

1. Corporate information

During the year, Beijing Enterprises Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") was involved in the following principal activities:

- production, distribution and sale of consumer products, including beer, dairy products and processed food products in Beijing and other provinces in the People's Republic of China (the "PRC")
- investment in transportation infrastructure, 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
- provision of tourism services in Badaling Great Wall and Longqingxia, scenic areas in Beijing
- provision of hotel services in Beijing and Wuxian, Jiangsu Province, the PRC
- provision of retail services in Beijing and certain other cities in the PRC
- investment in commercial and residential properties in Beijing and Hong Kong
- operation of a water purification and treatment plant in Beijing
- property construction and development
- production, distribution and sale of telecommunication equipment; and provision of telecommunications and information technology ("IT") related services
- construction of geothermal energy systems and provision of related installation services

In the opinion of the directors, the ultimate holding company is Beijing Holdings Limited, which is incorporated in Hong Kong.

2. Impact of new and revised statements of standard accounting practice (“SSAPs”)

The following new and revised SSAPs and Interpretation are effective for the first time for the current year’s financial statements and have had a significant impact thereon:

- SSAP 12 (Revised) : “Income taxes”
- SSAP 35 : “Accounting for government grants and disclosure of government assistance”
- Interpretation 20 : “Income taxes – Recovery of revalued non-depreciable assets”

These SSAPs and Interpretation prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretation are summarised as follows:

- (i) SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Company’s/Group’s land and buildings and investment and hotel properties;
- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries;

2. Impact of new and revised statements of standard accounting practice ("SSAPs") *(continued)*

(i) *(continued)*

- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised; and
- a deferred tax asset has been recognised for certain general provisions and impairments.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 37 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 37 to the financial statements.

(ii) SSAP 35 prescribes the accounting for government grants and other forms of government assistance.

The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants, however, additional disclosures are now required and are detailed in notes 3, 5, 15 and 36 to the financial statements.

(iii) Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment and hotel properties in the deferred tax calculated under SSAP 12.

3. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment and hotel properties, and equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividend received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company'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.

3. Summary of significant accounting policies *(continued)*

Joint venture companies *(continued)*

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which 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 profit and loss account 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 impairment losses. Goodwill or negative goodwill arising on the acquisition of jointly-controlled entities, which was not previously eliminated or recognised in the consolidated capital reserve, is included as part of the Group's interests in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's profit and loss account 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 impairment losses.

Associates

An associate is a company, 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.

3. Summary of significant accounting policies *(continued)*

Associates *(continued)*

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account 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 impairment losses. Goodwill or negative goodwill arising on the acquisition of associates, which was not previously eliminated or recognised in the consolidated capital reserve, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account 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 impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, jointly-controlled entities and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life, subject to a maximum of 20 years. In the case of jointly-controlled entities and associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against the consolidated capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against the consolidated capital reserve. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, jointly-controlled entities or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against the consolidated capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against the consolidated capital reserve, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. Summary of significant accounting policies *(continued)*

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, jointly-controlled entities and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of jointly-controlled entities and associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the consolidated capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the consolidated capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, jointly-controlled entities or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves, as appropriate. Any attributable negative goodwill previously credited to the consolidated capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

3. Summary of significant accounting policies *(continued)*

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an 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 an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

3. Summary of significant accounting policies *(continued)*

Fixed assets and depreciation *(continued)*

(ii) Hotel properties

Hotel properties are interests in hotel buildings and their integral fixed plant which is collectively used in the operation of the hotels. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the value of hotel properties are dealt with as movements in the hotel property revaluation reserve. If this reserve is insufficient to cover a deficit, on an individual basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

(iii) Construction in progress

Construction in progress represents buildings, structures, plant and machinery and other fixed assets under construction or installation and is stated at cost less any 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 fixed assets when completed and ready for use.

(iv) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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.

3. Summary of significant accounting policies *(continued)*

Fixed assets and depreciation *(continued)*

(iv) Other fixed assets (continued)

Depreciation of other fixed assets is calculated on the straight-line basis to write off the cost of each asset, less its estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Properties under development

Properties under development represent properties developed for sale and are stated at cost less any impairment losses. Properties under development which have been pre-sold are stated at cost plus estimated attributable profits less foreseeable losses and sales deposits received. Cost comprises the cost of land/land use rights together with any other direct costs attributable to the development of the properties, borrowing costs and professional fees capitalised during the development period plus, in the case of pre-sold properties or portions thereof, any estimated attributable profits received on contracted sales.

The estimated profit on pre-sold properties under development is recognised over the course of development of the properties after execution of the formal sale and purchase agreement. The amount of estimated profit is calculated based on the proportion of construction costs incurred over the total estimated construction costs to completion, after making due allowances for contingencies, and limited to non-refundable cash deposits received.

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

3. Summary of significant accounting policies *(continued)*

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.

Intangible assets

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 impairment losses. Amortisation is provided on the straight-line basis over the period of the operating concessions granted to the Group.

Management information systems

Management information systems are stated at cost less accumulated amortisation and any 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 any impairment losses and are amortised on the straight-line basis over their estimated useful life of 5 to 10 years.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet this criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using 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.

Borrowing costs

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

3. Summary of significant accounting policies *(continued)*

Long term investments

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account in the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Other long term investments in listed and unlisted equity securities, intended to be held on a long term basis, are stated at their fair values at the balance sheet date, on an individual investment basis.

The fair values of such listed securities are their quoted market prices at the balance sheet date. The fair values of such unlisted securities are estimated by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Short term investments

Short term investments are investments in listed and unlisted equity securities held for trading purposes.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual investment basis, as estimated by the directors.

The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

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.

3. Summary of significant accounting policies *(continued)*

Construction contracts

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

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

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

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

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

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 profit and loss account 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 profit and loss account by way of a reduced depreciation charge.

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 profit and loss account.

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

3. Summary of significant accounting policies *(continued)*

Income tax

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

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, associates and interests in joint ventures, except 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.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets 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 assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative 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 deductible temporary differences associated with investments in subsidiaries, 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 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.

3. Summary of significant accounting policies *(continued)*

Income tax *(continued)*

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.

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 profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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.

3. Summary of significant accounting policies *(continued)*

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 sheet, 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.

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 sale agreements;
- (d) from the pre-sale of properties under development, on the basis explained in the accounting policy for "Properties under development" above;
- (e) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;
- (f) from the rendering of services, when the services are rendered;
- (g) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (h) from the trading of listed or unlisted investments, on the transaction dates; and
- (i) other investment income, when the right to receive payment has been established.

3. Summary of significant accounting policies *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves 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.

Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

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

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

Pension costs

The Group has joined a number of defined contribution pension schemes organised by certain PRC provincial or municipal governments for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account 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.

3. Summary of significant accounting policies *(continued)*

Employee benefits *(continued)*

Pension costs (continued)

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme in Hong Kong (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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.

Share option schemes

The Company and Beijing Development (Hong Kong) Limited ("Beijing Development") each operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's and the Beijing Development group's operations, respectively. The financial impact of share options granted under the share option schemes is not recorded in the balance sheet of the Company, Beijing Development or the Group until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company or Beijing Development 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 or Beijing Development in the respective share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

4. 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 operations segment produces, distributes and sells brewery products;
- (b) the retail operations segment operates department stores in Beijing and certain other cities in the PRC;
- (c) the dairy operations segment produces, distributes and sells dairy products;

4. Segment information *(continued)*

- (d) the expressway and toll road operations segment engages in the operation of the Capital Airport Expressway, which connects the Capital Airport and the city centre of Beijing, and the Shenzhen Shiguan Road and Bridge, which is located at Shenzhen Municipality;
- (e) the water treatment operations segment operates a water treatment plant in Beijing and sells purified water;
- (f) the hotel operations segment engages in the operation of hotels in Beijing and Wuxian, Jiangsu Province, to provide hotel services;
- (g) the tourism operations segment engages in the provision of tourism services in Badaling Great Wall and Longqingxia, scenic areas in Beijing;
- (h) the property construction and development segment constructs and develops properties for sale;
- (i) the telecommunications and IT related services and products segment comprises the production and sale of telecommunication products through an associate, Beijing International Switching System Co., Ltd. ("BISC"), and other IT projects including the construction of broadband infrastructure, the provision of Internet services and IT technical support and consultation services;
- (j) the geothermal energy systems segment constructs geothermal energy systems and provides related installation services; and
- (k) the corporate and others segment comprises production, distribution and sales of wine and processed food products, restaurant operations, 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.

