

NOTES TO FINANCIAL STATEMENTS

31 December 2006



1. CORPORATE INFORMATION

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

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

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

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

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2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for (i) investment properties and certain financial assets which have been measured at fair value; and (ii) non-current assets held for sale, which are stated at the lower of carrying amount and fair value less costs to sell, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

The principal changes in accounting policies are as follows:

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

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

(b) HKAS27 "Consolidated and Separate Financial Statements"

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

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

(c) HKAS 39 “Financial Instruments: Recognition and Measurement”

(i) Amendment for financial guarantee contracts

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

(ii) Amendment for the fair value option

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

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

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

(d) HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease”

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

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

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

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

- (a) a subsidiary, if the Group/Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group/Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;
- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Jointly-controlled entities

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

Associates

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a jointly-controlled entity;
- (c) the party is an associate;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Goodwill

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Goodwill (*continued*)

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

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

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

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

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

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

Goodwill previously eliminated against the consolidated capital reserve

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Excess over the cost of business combinations

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

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

Impairment of non-financial assets other than goodwill

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. When an item of property, plant and equipment is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, as further explained in the accounting policy for “Non-current assets held for sale”.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

Investment properties

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investment properties (*continued*)

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

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

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

Non-current assets held for sale

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Operating leases

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

Prepaid land premiums under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the buildings as a finance lease in property, plant and equipment.

Intangible assets (other than goodwill)

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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

Operating concessions

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

Management information systems

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

Licences

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

Research and development costs

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

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

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale investments

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments and other financial assets (*continued*)

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

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31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale investments carried at cost

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

Available-for-sale investments carried at fair value

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from the investment revaluation reserve to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Derecognition of financial assets (*continued*)

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

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

Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, amounts due to customers for contract work, other payables and accruals, bank and other borrowings and other long term liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

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

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

Properties under development

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

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

Properties held for sale

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Inventories

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

Construction contracts

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

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

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

Provision is made for foreseeable losses as soon as they are anticipated by management.

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

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

Cash and cash equivalents

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Income tax (continued)

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Government grants

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) toll revenue, rental and hotel income, on an accrual basis;
- (c) from the sale of completed properties, upon execution of the sales agreements;
- (d) from construction contracts, on the percentage-of-completion basis, as further explained in the accounting policy for “Construction contracts” above;
- (e) from the rendering of services, when the services have been rendered;
- (f) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (g) from the trading of listed or unlisted investments, on the trade dates; and
- (h) other investment income, when the right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Employee benefits

Share-based payment transactions

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits (continued)

Share-based payment transactions *(continued)*

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Employee benefits (*continued*)

Pension costs

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Borrowing costs

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

Foreign currencies

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Dividends

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

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

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made judgements and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date. The major judgements and estimations that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set out below:

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill in aggregate carried as an asset in the consolidated balance sheet as at 31 December 2006 was HK\$78,172,000 (2005: HK\$275,777,000), details of which are set out in notes 19 and 23 to the financial statements.

Useful lives and residual values of property, plant and equipment

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

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

The carrying amounts of items of property, plant and equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is calculated as the higher of its fair value less costs to sell and value in use, and such calculations involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

Impairment of available-for-sale investments

The Group follows the guidance of HKAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and the extent to which the fair value of an investment is less than its cost; and the financial health of and the near term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operating and financing cash flows.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact on the recognition of deferred tax assets and tax in the periods in which such estimates have been changed.

Provision for impairment of trade and bills receivables

The Group's management determines the provision for impairment of trade and bills receivables. This estimate is based on the credit history of the customers and the current market condition and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been changed.

Provision against obsolete and slow-moving inventories

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

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

3. SEGMENT INFORMATION

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

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

- (a) the brewery operation segment produces, distributes and sells brewery products;
- (b) the retail operation segment operates department stores in Beijing and certain other cities in the PRC (discontinued during the year ended 31 December 2006 – *note 12*);
- (c) the expressway and toll road operations segment engages in the operation of the Capital Airport Expressway, which connects the Capital Airport and the city centre of Beijing, and the Shenzhen Shiguan Road and Bridge, which is located at Shenzhen Municipality, the PRC;
- (d) the water treatment operation segment operates water treatment plants in Beijing and another city in the PRC and sells purified water; and
- (e) the corporate and others segment mainly comprises the construction of broadband infrastructure, sale of software, the provision of Internet services and IT technical support and consultation services, the construction of geothermal energy systems and provision of related installation services, tourism operation, production, distribution and sale of wine, restaurant operation, property construction and development (discontinued during the year ended 31 December 2006 – *note 12*), property investments and corporate income and expense items.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006



3. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

Year ended 31 December 2006

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

3. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

Year ended 31 December 2006 (continued)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006



3. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

Year ended 31 December 2005 (Restated)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

3. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

Year ended 31 December 2005 (Restated) (continued)

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

NOTES TO FINANCIAL STATEMENTS

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3. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents: (1) the aggregate of the invoiced value of goods sold, net of value-added tax, consumption tax and government surcharges, and after allowances for returns and trade discounts; (2) the aggregate of revenue from toll revenue and the value of services rendered, net of business and consumption taxes and government surcharges; (3) an appropriate proportion of contract revenue of construction contracts, net of value-added tax, business tax and government surcharges; and (4) rental income.

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

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

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

- † The net gain on disposal of interests in subsidiaries recognised during the year ended 31 December 2006 was attributable to the disposal of the Group's entire 50.1% equity interests in Wangfujing, and the amount recognised during the year ended 31 December 2005 was mainly attributable to the disposal of all of the Group's equity interests in Beijing Enterprises (Dairy) Limited ("BE Dairy"), which held a 55% equity interest in Beijing Sanyuan Foods Co., Ltd. ("Sanyuan Foods"), and Beijing Western-Style Food Co., Ltd. during that year. Further details of the disposal of subsidiaries are set out in note 46(a) to the financial statements.
- Ω The gain on disposal of interests in jointly-controlled entities recognised during the year ended 31 December 2005 arose from the disposal of all of the Group's equity interest in 北京秦昌玻璃有限公司 (Beijing Qin Chang Glass Company Limited) and Beijing Enterprises (Tourism) Limited ("BE Tourism"), which held a 75% equity interest in Beijing Badaling Tourism Co., Ltd. ("Badaling Tourism") during that year.

5. GAINS ON DEEMED DISPOSAL OF INTERESTS IN SUBSIDIARIES

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

- (i) a gain of HK\$141,341,000 (2005: HK\$14,498,000) arising from the dilution of the Group's effective equity interest in Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), an indirectly held subsidiary of the Company, from 54.46% (2005: 54.86%) to 50.47% (2005: 54.46%) upon the exercise of convertible bonds of Yanjing Brewery by certain bondholders in exchange for ordinary shares of Yanjing Brewery. Further details of the Group's convertible bonds are set out in note 39 to the financial statements; and
- (ii) a gain of HK\$5,616,000 arising from the dilution of the Group's effective equity interest in Beijing Development, a then indirectly held subsidiary of the Company, from 55.81% to 46.57% upon the issuance of new shares by Beijing Development in December 2006. Beijing Development ceased to be a subsidiary and became an associate of the Group thereafter.

6. DILUTION LOSSES ON SHARE REFORMS OF SUBSIDIARIES

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

- (i) a loss of approximately HK\$436,881,000 arising from the dilution of interests in Yanjing Brewery, an indirectly held subsidiary of the Company with its shares listed on the Shenzhen Stock Exchange, as a result of the execution of a share reform plan by Yanjing Brewery in May 2006 under the requirements of the relevant PRC government authorities. Pursuant to the share reform plan of Yanjing Brewery, the Group was required to grant a certain portion of its shares in Yanjing Brewery to other shareholders who held the tradable shares in Yanjing Brewery for nil consideration to convert the non-tradable shares in Yanjing Brewery held by the Group into tradable shares. Accordingly, the equity interest in Yanjing Brewery held by its immediate holding company (owned as to 80% by the Company indirectly) was diluted from 63.09% to 54.10% and the loss resulted was accounted for as a dilution loss in the consolidated income statement for the year ended 31 December 2006; and
- (ii) a loss of approximately HK\$48,946,000 arising from the dilution of interests in Fujian Yanjing Huiquan Brewery Co., Ltd. (“Yanjing Huiquan”), a directly held subsidiary of Yanjing Brewery with its shares listed on the Shanghai Stock Exchange, as a result of the execution of a share reform plan of Yanjing Huiquan in July 2006 under the requirements of the relevant PRC government authorities. Pursuant to the share reform plan of Yanjing Huiquan, Yanjing Brewery was required to grant a certain portion of its shares in Yanjing Huiquan to the other shareholders who held the tradable shares in Yanjing Huiquan for nil consideration to convert the non-tradable shares in Yanjing Huiquan held by Yanjing Brewery into tradable shares. Accordingly, the effective interest in Yanjing Huiquan held by Yanjing Brewery was diluted from 52.37% to 48.67% and the loss resulted was accounted for as a dilution loss in the consolidated income statement for the year ended 31 December 2006.

