares.

As at the date of the approval of these financial statements, the terms of the share reform plan have not yet been agreed amongst the shareholders of Yanjing Brewery.

Since the terms of the share reform plan are subject to change and finalisation, and they do not constitute an offer and are not legally binding, in the opinion of the directors, it is not appropriate to disclose the financial impact of this share reform plan to the Group at this stage.

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

(iv) On 31 March 2006, Investment Management and 北京市京聯發投資管理中心 (Beijing Jing Lian Fa Investment Management Centre) ("Jing Lian Fa"), both are wholly-owned subsidiaries of the Company, entered into a share transfer agreement with Beijing Enterprises Group Holdings Limited ("BE Group", a PRC company wholly-owned by the Beijing Municipal Government), pursuant to which, Investment Management and Jing Lian Fa have conditionally agreed to sell their respective entire 49.52% and 0.61% equity interests in Wangfujing to BE Group for an aggregate consideration of RMB1 billion. Upon completion of the transaction, the Group will no longer hold any interest in Wangfujing. As at the date of approval of these financial statements, the approval of the transaction by shareholders of the Company at an extraordinary general meeting has yet to be obtained.

As the Group's retail operation, being a major separate business segment of the Group, is solely undertaken by Wangfujing, such operation would be discontinued afterwards.

Since the share transfer agreement was effected shortly before the date of approval of these financial statements, the audit of the estimated financial impact of this transaction to the Group cannot be completed and accordingly, no disclosure of the financial impact to the Group has been made.

54. COMPARATIVE AMOUNTS

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

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April 2006.