4. 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 2003:

2003

Group

	Brewery operations	Retail operations	Dairy operations	Expressway and toll road operations	Water treatment operations	Hotel operations	Tourism operations	Property construction and development	Telecom- munications and IT related services and products	Geothermal energy systems	Corporate and others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:													
Sales to external customers	2,880,337	2,184,964	1,003,811	361,445	414,561	2,095	-	248,545	386,665	190,521	297,203	-	7,970,147
Intersegment sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue	35,400	41,470	46,303	1,653	-	-	-	5,647	10,021	11,420	136,665	-	288,579
Total	2,915,737	2,226,434	1,050,114	363,098	414,561	2,095	-	254,192	396,686	201,941	433,868	-	8,258,726
Segment results	333,709	65,260	13,956	203,015	151,262	346	-	19,516	68,487	48,965	9,487	-	914,003
Interest income													38,598
Unallocated revenue and gains													19,788
Unallocated expenses													(46,577)
Profit from operating activities													925,812
Finance costs													(150,370)
Share of profits and losses of:													
Jointly-controlled entities	(60)	25,043	3,676	-	-	(12,878)	1,757	-	(230)	-	4,662	-	21,970
Associates	(720)	19	(8,024)	-	-	-	-	-	31,559	-	19,147	-	41,981
Amortisation of goodwill arising on acquisition of jointly-controlled entities	(678)	(342)	-	-	-	-	-	-	-	-	(3,679)	-	(4,699)
Profit before tax													834,694
Tax													(203,774)
Profit before minority interests													630,920
Minority interests													(177,652)
Net profit from ordinary activities attributable to shareholders													453,268

4. Segment information *(continued)*(a) Business segments *(continued)*2003 *(continued)*

Group

	Brewery operations	Retail operations	Dairy operations	Expressway and toll road operations	Water treatment operations	Hotel operations	Tourism operations	Property construction and development	Telecom- munications and IT related products	Geothermal energy systems	Corporate and others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	5,709,792	2,472,515	1,098,317	2,144,147	1,166,439	27,989	-	1,113,158	628,786	329,836	6,337,380	(4,683,095)	16,345,264
Share of net assets of:													
Jointly-controlled entities	89,756	356,935	138,099	-	-	124,153	285,397	-	21,533	-	29,788	-	1,045,661
Associates	10,010	16,231	22,320	-	-	-	-	22,610	195,868	-	152,505	-	419,544
	<u>5,809,558</u>	<u>2,845,681</u>	<u>1,258,736</u>	<u>2,144,147</u>	<u>1,166,439</u>	<u>152,142</u>	<u>285,397</u>	<u>1,135,768</u>	<u>846,187</u>	<u>329,836</u>	<u>6,519,673</u>	<u>(4,683,095)</u>	<u>17,810,469</u>
Unallocated assets													383,287
Total assets													<u>18,193,756</u>
Segment liabilities	<u>1,374,927</u>	<u>488,590</u>	<u>173,301</u>	<u>455,138</u>	<u>344,799</u>	<u>32,741</u>	<u>-</u>	<u>1,000,507</u>	<u>171,666</u>	<u>59,926</u>	<u>3,018,870</u>	<u>(4,683,095)</u>	<u>2,437,370</u>
Unallocated liabilities													4,664,840
Total liabilities													<u>7,102,210</u>
Other segment information:													
Depreciation	310,268	59,738	60,170	44,137	85	1,367	-	20,277	7,978	2,214	31,998	-	538,232
Amortisation:													
Goodwill/(negative goodwill), net	225	711	(4,264)	1,178	-	-	-	-	7,585	3,596	5,650	-	14,681
Intangible assets	-	-	-	30,711	70,656	-	-	-	1,917	704	-	-	103,988
Impairment losses on:													
Segment assets	-	-	9,421	-	-	-	-	-	-	-	18,426	-	27,847
Unallocated assets													46,577
Capital expenditure	555,050	51,648	106,969	2,626	-	10	-	5,293	27,943	4,214	50,608	-	804,361

4. Segment information *(continued)*

(a) Business segments *(continued)*

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for 2002:

2002

Group

	Brewery operations HK\$'000	Retail operations HK\$'000	Dairy operations HK\$'000 (Restated)	Expressway and toll road operations HK\$'000	Water treatment operations HK\$'000	Hotel operations HK\$'000	Tourism operations HK\$'000	Property construction and development HK\$'000	Telecom- munications and IT related services and products HK\$'000	Geothermal energy systems HK\$'000	Corporate and others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000 (Restated)
Segment revenue:													
Sales to external customers	2,422,130	1,928,209	1,048,148	378,226	372,951	140,956	102,582	97,491	222,157	-	298,848	-	7,011,698
Intersegment sales	142	-	-	-	-	182	-	-	-	-	2,992	(3,316)	-
Other revenue	54,842	44,012	48,688	1,631	-	4,524	23,055	-	18	-	32,413	-	209,183
Total	2,477,114	1,972,221	1,096,836	379,857	372,951	145,662	125,637	97,491	222,175	-	334,253	(3,316)	7,220,881
Segment results	227,374	116,524	121,989	241,599	156,095	12,941	55,423	(67,105)	44,708	-	(74,897)	-	834,651
Interest income													73,908
Unallocated revenue and gains													38,167
Unallocated expenses													(50,790)
Profit from operating activities													895,936
Finance costs													(219,898)
Share of profits and losses of:													
Jointly-controlled entities	(610)	9,249	7,813	-	-	-	-	-	223	-	(1,118)	-	15,557
Associates	(122)	(1,220)	-	-	-	922	-	-	43,960	-	7,134	-	50,674
Amortisation of goodwill arising on acquisition of jointly-controlled entities	(678)	(342)	-	-	-	-	-	-	-	-	(3,679)	-	(4,699)
Profit before tax													737,570
Tax													(239,563)
Profit before minority interests													498,007
Minority interests													(91,179)
Net profit from ordinary activities attributable to shareholders													<u>406,828</u>

4. Segment information *(continued)*(a) Business segments *(continued)*2002 *(continued)*

Group

	Brewery operations HK\$'000	Retail operations HK\$'000	Dairy operations HK\$'000 (Restated)	Expressway and toll road operations HK\$'000	Water treatment operations HK\$'000	Hotel operations HK\$'000 (Restated)	Tourism operations HK\$'000 (Restated)	Property construction and development HK\$'000	Telecom- munications and IT related services and products HK\$'000 (Restated)	Geothermal energy systems HK\$'000	Corporate and others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000 (Restated)
Segment assets	5,372,974	2,262,581	1,109,615	2,091,066	1,254,171	32,968	-	295,052	459,813	-	6,163,099	(3,590,704)	15,450,635
Share of net assets of:													
Jointly-controlled entities	89,816	362,590	126,879	-	-	110,680	306,708	-	-	-	29,813	-	1,026,486
Associates	10,731	16,213	-	-	-	-	-	-	168,974	-	153,062	-	348,980
	<u>5,473,521</u>	<u>2,641,384</u>	<u>1,236,494</u>	<u>2,091,066</u>	<u>1,254,171</u>	<u>143,648</u>	<u>306,708</u>	<u>295,052</u>	<u>628,787</u>	<u>-</u>	<u>6,345,974</u>	<u>(3,590,704)</u>	<u>16,826,101</u>
Unallocated assets													592,307
Total assets													<u>17,418,408</u>
Segment liabilities	<u>1,295,686</u>	<u>223,620</u>	<u>216,085</u>	<u>482,786</u>	<u>404,370</u>	<u>37,390</u>	<u>-</u>	<u>414,800</u>	<u>95,807</u>	<u>-</u>	<u>2,438,381</u>	<u>(3,590,704)</u>	<u>2,018,221</u>
Unallocated liabilities													5,039,900
Total liabilities													<u>7,058,121</u>
Other segment information:													
Depreciation	247,138	49,296	56,977	44,757	85	14,391	9,465	10,101	1,285	-	29,296	-	462,791
Amortisation:													
Goodwill/(negative goodwill), net	232	342	(27,845)	687	-	-	-	-	10,630	-	5,650	-	(10,304)
Intangible assets	-	-	-	17,915	70,654	-	1,413	-	1,887	-	-	-	91,869
Impairment losses on:													
Segment assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Unallocated assets													50,790
Capital expenditure	485,022	24,151	143,119	13,491	-	2,539	11,189	10,860	10,903	-	86,366	-	787,640