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

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

NOTES TO FINANCIAL STATEMENTS

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7. PROFIT FROM OPERATING ACTIVITIES

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

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

NOTES TO FINANCIAL STATEMENTS

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7. PROFIT FROM OPERATING ACTIVITIES (continued)

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

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

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

8. FINANCE COSTS

Group

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

NOTES TO FINANCIAL STATEMENTS

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9. DIRECTORS' REMUNERATION

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

Group

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

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

(a) Independent non-executive directors

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

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

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

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9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

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

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

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

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10. FIVE HIGHEST PAID EMPLOYEES

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

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

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

	2006 Number of employees	2005 Number of employees
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	–	2
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	2	–
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$4,000,001 – HK\$4,500,000	1	–
HK\$5,000,001 – HK\$5,500,000	1	–
	<u>5</u>	<u>5</u>

NOTES TO FINANCIAL STATEMENTS

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11. TAX

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

Group

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

NOTES TO FINANCIAL STATEMENTS

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11. TAX (continued)

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

Group – 2006

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

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11. TAX (continued)

Group – 2005

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

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12. DISCONTINUED OPERATIONS

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006



12. DISCONTINUED OPERATIONS (continued)

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

Group

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

12. DISCONTINUED OPERATIONS *(continued)*

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

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

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

	2006	2005 (Restated)
Basic and diluted from the discontinued operations	<u>HK\$0.38</u>	<u>HK\$0.16</u>

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

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

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

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2006 includes a profit of HK\$462,334,000 (2005: a loss of HK\$111,190,000) which has been dealt with in the financial statements of the Company (*note 37(b)*).

14. DIVIDENDS

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

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

15. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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16. PROPERTY, PLANT AND EQUIPMENT

Group

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

NOTES TO FINANCIAL STATEMENTS

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16. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

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

NOTES TO FINANCIAL STATEMENTS

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

Company

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

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

Notes:

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

Group

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

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

- (b) Certain of the above buildings, plant and machinery of the Group with an aggregate net carrying amount at the balance sheet date of HK\$133,806,000 (2005: HK\$275,857,000) were pledged to secure certain bank and other loans granted to the Group (*note 38(d)*).
- (c) Certain buildings of the Group and the Company were reclassified from investment properties during the year ended 31 December 2000 at the then aggregate carrying amount of HK\$41,000,000, as valued on 31 December 1999 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on the open market value basis. Had the carrying values of these buildings been carried at historical cost less accumulated depreciation, their net carrying amounts would have been HK\$33,456,000 (2005: HK\$34,380,000).

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17. INVESTMENT PROPERTIES

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

Notes:

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

Group

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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18. PREPAID LAND PREMIUMS

Group

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

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

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19. GOODWILL

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

Group

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

Notes:

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

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

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19. GOODWILL (continued)

Notes: (continued)

(b) Impairment testing of goodwill

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

Group

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

Notes:

- (i) The goodwill that has been allocated to the retail operation of the Group in the prior year was derecognised during the year upon the disposal of Wangfujing, details of which are set out in note 12 to the financial statements.
- (ii) The recoverable amount of the relevant business unit in the expressway and toll road operations has been determined based on a value-in-use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering a period of approximately 15 years, which represents the remaining period of the operating right of the relevant business unit. The discount rate applied to cash flow projections is 13.5%, which is the average discount rate for the toll road industry in Mainland China.
- (iii) The goodwill that has been allocated to the telecommunications and IT related services and products operation of the Group in the prior year comprised goodwill of HK\$33,995,000 arising on the acquisition of Beijing Development by the Group in prior years and goodwill of HK\$98,235,000 in aggregate arising on the acquisition of subsidiaries by the Beijing Development group itself. The goodwill was reallocated to interests in associates upon the dilution of the Group's equity interest in Beijing Development as a result of the issuance of new shares by Beijing Development in December 2006, further details of which are set out in note 46(b)(ii) to the financial statements.
- (iv) The recoverable amount of the geothermal energy systems operation has been determined by reference to a business valuation performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on a value-in-use calculation using cash flow projections which are based on financial budgets approved by management covering a period of 5 years. The discount rate applied to the cash flow projections is 25%, which is determined by reference to the average discount rates for the relevant industries and the business risks of the relevant business units.