4. 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	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
Segment revenue:										
Sales to external customers	10,720	23,169	7,799,291	6,847,209	160,136	141,320	-	-	7,970,147	7,011,698
Intersegment sales	12,918	-	-	2,992	27,575	-	(40,493)	(2,992)	-	-
Other revenue	7,598	16,092	280,287	193,091	694	-	-	-	288,579	209,183
Total	31,236	39,261	8,079,578	7,043,292	188,405	141,320	(40,493)	(2,992)	8,258,726	7,220,881
Other segment information:										
Segment assets	5,131,231	4,853,074	15,825,713	14,126,055	71,415	62,210	(4,683,095)	(3,590,704)	16,345,264	15,450,635
Share of net assets of:										
Jointly-controlled entities	63	-	1,045,598	1,026,486	-	-	-	-	1,045,661	1,026,486
Associates	(357)	4,942	419,901	344,038	-	-	-	-	419,544	348,980
	5,130,937	4,858,016	17,291,212	15,496,579	71,415	62,210	(4,683,095)	(3,590,704)	17,810,469	16,826,101
Unallocated assets									383,287	592,307
Total assets									18,193,756	17,418,408
Capital expenditure	916	488	788,082	771,894	15,363	15,258	-	-	804,361	787,640

5. Turnover, other revenue and gains, net

Turnover represents: (1) the aggregate of the invoiced value of goods sold, net of value-added tax, consumption tax and government surcharges, and after allowances for goods returned and trade discounts; (2) the aggregate of revenue from hotel operations, toll revenue, entrance and management service fees 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 turnover, other revenue and gains, net is as follows:

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
<u>Turnover</u>			
Brewery operations		2,880,337	2,422,130
Retail operations		2,184,964	1,928,209
Dairy operations		1,003,811	1,048,148
Expressway and toll road operations		361,445	378,226
Water treatment operations		414,561	372,951
Hotel operations		2,095	140,956
Tourism operations		–	102,582
Property construction and development		248,545	97,491
Telecommunications and IT related services and products		386,665	222,157
Geothermal energy systems and related installation services		190,521	–
Corporate and others		297,203	298,848
		7,970,147	7,011,698
<u>Other revenue</u>			
Compensation income		13,897	–
Rental income		28,406	42,220
Service income		3,240	14,712
Investment income		7,429	34,782
Government grants*		51,471	30,392
Sales of raw materials		17,141	18,477
Indemnification from a related company recognised	46	21,949	25,071
Operating concession fees waived by a related party	46(s)	–	9,544
Others		36,583	28,360
		180,116	203,558

5. Turnover, other revenue and gains, net *(continued)*

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000 (Restated)
<u>Gains, net</u>			
Negative goodwill recognised as income	16	10,414	28,448
Gain on disposal of fixed assets, net		8,948	2,182
Gain on disposal of subsidiaries	41(b)	–	2,561
Gain on deemed disposal of interests in subsidiaries**		96,530	–
Gain on partial disposal of interest in a jointly-controlled entity		779	–
Gain on disposal of long term investments		8,008	8,092
Gain on disposal of short term investments		1,227	2,509
Unrealised gain on revaluation of short term investments, net		2,345	–
		128,251	43,792
Other revenue and gains, net		308,367	247,350

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

** The gain on deemed disposal of interests in subsidiaries recognised during the year ended 31 December 2003 mainly arose from the dilution of the Group's interest in Beijing Sanyuan Foods Co., Ltd. ("San Yuan"), an indirectly held subsidiary of the Company, from 74.77% to 57.11% upon the issuance of 150,000,000 new ordinary shares of RMB1 each by San Yuan in September 2003 to the public at a subscription price of RMB2.6 each in connection with its initial public offering for listing of its shares on the Shanghai Stock Exchange.

6. Profit from operating activities

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

	Notes	2003 HK\$'000	2002 HK\$'000
Depreciation	14	538,232	462,791
Amortisation of operating concessions*	15	101,367	89,982
Amortisation of management information systems*	15	1,886	1,887
Amortisation of licences *	15	735	–
Research and development expenditure:			
Current year expenditure		11,089	18,678
Less: Capitalised in deferred development costs	15	(2,164)	(15,840)
		8,925	2,838
Impairment arising during the year**	15	13,294	–
		22,219	2,838
Goodwill:			
Amortisation for the year**	16	20,396	13,445
Impairment arising during the year**	16	7,488	–
		27,884	13,445
Impairment of fixed assets**		–	5,078
Impairment of interest in an associate**		7,065	–
Impairment of long term investments**		46,577	45,712
Unrealised (gain)/loss on revaluation of short term investments, net		(2,345)	10,100
Minimum lease payments under operating leases of land and buildings		103,703	70,983
Auditors' remuneration		7,350	7,352
Provision for bad and doubtful debts		18,865	28,067
Staff costs (excluding directors' remuneration – note 8):			
Wages, salaries and staff welfare		597,562	626,464
Net pension contributions		68,173	73,468
		665,735	699,932
Exchange losses, net		1,235	532
Net rental income		(27,030)	(41,370)
Investment income:			
Listed		–	(737)
Unlisted		(7,429)	(34,045)

6. Profit from operating activities *(continued)*

- * The amortisations of operating concessions, management information systems and licences for the year are included in "Cost of sales" on the face of the consolidated profit and loss account.
- ** The amortisation of goodwill for the year and the impairments of fixed assets, deferred development costs, goodwill, interest in an associate and long term investments for the year are included in "Other operating expenses, net" on the face of the consolidated profit and loss account.

7. Finance costs

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on convertible bonds	7,913	1,628
Interest on bank loans and other loans wholly repayable within five years	134,153	206,273
Interest on other loans	9,108	11,997
Total finance costs	151,174	219,898
Less: Interest capitalised in fixed assets	(804)	–
	150,370	219,898

8. Directors' remuneration

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Non-executive director	40	40
Independent non-executive directors	240	180
	280	220
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	5,596	10,067
Performance related bonuses	–	550
Pension scheme contributions	163	279
	5,759	10,896
	6,039	11,116

The number of directors whose remuneration fell within the following bands is as follows:

	2003	2002
	Number of	Number of
	directors	directors
Nil-HK\$1,000,000	15	13
HK\$1,000,001-HK\$1,500,000	2	1
HK\$1,500,001-HK\$2,000,000	1	–
HK\$2,000,001-HK\$2,500,000	–	2
HK\$2,500,001-HK\$3,000,000	–	1
	18	17

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

9. Five highest paid employees

The five highest paid employees during the year included three (2002: four) directors. Details of the remuneration of the five highest paid employees for the year are set out below:

	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	6,795	9,229
Performance related bonuses	–	340
Pension scheme contributions	187	291
	6,982	9,860

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

	2003 Number of employees	2002 Number of employees
HK\$1,000,001 – HK\$1,500,000	4	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	–	2
HK\$2,500,001 – HK\$3,000,000	–	1
	5	5

10. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. The income tax provision in respect of operations in Mainland China and overseas is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2003	2002
	HK\$'000	HK\$'000 (Restated)
Group:		
Current – The PRC		
Hong Kong	571	710
Mainland China	195,049	203,141
Current – Overseas	14	1,062
Overprovision in prior years	(3,364)	(4,093)
Deferred – <i>note 37</i>	(2,909)	13,400
	189,361	214,220
Jointly-controlled entities:		
Mainland China	5,788	12,722
Associates:		
Mainland China	8,625	12,621
Total tax charge for the year	203,774	239,563

10. Tax (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense/(income) at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2003

	Hong Kong		Mainland China		Overseas		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(163,369)		1,001,452		(3,389)		834,694	
Tax at the statutory tax rate	(28,589)	17.5	330,479	33.0	(1,016)	30.0	300,874	36.0
Lower tax rate for specific provinces or local authority	-	-	(126,144)	(12.6)	(703)	20.7	(126,847)	(15.2)
Adjustments in respect of current tax of previous periods	(581)	0.3	(2,632)	(0.3)	(151)	4.4	(3,364)	(0.4)
Income not subject to tax	(5,528)	3.4	(62,962)	(6.3)	(332)	9.8	(68,822)	(8.2)
Expenses not deductible for tax	20,904	(12.8)	16,791	1.7	977	(28.8)	38,672	4.6
Tax losses not recognised as deferred tax assets	13,785	(8.4)	51,976	5.2	1,191	(35.1)	66,952	8.0
Tax losses utilised from previous periods	-	-	(3,588)	(0.3)	(103)	3.0	(3,691)	(0.4)
Tax charge/(credit) at the Group's effective rate	(9)	-	203,920	20.4	(137)	4.0	203,774	24.4

Group – 2002

	Hong Kong		Mainland China		Overseas		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(109,550)		846,434		686		737,570	
Tax at the statutory tax rate	(17,528)	16.0	279,321	33.0	206	30.0	261,999	35.5
Lower tax rate for specific provinces or local authority	-	-	(110,887)	(13.1)	(211)	(30.8)	(111,098)	(15.1)
Adjustments in respect of current tax of previous periods	(4,093)	3.7	-	-	-	-	(4,093)	(0.5)
Income not subject to tax	(12,350)	11.3	(10,997)	(1.3)	(759)	(110.6)	(24,106)	(3.2)
Expenses not deductible for tax	19,209	(17.5)	21,168	2.5	1,044	152.2	41,421	5.6
Tax losses not recognised as deferred tax assets	11,577	(10.6)	65,304	7.7	782	114.0	77,663	10.5
Tax losses utilised from previous periods	(204)	0.2	(2,019)	(0.2)	-	-	(2,223)	(0.3)
Tax charge/(credit) at the Group's effective rate	(3,389)	3.1	241,890	28.6	1,062	154.8	239,563	32.5

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

11. Net profit from ordinary activities attributable to shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was HK\$50,109,000 (2002: net loss of HK\$93,136,000) (*note 40(b)*).

12. Dividends

	2003	2002
	HK\$'000	HK\$'000
Interim – HK\$0.10 (2002: HK\$0.10) per ordinary share	62,250	62,250
Proposed final – HK\$0.18 (2002: HK\$0.18) per ordinary share	112,050	112,050
	174,300	174,300

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

13. Earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$453,268,000 (2002: HK\$406,828,000, as restated), and the weighted average of 622,500,000 (2002: 622,500,000) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2003 and 2002 have not been shown because the exercise of the outstanding share options of the Company and Beijing Development, a subsidiary of the Company; and the convertible bonds issued by Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), a subsidiary of the Company, during these years would not have a diluting effect on the Group's basic earnings per share.

14. Fixed assets

Group

	Expressway and related structures	Land and buildings	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Investment and hotel properties	Total
	HK\$'000 (note (a))	HK\$'000 (notes (a), (f) and (g))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note (b))	HK\$'000 (notes (a),(c), (e),(g) and (h))	HK\$'000
Cost or valuation:									
At 1 January 2003	1,204,937	3,165,936	319,436	3,463,832	303,053	252,139	593,398	295,020	9,597,751
Acquisition of subsidiaries	-	23,737	-	17,519	2,374	1,926	87	-	45,643
Additions	-	83,906	23,279	174,098	42,652	33,668	442,708	-	800,311
Transfer from construction in progress	-	161,032	2,900	282,163	9,434	2,256	(457,785)	-	-
Disposals	-	(57,208)	(723)	(60,464)	(4,215)	(13,658)	(21,634)	-	(157,902)
Revaluation surplus, net	-	-	-	-	-	-	-	200	200
Reclassifications	-	17,392	-	65,307	(79,511)	(3,188)	-	-	-
Exchange realignment	-	817	741	-	657	95	-	-	2,310
At 31 December 2003	1,204,937	3,395,612	345,633	3,942,455	274,444	273,238	556,774	295,220	10,288,313
Comprising:									
At cost	1,204,937	3,395,612	345,633	3,942,455	274,444	273,238	556,774	-	9,993,093
At 2003 valuation	-	-	-	-	-	-	-	295,220	295,220
	1,204,937	3,395,612	345,633	3,942,455	274,444	273,238	556,774	295,220	10,288,313
Accumulated depreciation and impairment:									
At 1 January 2003	111,970	535,642	248,078	1,441,856	141,591	117,968	-	-	2,597,105
Acquisition of subsidiaries	-	2,930	-	2,915	306	377	-	-	6,528
Depreciation provided for the year	25,633	103,824	44,250	298,456	37,947	28,122	-	-	538,232
Disposals	-	(19,055)	(475)	(41,761)	(2,432)	(11,379)	-	-	(75,102)
Reclassifications	-	5,752	-	36,047	(41,613)	(186)	-	-	-
Exchange realignment	-	109	471	-	248	41	-	-	869
At 31 December 2003	137,603	629,202	292,324	1,737,513	136,047	134,943	-	-	3,067,632
Net book value:									
At 31 December 2003	1,067,334	2,766,410	53,309	2,204,942	138,397	138,295	556,774	295,220	7,220,681
At 31 December 2002	1,092,967	2,630,294	71,358	2,021,976	161,462	134,171	593,398	295,020	7,000,646

14. Fixed assets *(continued)*

- (a) The land and buildings, investment properties, hotel properties and expressway and related structures included above are held under the following lease terms:

Group	Hong Kong	Elsewhere	Total
	HK\$'000	HK\$'000	HK\$'000
Long term leases	145,905	–	145,905
Medium term leases	56,440	4,693,424	4,749,864
	202,345	4,693,424	4,895,769

- (b) **Construction in progress**

Construction in progress represents the following major projects which remained incomplete as at 31 December 2003:

Group	Expected year of completion	HK\$'000
Name of project		
Wangfujing Beixia	2004	186,750
Brewery production plants	2004 – 2005	262,549
Other projects	Various	107,475
		556,774

- (c) **Investment and hotel properties**

Group	Investment properties	Hotel properties	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	277,261	17,759	295,020
Revaluation surplus, net	200	–	200
At 31 December 2003	277,461	17,759	295,220

14. Fixed assets *(continued)*

- (d)** Certain of the above land and buildings, plant and machinery and investment properties with an aggregate net book value at the balance sheet date of HK\$196,318,000 (2002: HK\$512,629,000) were pledged to secure certain bank and other loans granted to the Group (*note 34*).
- (e)** At 31 December 2003, the investment and hotel properties were revalued by DTZ Debenham Tie Leung Limited and CB Richard Ellis Limited, independent professionally qualified valuers. The investment properties were revalued on an open market income capitalisation basis or an open market value basis using the Direct Comparison Method or the Depreciated Replacement Cost Approach. The hotel properties were revalued on an open market income capitalisation basis.
- (f)** Certain land and buildings of the Group and the Company were reclassified from investment properties during the year ended 31 December 2000 at the then carrying amount of HK\$41,000,000, as valued on 31 December 1999 by DTZ Debenham Tie Leung Limited, an independent professionally qualified valuer, on an open market value basis.
- (g)** Had the carrying values of the Group's revalued hotel properties and land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been HK\$19,790,000 (2002: HK\$21,506,000) and HK\$36,228,000 (2002: HK\$37,152,000), respectively.
- (h)** The investment properties are leased to third parties under operating leases, further summary details of which are included in note 43(a) to the financial statements. The gross rental income received and receivable by the Group in respect of these investment properties amounted to HK\$15,080,000 (2002: HK\$20,598,000) for the year.

14. Fixed assets *(continued)***Company**

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation:						
At 1 January 2003	41,000	9,239	4,608	940	134,000	189,787
Additions	1,319	-	230	1,312	-	2,861
Disposals	-	-	-	(196)	-	(196)
At 31 December 2003	42,319	9,239	4,838	2,056	134,000	192,452
Comprising:						
At cost	42,319	9,239	4,838	2,056	-	58,452
At 2003 valuation	-	-	-	-	134,000	134,000
	42,319	9,239	4,838	2,056	134,000	192,452
Accumulated depreciation:						
At 1 January 2003	1,592	9,010	4,004	875	-	15,481
Provided for the year	1,694	119	299	57	-	2,169
Disposals	-	-	-	(143)	-	(143)
At 31 December 2003	3,286	9,129	4,303	789	-	17,507
Net book value:						
At 31 December 2003	39,033	110	535	1,267	134,000	174,945
At 31 December 2002	39,408	229	604	65	134,000	174,306

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

15. Intangible assets

Group

	Operating concessions	Management information systems	Licences	Deferred development costs*	Total
	HK\$'000 (note (a))	HK\$'000	HK\$'000	HK\$'000 (note (b))	HK\$'000
Cost:					
At 1 January 2003	2,027,321	18,868	–	11,130	2,057,319
Acquisition of a subsidiary	–	–	8,108	–	8,108
Additions	–	–	1,886	2,164	4,050
At 31 December 2003	2,027,321	18,868	9,994	13,294	2,069,477
Accumulated amortisation and impairment:					
At 1 January 2003	300,534	2,202	–	–	302,736
Amortisation provided for the year	101,367	1,886	735	–	103,988
Impairment during the year recognised in the profit and loss account	–	–	–	13,294	13,294
At 31 December 2003	401,901	4,088	735	13,294	420,018
Net book value:					
At 31 December 2003	1,625,420	14,780	9,259	–	1,649,459
At 31 December 2002	1,726,787	16,666	–	11,130	1,754,583

* *Internally generated*

15. Intangible assets *(continued)*

(a) Operating concessions

- (i) Pursuant to a concession agreement dated 13 July 1998 entered into between the Company and 北京市自來水公司 (Beijing Municipal Water Company) ("Beijing Water"), the Company acquired at a consideration of RMB1.5 billion an operating right from Beijing Water to operate a water purification and treatment plant, No. 9 Phase I, in Beijing and sell purified water, for a period of 20 years commencing on 24 November 1998. Beijing Water has guaranteed the Company a net cash inflow of RMB210 million from the water purification and treatment business for each of the years in the concession period. The concession right so granted was subsequently transferred by the Company to Beijing Bei Kong Water Production Co., Ltd., a wholly owned subsidiary set up by the Company for the purpose of holding this concession right and engaging in the water purification and treatment business.
- (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 relevant government authorities, Shiguan Road Limited transferred to Shenzhen Guanshun at a total consideration of RMB652 million an operating right to operate the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC, for a period of 20 years commencing on 12 April 2002.