19. GOODWILL (*continued*)

Notes: (continued)

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

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

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

Key assumptions used in value-in-use calculations

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

- ***Budgeted turnover***

The budgeted turnover is based on the following assumptions:

- in respect of the relevant business unit in the expressway and toll road operations segment, based on the traffic and toll revenue forecast; and
- in respect of the business units in other business segments, with reference to (i) the expected growth rate of the market in which the assessed entity operates and (ii) the expected market share of the assessed entity.

- ***Budgeted gross margins***

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

- ***Business environment***

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

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20. OTHER INTANGIBLE ASSETS

Group

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

* Internally generated

20. OTHER INTANGIBLE ASSETS (continued)

Note: Operating concessions

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

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

- (ii) Pursuant to a co-operative joint venture agreement dated 18 July 2001 entered into between Hong Kong Zhong Ji Facility Investment Co., Ltd., a 96.5% indirectly owned subsidiary of the Company, and 深圳市石觀公路有限公司 (Shenzhen Municipal Shiguan Road Company Limited) (“Shiguan Road Limited”) for the establishment of Shenzhen Guanshun Road & Bridge Co., Ltd. (“Shenzhen Guanshun”), a 53.08% indirectly owned subsidiary of the Company, and as approved by the relevant government authorities, Shiguan Road Limited transferred to Shenzhen Guanshun for a total consideration of RMB652 million an operating right to operate the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC, for a period of 20 years commencing on 12 April 2002.

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

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

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

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

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21. INTERESTS IN SUBSIDIARIES

Company

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

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

Particulars of the principal subsidiaries are as follows:

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

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21. INTERESTS IN SUBSIDIARIES (continued)

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

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21. INTERESTS IN SUBSIDIARIES (continued)

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

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21. INTERESTS IN SUBSIDIARIES (continued)

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

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31 December 2006

21. INTERESTS IN SUBSIDIARIES (continued)

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

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

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

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

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

δ Acquired/incorporated during the year.

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

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

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

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22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

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

Notes:

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

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

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

Notes: (continued)

- (b) The amounts due from/to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.
- (c) The principal jointly-controlled entities disposed of by the Group during the year included 北京王府井百貨商業物業管理有限公司 (Beijing Wang Fu Jing Retail Management Company Limited) and Beijing Wang Fu Jing Yokado Commercial Co., Ltd., which ceased to be jointly-controlled entities of the Group upon the disposal of the Group's equity interests in Wangfujing during the year, further details of which are included in note 12 to the financial statements.

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

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

23. INTERESTS IN ASSOCIATES

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

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23. INTERESTS IN ASSOCIATES (continued)

Notes:

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

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

- (b) The amounts due from/to associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.
- (c) The goodwill on acquisition included in the interests in associates of the Group as at 31 December 2006 represented the goodwill arising on the acquisition of Beijing Development by the Group in prior years and was reclassified from goodwill of the Group during the year when Beijing Development became an associate of the Group in December 2006, further details of which are set out in note 19(b)(iii) to the financial statements.

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

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

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23. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

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

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

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

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

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

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

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

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24. PLEDGED DEPOSITS

Group

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

- (a) Short term pledged bank balances of HK\$4,377,000 as at 31 December 2005 were pledged to banks to secure certain short term bank loans (*note 38(d)*).
- (b) Short term pledged bank balances of HK\$9,430,000 and long term pledged bank balances of HK\$8,135,000 as at 31 December 2005 were pledged to banks as security for mortgage loans granted to certain purchasers of the Group's properties held for sale.
- (c) Short term pledged bank balances of HK\$57,982,000 (2005: HK\$1,750,000) and long term pledged bank balances of HK\$2,200,000 (2005: HK\$26,549,000) were pledged to secure certain trade finance facilities granted to the Group (*note 42*).
- (d) Short term pledged bank balances of HK\$1,323,000 (2005: Nil) were pledged to secure certain construction contracts of the Group.

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25. AVAILABLE-FOR-SALE INVESTMENTS

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

Notes:

- (a) During the year, the gross gain of the Group's available-for-sale investments recognised directly in the investment revaluation reserve amounted to HK\$625,731,000 (2005: Nil) and the entire amount (2005: Nil) was removed from the investment revaluation reserve and recognised in the income statement for the year as part of the gain on disposal of interests in subsidiaries upon the disposal of Wangfujing during the year.
- (b) Certain unlisted equity investments of the Group and the Company are not stated at fair value but at cost, because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant for these investments and the probabilities of the various estimates cannot be reasonably assessed.