(b) Deferred development costs

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

16. Goodwill and negative goodwill

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising on the acquisition of subsidiaries and minority interests, are as follows:

Group

	Goodwill HK\$'000	Negative goodwill HK\$'000 (Restated)
Cost:		
At 1 January 2003:		
As previously reported	171,725	(87,337)
Prior year adjustment:		
SSAP 12 – restatement of deferred tax – <i>note 37</i>	–	18,712
As restated	171,725	(68,625)
Acquisition of subsidiaries – <i>note 41(a)</i>	141,154	–
Acquisition of minority interests	26,710	(4,545)
At 31 December 2003	339,589	(73,170)
Accumulated amortisation and impairment/(recognition as income):		
At 1 January 2003:		
As previously reported	16,426	(72,443)
Prior year adjustment:		
SSAP 12 – restatement of deferred tax – <i>note 37</i>	–	17,234
As restated	16,426	(55,209)
Amortisation provided/(recognised as income) for the year	20,396	(10,414)
Impairment during the year recognised in the profit and loss account	2,356	–
At 31 December 2003	39,178	(65,623)
Net book value:		
At 31 December 2003	300,411	(7,547)
At 31 December 2002, as restated	155,299	(13,416)

16. Goodwill and negative goodwill *(continued)*

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions, which occurred prior to the adoption of the SSAP, to remain eliminated against or credited to the consolidated capital reserve, respectively.

The amounts of the goodwill and negative goodwill remaining in the consolidated capital reserve as at 31 December 2003, arising on the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, are as follows:

Group

	Goodwill eliminated against consolidated capital reserve HK\$'000	Negative goodwill credited to consolidated capital reserve HK\$'000
Cost:		
At 1 January 2003:		
As previously reported	430,023	(756,635)
Prior year adjustment:		
SSAP 12 – restatement of deferred tax – <i>note 37</i>	(330)	98,711
As restated and at 31 December 2003	<u>429,693</u>	<u>(657,924)</u>
Accumulated impairment:		
At 1 January 2003	–	–
Impairment during the year recognised in the profit and loss account	5,132	–
At 31 December 2003	<u>5,132</u>	–
Net amount:		
At 31 December 2003	<u>424,561</u>	<u>(657,924)</u>
At 31 December 2002, as restated	<u>429,693</u>	<u>(657,924)</u>

17. Interests in subsidiaries

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	4,120,771	3,970,343
Due from subsidiaries	2,415,770	2,182,269
Loans to a subsidiary	20,255	20,255
Due to subsidiaries	(571,005)	(390,511)
	5,985,791	5,782,356
Provision for impairment	(165,414)	(92,035)
	5,820,377	5,690,321

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 2003 are unsecured, bear interest at the prevailing market rate of bank loans with a similar tenure and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
Beijing Yanjing Brewery Company Limited *	The PRC/ Mainland China	RMB667,424,509	–	55.45	Production and sale of beer
燕京啤酒(包頭雪鹿)股份 有限公司 (Baotou Yanjing Brewery Company Limited)	The PRC/ Mainland China	RMB128,543,384	–	28.6†	Production and sale of beer
北京燕京(桂林漓泉)股份 有限公司 (Beijing Yanjing (Guilin Liqun) Company Limited)	The PRC/ Mainland China	RMB99,000,000	–	37.75†	Production and sale of beer
燕京啤酒(赤峰)有限責任公司 (Yanjing Brewery (Chifeng) Company Limited)	The PRC/ Mainland China	RMB83,070,200	–	33.38†	Production and sale of beer

17. Interests in subsidiaries *(continued)*

Company name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
燕京啤酒(贛州)有限責任公司 (Yanjing Brewery (Ganzhou) Company Limited)	The PRC/ Mainland China	RMB86,880,000	–	33.5 †	Production and sale of beer
燕京啤酒(衡陽)有限責任公司 (Yanjing Brewery (Hengyang) Company Limited)	The PRC/ Mainland China	RMB180,660,000	–	51.99	Production and sale of beer
湖南燕京啤酒有限公司 (Hunan Yanjing Brewery Company Limited)	The PRC/ Mainland China	RMB95,000,000	–	49.62 †	Production and sale of beer
江西燕京啤酒有限責任公司 (Jiangxi Yanjing Brewery Company Limited)	The PRC/ Mainland China	RMB129,511,385	–	42.1 †	Production and sale of beer
燕京啤酒(萊州)有限公司 (Yanjing Brewery (Laizhou) Company Limited)	The 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)	The PRC/ Mainland China	RMB83,499,643	–	30.91 †	Production and sale of beer
燕京啤酒(襄樊)有限公司 (Yanjing Brewery (Xiangfan) Company Limited)	The PRC/ Mainland China	RMB80,700,000	–	52.71	Production and sale of beer
福建燕京啤酒有限公司 (Fujian Yanjing Brewery Company Limited)	The PRC/ Mainland China	RMB50,000,000	–	49.91 †	Production and sale of beer
北京燕京飲料有限公司 (Beijing Yanjing Beverage Company Limited) δ	The PRC/ Mainland China	US\$10,000,000	–	41.59 †	Production and sale of beverages

17. Interests in subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
燕京啤酒(浙江仙都)有限公司 (Yanjing Brewery (Zhejiang Xiandu) Company Limited) δ	The PRC/ Mainland China	RMB83,350,000	–	33.27 †	Production and sale of beer
燕京啤酒(長沙)有限公司 (Yanjing Brewery (Changsha) Company Limited) δ	The PRC/ Mainland China	RMB50,000,000	–	44.36 †	Production and sale of beer
長沙華南燕京啤酒銷售有限公司 (Changsha Huanan Yanjing Brewery Sales Co., Ltd.) δ	The PRC/ Mainland China	RMB20,000,000	–	44.36 †	Production and sale of beer
Beijing Wangfujing Department Store (Group) Co., Ltd. ("Wangfujing") $\#$	The PRC/ Mainland China	RMB392,973,026	–	50.1	Department store operations
成都王府井百貨有限公司 (Chengdu Wang Fu Jing Department Store Co., Ltd.)	The PRC/ Mainland China	RMB50,000,000	–	35.07 †	Department store operations and property development
廣州王府井百貨大樓有限責任公司 (Guangzhou Wangfujing Department Store Company Limited)	The PRC/ Mainland China	RMB10,000,000	–	49.60 †	Department store operations
武漢王府井百貨有限責任公司 (Wuhan Wangfujing Department Store Company Limited)	The PRC/ Mainland China	RMB10,000,000	–	30.06 †	Department store operations
包頭王府井百貨有限責任公司 (Baotou Wangfujing Department Store Co., Ltd.)	The PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations

17. Interests in subsidiaries *(continued)*

Company name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
重慶王府井百貨有限責任公司 (Chongqing Wangfujing Department Store Co., Ltd.) δ	The PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations
石家莊王府井百貨有限責任公司 (Shijiazhuang Wangfujing Department Store Co., Ltd.) δ	The PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations
Beijing Sanyuan Foods Co., Ltd. $\#$	The PRC/ Mainland China	RMB635,000,000	–	57.11	Production and sale of dairy products
呼倫貝爾三元乳業有限責任公司 (Hu Lun Bei Er San Yuan Dairy Company Limited)	The PRC/ Mainland China	RMB41,249,861	–	37.12 \dagger	Production and sale of dairy products
Beijing Capital Expressway Development Co., Ltd.	The PRC/ Mainland China	US\$64,053,700	–	96	Operation of an expressway
Shenzhen Guanshun Road & Bridge Co., Ltd.	The PRC/ Mainland China	RMB217,500,000	–	53.08	Operation of a toll road
北京恒有源科技發展有限公司 (Beijing Ever Source Scientific Technology Development Co., Ltd.) (“Eversource Scientific”) δ	The PRC/ Mainland China	RMB35,000,000	35.29	65.88	Production and sale of geothermal energy systems
Beijing Enterprises Ever Source (Beijing) Company Limited (“Beikong Eversource”) δ	The PRC/ Mainland China	US\$3,000,000	–	65.88	Licence holding
北京恒有源環境系統設備 安裝工程有限公司 (Beijing Ever Source Environmental Equipment Installation Co., Ltd.) δ	The PRC/ Mainland China	RMB10,000,000	–	52.70	Installation of geothermal energy systems

17. Interests in subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
Beijing Bei Kong Water Production Co., Ltd.	The PRC/ Mainland China	US\$1,000,000	100	100	Operation of a water treatment plant
北京宏業房地產開發公司 (Beijing Hongye Real Estate Development Co.)	The PRC/ Mainland China	RMB30,000,000	–	50 †	Property investment and development
北京三元嘉銘房地產開發有限公司 (Beijing San Yuan Jia Ming Property Development Company Limited) ("Sanyuan Jiaming")	The PRC/ Mainland China	RMB30,000,000	–	42.83 †	Property development
Beijing Maglev Technology Development Co., Ltd.	The PRC/ Mainland China	RMB80,000,000/ RMB100,000,000	51	72.75	Research and development of magnetic levitation technology and provision of related services
Beijing Development (Hong Kong) Limited π	Hong Kong	HK\$493,981,150	–	55.81	Investment holding
Beicom Software Co., Ltd.	The PRC/ Mainland China	RMB50,000,000	–	38.17 †	Provision of management information system services
Beijing Enterprises Teletron Information Technology Co., Ltd.	The PRC/ Mainland China	RMB65,000,000	–	40.18 †	Construction of information networks, provision of IT technical support and consultation services, and trading of IT products

17. Interests in subsidiaries *(continued)*

Company name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
湖南教育信息服務有限公司 (Hunan Education Information Service Co., Ltd.)	The PRC/ Mainland China	RMB10,000,000	–	22.88 †	Construction of information networks, provision of IT technical support
北京北控偉仕軟件工程技術有限公司 (Beijing Enterprises VST Software Technology Co., Ltd.) (“VST Software”) δ	The PRC/ Mainland China	RMB2,000,000	–	40.18 †	Software development
Beijing Enterprises Holdings High-Tech Development Co., Ltd. (“High-Tech”)	The PRC/ Mainland China	US\$30,000,000	97.99	97.99	Investment holding
Beijing Enterprises Holdings Investment Management Co., Ltd.	The 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.)	The PRC/ Mainland China	US\$2,700,000	51	51	Production and sale of wine
北京順興葡萄酒有限公司 (Beijing Shun Xing Wine Co., Ltd.)	The PRC/ Mainland China	RMB11,880,000	51	51	Production and sale of wine
Beijing Western-Style Food Co., Ltd.	The PRC/ Mainland China	RMB15,750,000	–	95	Processing and sale of food products
北京發展物業投資管理有限公司 (Beijing Development Property Investment and Management Co., Ltd.)	The PRC/ Mainland China	US\$4,000,000	–	47.71 †	Property investment

17. Interests in subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	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)	The PRC/ Mainland China	RMB40,000,000	–	44.36 †	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. The shares in Yanjing Brewery held by the Group are legal person shares and cannot be traded on any stock exchange.

Shares of Wangfujing and San Yuan are listed on the Shanghai Stock Exchange. Approximately 194,594,400 shares (or a 49.52% interest) in Wangfujing and all of the shares of San Yuan held by the Group are legal person shares and cannot be traded on any stock exchange.

π Shares of Beijing Development are listed on the Stock Exchange.

δ Acquired/incorporated during the year.

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.

18. Interests in jointly-controlled entities

	Group		Company	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	–	–	28,286	28,286
Share of net assets	1,045,661	1,026,486	–	–
Goodwill on acquisition	17,682	22,381	–	–
Due from jointly-controlled entities	54,214	10,023	13,905	–
Due to jointly-controlled entities	(88,092)	(51,900)	(23,691)	–
	1,029,465	1,006,990	18,500	28,286

Share of net assets of jointly-controlled entities as at 31 December 2002 was restated as a result of the adoption of SSAP 12 (Revised) during the year, further details of which are set out in note 37 to the financial statements.

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

Group	Goodwill HK\$'000
Cost:	
At 1 January 2003 and 31 December 2003	27,761
Accumulated amortisation:	
At 1 January 2003	5,380
Amortisation provided for the year	4,699
At 31 December 2003	10,079
Net book value:	
At 31 December 2003	17,682
At 31 December 2002	22,381

18. Interests in jointly-controlled entities *(continued)*

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions, which occurred prior to the adoption of the SSAP, to remain eliminated against the consolidated capital reserve.

The amount of the goodwill remaining in the consolidated capital reserve, arising on the acquisition of jointly-controlled entities prior to the adoption of SSAP 30, is as follows:

Group

	Goodwill eliminated against consolidated capital reserve
	HK\$'000
Cost:	
At 1 January 2003:	
As previously reported	121,850
Prior year adjustment:	
SSAP 12 – restatement of deferred tax – <i>note 37</i>	37,338
	<hr/>
As restated and at 31 December 2003	159,188
	<hr/>
Accumulated impairment:	
At 1 January and 31 December 2003	–
	<hr/>
Net amount:	
At 31 December 2003	159,188
	<hr/> <hr/>
At 31 December 2002, as restated	159,188
	<hr/> <hr/>

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

The Group's trade and bills receivable balances due from the jointly-controlled entities are disclosed in note 26 to the financial statements.

18. Interests in jointly-controlled entities *(continued)*

Particulars of the principal jointly-controlled entities are as follows:

Company name	Business structure	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of			Principal activities
				Ownership interest attributable to the Group	Voting power	Profit sharing	
燕京啤酒(曲阜三孔)有限公司 (Yanjing Beer (Qu Fu Sankong) Co., Ltd.)	Corporate	The PRC/ Mainland China	RMB230,769,200	46.6	57.1	52	Production and sale of beer
Beijing McDonald's Food Co., Ltd. ("Beijing McDonald's")	Corporate	The PRC/ Mainland China	US\$20,800,000	28.56	50	50	Provision of fast food services
Beijing Tourism Development Company Limited	Corporate	Caymans Islands	HK\$10,000	40	44.4	40	Investment holding
Jian Guo Hotel Joint Venture of Beijing ("Jian Guo Hotel")	Corporate	The PRC/ Mainland China	US\$23,000,000	50.5	50.5	50.5	Hotel operations
Beijing Badaling Tourism Co., Ltd. ("Badaling Tourism")	Corporate	The PRC/ Mainland China	RMB286,000,000	75	75	75	Operation of tourism businesses and hotel operations
Beijing Long Qing Xia Tourism Development Co., Ltd. ("LQX Tourism")	Corporate	The PRC/ Mainland China	RMB120,000,000	75	75	75	Operation of tourism businesses
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)	Corporate	The PRC/ Mainland China	US\$59,600,000	25.05	50	50	Provision of retail management services

18. Interests in jointly-controlled entities *(continued)*

Company name	Business structure	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of			Principal activities
				Ownership interest attributable to the Group	Voting power	Profit sharing	
北京雙安商場有限責任公司 (Beijing Shuang An Department Store Company Limited)	Corporate	The PRC/ Mainland China	RMB280,000,000	25.05	42.9	50	Department store operations
中關村國際商城發展有限公司 (Zhong Guan Cun Universal Mall Department)	Corporate	The PRC/ Mainland China	RMB100,000,000	14.53	29	29	Property development
北京秦昌玻璃有限公司 (Beijing Qin Chang Glass Company Limited) †	Corporate	The PRC/ Mainland China	RMB100,000,000	30	28.6	30	Production and sale of flat glass
上海三元昂立營養食品有限公司 (Shanghai Sanyuan Onlly Alimentation Foods Co., Ltd.) δ	Corporate	The PRC/ Mainland China	RMB20,000,000	27.98	50	49	Production and sale of beverages
北京教育信息網服務中心有限公司 (Beijing Education Information Network Service Centre Co., Ltd.)	Corporate	The PRC/ Mainland China	RMB12,000,000	20.09	50	36	Provision of information network service
北京市政交通一卡通有限公司 (Beijing Municipal Administration & Communications Card Co., Ltd.)	Corporate	The PRC/ Mainland China	RMB50,000,000	21.21	22.2	38	Operations of contactless multipurpose electronics payment cards

† Except for this directly held jointly-controlled entity, all of the other jointly-controlled entities are indirectly held by the Company.

δ Incorporated during the year.