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

26. PROPERTIES HELD FOR SALE

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

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27. INVENTORIES

Group

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

28. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

Group

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

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29. TRADE AND BILLS RECEIVABLES

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

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

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

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

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

- (i) an aggregate amount of HK\$101,472,000 (2005: HK\$90,346,000) paid in advance to related companies arising from purchases of raw materials in the ordinary course of business of the Group. The balances with the related companies are unsecured and interest-free; and
- (ii) the amortised cost of a loan advanced to 北京市八達嶺旅遊總公司 (Beijing Badaling Tourism Corporation) ("Badaling Tourism Corporation"), a company which previously had a beneficial interest in a fellow subsidiary of the Company at the date of advance, by the Group in March 2006. The amount, with an original principal of RMB64,000,000, is secured by a 75% equity interest in Badaling Tourism, a then fellow subsidiary of the Company which became a subsidiary of Badaling Tourism Corporation subsequent to the balance sheet date, bears interest at a rate of 3.5% per annum and is repayable in 16 equal quarterly instalments with the last instalment being due for repayment in 2010.

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

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

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

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

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

Notes:

- (i) The amounts due from the holding companies and the fellow subsidiary represented the outstanding cash considerations in respect of their acquisitions of the Group's equity interests in certain subsidiaries and jointly-controlled entities during the year ended 31 December 2005. The considerations were repayable in a number of instalments in accordance with the relevant sale and purchase agreements. The overdue instalments as at 31 December 2006 remained unsettled as at the date of approval of these financial statements. Despite this, in the opinion of the directors, no impairment loss on these amounts is foreseen.
- (ii) The amount due from Jason New represented the outstanding cash consideration in respect of its acquisition of the Group's 36.78% equity interest in Beijing Enterprises Ever Source Limited ("BEES"), a company which was deconsolidated as a result of an entrusted operating arrangement entered into between the Group and a related party during the year. The total consideration is repayable in six instalments. Further details of the transaction are set out in note 46(b)(i) to the financial statements.
- (iii) The amount due from San Yuan Group, a related company, represented the outstanding cash consideration in respect of its acquisition of the Group's equity interest in BE Dairy during the year ended 31 December 2005. The amount due was repayable in three instalments. San Yuan Group ceased to be a related company of the Group during the year ended December 2006.

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

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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33. CASH AND CASH EQUIVALENTS

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

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

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

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

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

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35. SHARE CAPITAL

Shares

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

Share options

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

36. SHARE OPTION SCHEMES

The Company

The Company operates a share option scheme (the "Scheme") which became effective on 17 October 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The purpose of the Scheme is to attract and retain the best quality personnel of the Group for the development of the Group's operations; to provide additional incentives to employees, officers and directors of the Group; and to promote the long term financial success of the Company by aligning the interests of option holders to those of shareholders. The directors of the Company may, at their discretion, invite employees (including executive directors) and non-executive directors of the Company and any of its subsidiaries, to take up options to subscribe for ordinary shares of the Company at HK\$1 per grant of options.

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36. SHARE OPTION SCHEMES *(continued)*

The Company (continued)

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

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

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

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

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36. SHARE OPTION SCHEMES (continued)

The Company (continued)

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

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

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

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36. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Notes: (continued)

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

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

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

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

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

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

36. SHARE OPTION SCHEMES (*continued*)

Beijing Development

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

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

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

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

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

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36. SHARE OPTION SCHEMES (continued)

Beijing Development (continued)

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

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

Notes:

- (a) These options were granted on 19 June 2001 at an exercise price of HK\$1.13 per share and all of them lapsed on 26 June 2006.
- (b) These options were granted on 18 January 2002 at an exercise price of HK\$1.00 per share. The options may be exercised in three equal portions. The first portion is exercisable at any time commencing on 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. Owing to the resignation of certain employees of Beijing Development during the year, the 6,300,000 share options granted to them were forfeited accordingly. All of the remaining options were subsequently exercised on 9 January 2007.

36. SHARE OPTION SCHEMES (*continued*)

Beijing Development (*continued*)

Notes: (*continued*)

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

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

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

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

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

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

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36. SHARE OPTION SCHEMES *(continued)*

Xteam

(a) Pre-IPO share option scheme

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

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

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

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

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

36. SHARE OPTION SCHEMES (*continued*)

Xteam (continued)

(b) Share option scheme

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

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

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

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

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

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36. SHARE OPTION SCHEMES *(continued)*

Xteam (continued)

(b) Share option scheme *(continued)*

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

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

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

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

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37. RESERVES

(a) Group

- (i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 34 to 35 of the financial statements.
- (ii) PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries, jointly-controlled entities and associates. None of the Group's PRC reserve funds as of 31 December 2006 was distributable in the form of cash dividends.
- (iii) Certain amounts of goodwill arising on the acquisition of subsidiaries and associates in prior years remain eliminated against the consolidated capital reserve as further explained in notes 19 and 23(c) the financial statements, respectively.

(b) Company

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

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38. BANK AND OTHER BORROWINGS

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

38. BANK AND OTHER BORROWINGS (*continued*)

Notes:

- (a) The bank loans of the Group and the Company as at 31 December 2005 included a loan of US\$70 million in relation to a five-year US\$180 million syndicated loan facility obtained by the Company in 2001. The syndicated loan bore interest at LIBOR+0.6% and was fully repaid in 2006.
- (b) The other loans of the Group include amortised cost of interest-free loans of HK\$101,403,000 (2005: HK\$99,384,000) granted from related companies. The remaining other loans of HK\$66,000,000 (2005: HK\$221,633,000) bear interest at a rate of 6% (2005: 5% to 9%) per annum.
- (c) HK\$185,000,000 (2005: HK\$188,873,000) of the Group's unsecured bank loans at the balance sheet date were guaranteed by the joint venture partners of certain of the Group's PRC subsidiaries or their associates and a jointly-controlled entity.
- (d) Certain of the Group's bank loans are secured by mortgages over the Group's buildings and plant and machinery with an aggregate net carrying amount at the balance sheet date of HK\$133,806,000 (2005: HK\$275,857,000) (*note 16(b)*).

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

39. CONVERTIBLE BONDS

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

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

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

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39. CONVERTIBLE BONDS (*continued*)

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

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

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

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40. OTHER LONG TERM LIABILITIES

Group

	2006 HK\$'000	2005 HK\$'000
Deferred income (<i>note</i>)	–	15,559
Others	<u>21,570</u>	<u>17,123</u>
	<u>21,570</u>	<u>32,682</u>

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

41. DEFERRED TAX

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

Group

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

NOTES TO FINANCIAL STATEMENTS

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41. DEFERRED TAX (continued)

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

Group

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

At 31 December 2006, deferred tax assets have not been recognised in respect of unused tax losses of HK\$572,885,000 as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised.

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

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

NOTES TO FINANCIAL STATEMENTS

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42. TRADE AND BILLS PAYABLES

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

Group

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

Included in the Group's trade and bills payables at the balance sheet date are amounts of HK\$240,986,000 (2005: HK\$195,132,000) due to related companies arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related companies to their major customers.

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

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43. OTHER PAYABLES AND ACCRUALS

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

44. TAXES PAYABLE

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

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45. BUSINESS COMBINATIONS

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

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

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

NOTES TO FINANCIAL STATEMENTS

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45. BUSINESS COMBINATIONS (continued)

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

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

Notes:

- (a) Pursuant to an equity transfer agreement dated 28 August 2006 entered into between Wangfujing and 北京王府井東安集團有限公司 (Beijing Wangfujing Dongan Group Co., Ltd.) (“Dongan Group”, a related company in which the legal representative is a director of the Company), Wangfujing acquired a 100% equity interest in 北京長安商場有限公司 (Changan Department Store Company Limited) (“Chang An”, a company operating a department store in Beijing, the PRC) from Dongan Group for a cash consideration of RMB310,128,000 (approximately HK\$302,267,000). The acquisition was completed on 18 October 2006. Chang An ceased to be a subsidiary of the Group upon the disposal of Wangfujing by the Group during the year as detailed in note 12 to the financial statements.
- (b) Business combinations in the year ended 31 December 2005 mainly included:
- (i) the acquisition of an additional 14.2244% equity interest in Yanjing Huiquan by Yanjing Brewery, a then associate of the Group before the acquisition, on 25 March 2005. Upon completion of the acquisition, Yanjing Brewery had a 52.3724% equity interest in Yanjing Huiquan and Yanjing Huiquan became a subsidiary of the Group;
 - (ii) the acquisition of a 75% equity interest in LQX Tourism;
 - (iii) the acquisition of a 51% equity interest in 北京博大電信通網絡技術有限公司 by Beijing Development on 1 January 2005; and
 - (iv) the acquisition of a 51% equity interest in Asren Holdings Limited (“Asren”) by Xteam on 7 December 2005, details of which are set out in note 47 to the financial statements.