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

18. Interests in jointly-controlled entities *(continued)*

The following is a condensed summary of additional financial information of the Group's major jointly-controlled entities, Jian Guo Hotel, Badaling Tourism and LQX Tourism:

	Jian Guo Hotel		Badaling Tourism		LQX Tourism	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000
RESULTS						
Turnover	79,564	107,967	64,804	91,047	28,837	42,257
Profit/(loss) before tax	8,927	12,828	(18,970)	34,807	(2,959)	10,640
Profit/(loss) after tax	6,321	8,302	(12,742)	14,786	(2,576)	6,572
Share of profit/(loss) after tax attributable to the Group	3,192	4,193	(9,557)	11,090	(1,932)	4,929
ASSETS AND LIABILITIES						
Fixed assets	271,328	272,084	330,459	360,023	42,007	39,615
Operating concession (<i>note</i>)	–	–	–	–	49,458	50,871
Other non-current assets	7,840	2,561	32,714	29,821	93	–
Current assets	51,982	50,351	119,570	90,724	35,643	37,936
Current liabilities	(32,420)	(26,063)	(210,283)	(160,153)	(13,698)	(9,940)
Non-current liabilities	(76,274)	(74,785)	–	(24,349)	(467)	(693)
Net assets	222,456	224,148	272,460	296,066	113,036	117,789
Share of net assets attributable to the Group	112,340	113,195	204,345	222,050	84,777	88,342

18. Interests in jointly-controlled entities *(continued)*

Note: Pursuant to a concession agreement dated 17 June 1998 entered into between LQX Tourism 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 exceeds RMB35 million but less than RMB70 million, inclusive	20%
The portion exceeds RMB70 million but less than RMB100 million, inclusive	30%
The portion exceeds RMB100 million	40%

19. Interests in associates

	Group		Company	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	–	–	141,742	141,742
Share of net assets	419,544	348,980	–	–
Due from associates	32,338	63,808	4,002	–
Due to an associate	–	(317)	–	–
	451,882	412,471	145,744	141,742
Provision for impairment	(7,065)	–	–	–
	444,817	412,471	145,744	141,742

Share of net assets of associates as at 31 December 2002 was restated as a result of the adoption of SSAP 12 (Revised) during the year, further details of which are set out in note 37 to the financial statements.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions, which occurred prior to the adoption of the SSAP, 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 the adoption of SSAP 30, was HK\$224,569,000 as at 1 January and 31 December 2003. The amount of goodwill is stated at cost.

19. Interests in associates *(continued)*

Particulars of the principal associates are as follows:

Company name	Business structure	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of			Principal activities
				Ownership interest attributable to the Group	Voting power	Profit sharing	
Beijing International Switching System Co., Ltd.	Corporate	The PRC/ Mainland China	US\$45,520,000	40	33.3	40	Production and sale of telecommunications products
Beijing Peking University WBL Biotech Co., Ltd. †	Corporate	The PRC/ Mainland China	RMB80,000,000	26.55	22.2	26.55	Production and sale of healthcare products
中生北控生物科技股份有限公司 (Zhongsheng Beikong Bio-Technology Company Limited)	Corporate	The PRC/ Mainland China	RMB70,017,528	34.29	33.3	35	Production and sale of pharmaceutical products
北京機電院高技術股份有限公司 (BMEI Co., Ltd.) δ	Corporate	The PRC/ Mainland China	RMB130,000,000	40	36.4	40	Production and sale of mechanical and electrical equipment
Sanyuan Challenge Australian Dairy Pty Ltd ("Sanyuan Challenge")	Corporate	Australia	A\$10,430,373	28.56	50	50	Production and sale of dairy products

† This associate is directly held by the Company.

δ 24.5% and 15.5% equity interest 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.

19. Interests in associates *(continued)*

The following is a condensed summary of additional financial information of a major associate, BISC:

	Year ended 31 December	
	2003 HK\$'000	2002 HK\$'000 (Restated)
RESULTS		
Turnover	1,698,559	1,438,277
Profit before tax	80,680	109,900
Profit after tax	62,651	83,370
Share of profit after tax attributable to the Group	25,060	33,348
31 December		
	2003 HK\$'000	2002 HK\$'000 (Restated)
ASSETS AND LIABILITIES		
Fixed assets	196,500	228,965
Other non-current assets	323,729	397,852
Current assets	1,187,497	1,516,514
Current liabilities	(1,222,640)	(1,711,187)
Non-current liabilities	–	(9,710)
Net assets	485,086	422,434
Share of net assets attributable to the Group	194,034	168,974

20. Pledged bank balances and time deposits

	Group	
	2003 HK\$'000	2002 HK\$'000
Pledged bank balances	64,687	27,673
Pledged time deposits	–	45,082
	64,687	72,755
Less: Portion classified as current assets	(56,875)	(62,854)
Long term portion	7,812	9,901

- (i) Short term pledged bank balances of HK\$9,785,000 (2002: Short term pledged time deposits of HK\$44,116,000) were pledged to banks to secure certain short term bank loans granted to the Group (note 34).
- (ii) A long term pledged bank balance of HK\$7,812,000 (2002: HK\$9,901,000) and short term pledged bank balances of HK\$33,444,000 (2002: HK\$17,772,000) were pledged to banks as security for mortgage loans granted to certain purchasers of the Group's properties held for sale.
- (iii) Short term pledged bank balances of HK\$13,646,000 (2002: Short term pledged time deposits of HK\$966,000) were pledged as guarantees for tenders and contracts.

21. Long term investments

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Listed equity investments in Hong Kong, at cost	79,600	52,100	47,600	20,100
Unlisted equity investments, at cost	315,439	376,045	74,384	82,176
	395,039	428,145	121,984	102,276
Provision for impairment	(105,482)	(78,016)	(17,600)	(17,600)
	289,557	350,129	104,384	84,676
Market value of listed investments	39,270	18,100	37,270	650

The market values of the Group's and the Company's long term listed equity investments at the date of approval of these financial statements were HK\$46,050,000 and HK\$42,750,000, respectively.

22. Properties held for sale

The carrying amount of the Group's properties held for sale that are carried at net realisable value was HK\$67,623,000 (2002: HK\$94,459,000) as at the balance sheet date.

Certain of the Group's properties held for sale with an aggregate carrying amount at the balance sheet date of HK\$117,453,000 (2002: HK\$11,527,000) were pledged to secure certain bank and other loans granted to the Group (note 34).

23. Properties under development

	Group	
	2003	2002
	HK\$'000	HK\$'000
At cost	120,974	296,537
Less: Portion classified as current assets	–	(174,735)
Long term portion	120,974	121,802

24. Inventories

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	753,103	741,820
Work in progress	68,109	65,826
Finished goods	131,182	110,025
Trading stocks	53,817	54,137
	1,006,211	971,808

At 31 December 2003, none of the inventories was carried at net realisable value (2002: Nil).

25. Amounts due from/to contract customers

	Group	
	2003 HK\$'000	2002 HK\$'000
Amounts due from contract customers	6,750	4,516
Amounts due to contract customers	(25,816)	(1,204)
	(19,066)	3,312
Contract costs incurred plus recognised profits less recognised losses to date	32,523	6,629
Less: Progress billings received and receivable	(51,589)	(3,317)
	(19,066)	3,312

26. 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 3 annual instalments. Aged analyses of trade and bills receivables are prepared and closely monitored in order to minimise any credit risk associated with receivables.

An aged analysis of the trade and bills receivables as at the balance sheet date is as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	702,834	494,941	1,132	1,872
One to two years	66,606	66,518	-	-
Two to three years	20,332	5,754	-	-
Over three years	3,722	110	-	-
	793,494	567,323	1,132	1,872
Less: Portion classified as current assets	(744,128)	(567,323)	(1,132)	(1,872)
Long term portion	49,366	-	-	-

Included in the Group's trade and bills receivables as at the balance sheet date are amounts of HK\$4,999,000 (2002: HK\$23,722,000) and HK\$3,721,000 (2002: Nil) due from jointly-controlled entities and related companies, respectively, arising from transactions carried out in the ordinary course of business of the Group. The balances with jointly-controlled entities and related companies are unsecured, interest-free and are repayable within credit periods similar to those offered by the Group to its major customers.

27. Other receivables

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Prepayments		48,379	42,911	7,523	10,113
Deposits and other debtors		684,868	512,440	8,196	26,632
Due from related companies	28	93,242	118,565	3,451	15,284
Due from holding companies	28	6,842	6,396	–	–
		833,331	680,312	19,170	52,029
Less: Portion classified as current assets		(688,090)	(673,705)	(15,239)	(45,422)
Long term portion		145,241	6,607	3,931	6,607

The long term portion of other receivables as at 31 December 2003 included an investment deposit of RMB150,000,000 paid to a third party for the acquisition of a 38.148% interest in Huiquan Brewage Group Inc. Fujian China ("Huiquan Brewage") by Yanjing Brewery. The acquisition was approved by relevant PRC government authorities and completed in March 2004, further details of which are set out in note 45(v) to the financial statements.

Included in the Group's deposits and other debtors as at the balance sheet date are an amount of HK\$143,403,000 (2002: HK\$28,752,000) paid in advance to related companies arising from purchases of raw materials carried out in the ordinary course of business of the Group. The balances with the related companies are unsecured and interest-free.