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

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46. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES

(a) Disposal of subsidiaries

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

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

(a) Disposal of subsidiaries *(continued)*

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

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

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46. DISPOSAL AND DECONSOLIDATION OF SUBSIDIARIES (continued)

(b) Deconsolidation of subsidiaries

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

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

(b) Deconsolidation of subsidiaries *(continued)*

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

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

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

- (i) On 19 October 2006, Beijing Enterprises Treasury Company Limited (“BJ Treasury”), a wholly-owned subsidiary of the Company and the immediate holding company of BEES, and Mr. Xu Shengheng (“Mr. Xu”), a director and substantial shareholder of BEES, entered into an entrusted operating agreement (the “Entrusted Operating Agreement”), pursuant to which, Mr. Xu was granted by BJ Treasury a right to operate and manage the geothermal energy system business undertaken by the Eversource Group for a period of three years from 1 January 2006 to 31 December 2008 (the “Entrusted Period”). During the Entrusted Period, the Group subordinated all its power over operating and financial policies and its entitlement to dividends, if any, of the Eversource Group to Mr. Xu whereas Mr. Xu shall be solely responsible for all profits and losses of the Eversource Group and pay a fixed fee of RMB12,516,000 (approximately HK\$12,516,000) per annum to the Group. The Group lost its control over the Eversource Group upon the commencement of the entrusted operating arrangement on 1 January 2006 as it no longer has the power to govern the daily operating and financial policies of the Eversource Group from that date onwards. Accordingly, the Group deconsolidated the Eversource Group effective from 1 January 2006 and its then carrying amount of HK\$82,794,000 was reclassified as an available-for-sale investment of the Group.
- (ii) As detailed in note 5 to the financial statements, the Group’s equity interest in Beijing Development was diluted from 55.81% to 46.57% and Beijing Development ceased to be a subsidiary of the Company and became an associate of the Company upon the completion of the issuance of new shares by Beijing Development in December 2006, at which time the Group deconsolidated Beijing Development and its subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2006



47. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(i) Fair value and cash flow interest rate risks

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

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

(ii) Foreign currency risk

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

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

NOTES TO FINANCIAL STATEMENTS

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48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Commodity price risk

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

(iv) Credit risk

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

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

(v) Liquidity risk

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

NOTES TO FINANCIAL STATEMENTS

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49. FINANCIAL INSTRUMENTS

Fair values

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

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

- (i) The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 25(b) to the financial statements, certain available-for-sale investments of the Group are not stated at fair value but at cost less any accumulated impairment losses because fair values of which cannot be reasonably assessed and therefore, no disclosure of the fair values of these financial instruments is made.
- (ii) The balance represented the non-current portion of an interest-free loan of HK\$101,403,000 (2005: HK\$99,384,000) obtained by the Group from a joint venture partner of a subsidiary and is repayable within 19 years (2005: 20 years).

NOTES TO FINANCIAL STATEMENTS

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49. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

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

At 31 December 2006

	More than 1 year but less than 1 year	More than 2 years but less than 2 years	More than 3 years but less than 3 years	More than 4 years but less than 4 years	More than 5 years but less than 5 years	More than 5 years	Total	Effective interest rate %
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Floating rate:								
Pledged deposits	38,636	2,200	-	-	-	-	40,836	0.72
Cash and cash equivalents	2,606,985	-	-	-	-	-	2,606,985	0.81
Bank and other borrowings	-	(210,000)	(10,000)	-	-	-	(220,000)	5.23
Fixed rate:								
Pledged deposits	20,669	-	-	-	-	-	20,669	1.71
Cash and cash equivalents	101,410	-	-	-	-	-	101,410	2.59
Bank and other borrowings	(1,330,038)	(183,838)	(50,837)	(838)	(838)	(13,156)	(1,579,545)	5.16
Convertible bonds	-	(464)	-	-	-	-	(464)	1.20

At 31 December 2005

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

50. CONTINGENT LIABILITIES

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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51. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

Group

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

(b) As lessee

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

51. OPERATING LEASE ARRANGEMENTS *(continued)*

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

52. CAPITAL COMMITMENTS

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006



53. RELATED PARTY DISCLOSURES

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

53. RELATED PARTY DISCLOSURES (*continued*)

(a) (*continued*)

Notes:

- (i) The rentals were determined by reference to the prevailing open market rentals at the time when the lease agreements were entered into.
- (ii) The purchase prices for bottle labels and bottle caps were determined by reference to the agreed prices for the preceding year and an annual adjustment determined by reference to the price index in Beijing in the preceding year.
- (iii) The import of certain raw materials for the Group's brewery operations were procured by Yanjing Beer Group from overseas suppliers on behalf of Yanjing Brewery and its subsidiaries as the Group's brewery operations do not have the licence to import commodities from overseas suppliers. The purchase prices for the raw materials were charged at rates equal to the costs incurred by Yanjing Beer Group.
- (iv) The selling price of the beer was determined by reference to the then prevailing market rates.
- (v) The canning service fees were charged at a rate equal to the costs of the canning services incurred by Yanjing Beer Group plus a mutually agreed profit margin.
- (vi) The comprehensive support service fees paid included the following:
 - fees for security and canteen services which were determined based on the annual cost of labour, depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and
 - rental expenses, related to the premises occupied and used by Yanjing Brewery as its office, canteen and staff dormitories, were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.
- (vii) The land rent expenses were charged at a mutually agreed amount of RMB1,744,000 (2005: RMB1,744,000) per annum.
- (viii) The trademark licensing fees paid were for the use of the "Yanjing" trademark and were determined based on 1% of the annual sales of beer and mineral water products made by Yanjing Brewery and RMB0.008 per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Beer Group would refund 20% of the trademark licensing fees received from Yanjing Brewery to be used by Yanjing Brewery to develop and promote the "Yanjing" trademark.
- (ix) The Compensation income was based on the loss suffered by the Group as a result of the reduction in the operating size of a development store at the request of Dongan Group, a related company in which the legal representative is a director of the Company.
- (x) The construction costs, maintenance service costs and dismantling costs for an expressway were determined by reference to the then prevailing market rates.

53. RELATED PARTY DISCLOSURES *(continued)*

(b) Other transactions with related parties

- (i) On 28 June 2006, BJ Treasury, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Jason New, a company wholly-owned by Mr. Xu and a substantial shareholder of BEES, a company which was deconsolidated effective from 1 January 2006 as a result of the entering of the Entrusted Operating Agreement as detailed in note 46(b)(i), to dispose of a 36.78% equity interest in BEES for a cash consideration of HK\$99,290,000. The cash consideration is to be settled in six instalments, with the first instalment of HK\$20,000,000, and the remaining five instalments of RMB15,858,000 each being due on 28 June 2006, 30 December 2006, 30 June 2007, 30 December 2007, 30 June 2008 and 30 December 2008, respectively.
- (ii) On 28 June 2006, Beijing Enterprises Ever Source Technology Limited (“BEEST”), a wholly-owned subsidiary of BEES, entered into an equity transfer agreement with China Major Holdings Limited, a company beneficially owned by Mr. Xu and his spouse, to acquire a 49% equity interest in 北京永源熱泵有限責任公司 (Beijing Ever Source Hot Pumps Co., Ltd.) (“BEHP”) for a cash consideration of RMB15,000,000 (approximately HK\$14,423,000). Upon the completion of the transaction, BEHP became a subsidiary of BEES. BEEST and BEHP, being subsidiaries of BEES, were deconsolidated effective from 1 January 2006 as a result of the entering of the Entrusted Operating Agreement as detailed in note 46(b)(i).

(c) Outstanding balances with related parties

- (i) Details of the Group’s balances with related parties included in deposits and other debtors and trade and bills payables are disclosed in notes 30 and 42 to the financial statements, respectively.
- (ii) Details of the balances with jointly-controlled entities, associates, holding companies, fellow subsidiaries and related companies are disclosed in notes 22, 23 and 31 to the financial statements, respectively.
- (iii) Details of the guarantees given by related parties in respect of the Group’s bank and other borrowings and the Convertible Bonds issued by Yanjing Brewery are disclosed in notes 38 and 39 to the financial statements.
- (iv) Details of the guarantees given by the Group for banking facilities granted to a related company and a jointly-controlled entity are disclosed in note 50 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

53. RELATED PARTY DISCLOSURES *(continued)*

(d) Compensation of key management personnel of the Group

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

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

54. EVENT AFTER THE BALANCE SHEET DATE

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

55. COMPARATIVE AMOUNTS

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

56. APPROVAL OF THE FINANCIAL STATEMENTS

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