28. Due from/to related companies and holding companies

The amounts due from/to related companies represent amounts due from/to certain joint venture partners of the Group. The balances are unsecured, interest-free and have no fixed terms of repayment.

The amounts due from/to holding companies are unsecured, interest-free and have no fixed terms of repayment.

Balances with related companies of the Group included in trade and bills receivables, deposits and other debtors, and trade and bills payables are disclosed in notes 26, 27 and 31 to the financial statements, respectively.

29. Short term investments

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Listed equity investments, at market value:				
Hong Kong	20,137	11,815	13,680	11,616
Elsewhere	26	7,154	–	–
	20,163	18,969	13,680	11,616
Unlisted equity investments in				
Mainland China, at fair value	1,363	1,074	–	–
Unlisted fund, at fair value	27,239	27,239	27,239	27,239
	48,765	47,282	40,919	38,855

30. Cash and cash equivalents

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	2,059,019	2,012,703	11,506	8,092
Time deposits	1,713,960	1,660,335	578,224	703,672
	3,772,979	3,673,038	589,730	711,764
<i>Less: Pledged bank balances and time deposits – note 20</i>	(64,687)	(72,755)	–	–
Cash and cash equivalents	3,708,292	3,600,283	589,730	711,764

31. Trade and bills payables

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	625,678	560,517
One to two years	17,200	52,186
Two to three years	16,142	4,786
Over three years	12,085	14,159
	671,105	631,648

Included in the Group's trade and bills payables are amounts of HK\$84,999,000 (2002: HK\$92,410,000) 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.

32. Other payables and accruals

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accruals		138,121	164,953	39,473	–
Other liabilities		1,138,378	600,108	47,915	24,023
Due to related companies	28	85,601	233,273	9,481	23,183
Due to holding companies	28	74,174	8,596	74,174	8,596
		1,436,274	1,006,930	171,043	55,802

33. Taxes payable

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Income/profits tax	151,171	71,296	–	–
Consumption tax	55,403	52,210	–	–
Value-added tax	80,795	90,347	–	–
Business tax	19,992	18,041	–	–
Others	21,640	9,525	8,083	8,083
	329,001	241,419	8,083	8,083

34. Bank and other borrowings

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans:				
Secured	247,859	507,630	–	–
Unsecured	2,986,289	3,309,677	1,400,850	1,400,850
	3,234,148	3,817,307	1,400,850	1,400,850
Other loans, unsecured	456,507	431,032	–	–
Total bank and other loans	3,690,655	4,248,339	1,400,850	1,400,850
Bank loans repayable:				
Within one year	1,638,900	1,659,030	–	–
In the second year	167,285	694,190	–	–
In the third to fifth years, inclusive	1,407,785	1,451,010	1,400,850	1,400,850
Beyond five years	20,178	13,077	–	–
	3,234,148	3,817,307	1,400,850	1,400,850
Other loans repayable:				
Within one year	146,826	120,859	–	–
In the second year	34,008	45,635	–	–
In the third to fifth years, inclusive	100,185	109,319	–	–
Beyond five years	175,488	155,219	–	–
	456,507	431,032	–	–
Total bank and other loans	3,690,655	4,248,339	1,400,850	1,400,850
Less: Portion classified as current liabilities	(1,785,726)	(1,779,889)	–	–
Long term portion	1,904,929	2,468,450	1,400,850	1,400,850

34. Bank and other borrowings *(continued)*

- (a) The other loans include interest-free loans of HK\$219,132,000 (2002: HK\$223,371,000) and HK\$3,341,000 (2002: HK\$3,961,000) from related companies and a third party, respectively. The remaining other loans of HK\$234,034,000 (2002: HK\$203,700,000) bear interest at rates ranging from 5% to 8% (2002: 5% to 7%) per annum.
- (b) HK\$396,668,000 (2002: HK\$349,985,000) 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.
- (c) Certain of the Group's bank and other loans are secured by the following:
 - (i) Mortgages over the Group's land and buildings, plant and machinery and investment properties with an aggregate carrying amount at the balance sheet date of HK\$196,318,000 (2002: HK\$512,629,000) (*note 14(d)*).
 - (ii) Mortgages over certain of the Group's properties held for sale with an aggregate carrying amount at the balance sheet date of HK\$117,453,000 (2002: HK\$11,527,000) (*note 22*).
 - (iii) Mortgages over certain of the Group's bank balances and time deposits at the balance sheet date of HK\$9,785,000 (2002: HK\$44,116,000) in aggregate (*note 20*).

35. Convertible bonds

On 16 October 2002, Yanjing Brewery, a subsidiary held indirectly as to 55.45% by the Company, issued at face value 5-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 a conversion price of RMB10.49 per share, subject to adjustments in certain events. The conversion period for the Convertible Bonds is from 16 October 2003 to 16 October 2007 (the "Conversion Period"), both days 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.

35. Convertible bonds *(continued)*

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

The Convertible Bonds are guaranteed by the Company, which was approved by the shareholders of the Company in an extraordinary general meeting held on 11 April 2002. 北京燕京啤酒集團公司 (Beijing Yanjing Beer Group Company) ("Yanjing Beer Group"), which has beneficial interests in Yanjing Brewery, has undertaken to counter indemnify the Company in respect of any contingencies arising from the portion of the guarantee exceeding the Company's effective proportional equity interest of 55.45% in Yanjing Brewery.

36. Other long term liabilities

	Group	
	2003	2002
	HK\$'000	HK\$'000
Pension and related liabilities	9,421	14,131
Deferred income <i>(note)</i>	11,143	6,706
Others	17,689	42,459
	38,253	63,296

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

37. Deferred tax

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

	2003 HK\$'000	2002 HK\$'000 (Restated)
Deferred tax assets	44,965	32,110
Deferred tax liabilities	(163,570)	(153,624)
	(118,605)	(121,514)

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

Group – 2003

	Revaluation of properties HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Accelerated tax depreciation HK\$'000	Impairment and general provisions HK\$'000	Total HK\$'000
At 1 January 2003:					
As previously reported	–	–	(21,498)	(9)	(21,507)
Prior year adjustment:					
SSAP 12 – restatement of deferred tax	(2,168)	(155,228)	25,488	31,901	(100,007)
As restated	(2,168)	(155,228)	3,990	31,892	(121,514)
Deferred tax credited/(charged) to profit and loss account during the year – note 10	–	6,114	(5,847)	2,642	2,909
Net deferred tax assets/(liabilities) at 31 December 2003	(2,168)	(149,114)	(1,857)	34,534	(118,605)

37. Deferred tax *(continued)*

Group – 2002

	Revaluation of properties HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Accelerated tax depreciation HK\$'000	Impairment and general provisions HK\$'000	Total HK\$'000
At 1 January 2002:					
As previously reported	–	–	(18,542)	(16)	(18,558)
Prior year adjustment:					
SSAP 12 – restatement of deferred tax	(699)	(220,759)	26,685	37,129	(157,644)
As restated	(699)	(220,759)	8,143	37,113	(176,202)
Deferred tax charged to equity	(1,417)	(1,493)	–	–	(2,910)
Deferred tax charged to profit and loss account during the year – <i>note 10</i>	(52)	(402)	(10,416)	(2,530)	(13,400)
Disposal of subsidiaries	–	67,464	6,262	(2,698)	71,028
Exchange realignment	–	(38)	1	7	(30)
Net deferred tax assets/(liabilities) at 31 December 2002	(2,168)	(155,228)	3,990	31,892	(121,514)

At 31 December 2003, deferred tax assets of HK\$230,332,000 (2002: HK\$191,659,000) have not been recognised in respect of unused tax losses as they have arisen in the Company and certain subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: 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.

37. Deferred tax *(continued)*

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. As a consequence of the adoption of this revised SSAP, net amounts of HK\$2,909,000 and HK\$102,000 were credited to the consolidated profit and loss account for the year ended 31 December 2003 in respect of the deferred tax of the Group and jointly-controlled entities, respectively, while an amount of HK\$216,000 was charged to the consolidated profit and loss account in respect of the deferred tax of an associate.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The comparative statements for the year ended 31 December 2002 have been restated to conform to the new policy. The effect of the change in this accounting policy on the consolidated financial statements in respect of the year ended 31 December 2002 is summarised below:

- (i) deferred tax assets and liabilities as at 31 December 2002 have been increased by HK\$32,110,000 and HK\$132,117,000, respectively;
- (ii) share of net assets of jointly-controlled entities and an associate as at 31 December 2002 have been decreased by HK\$41,006,000 and increased by HK\$9,115,000, respectively;
- (iii) minority interests as at 31 December 2002 have been decreased by HK\$47,734,000;
- (iv) negative goodwill as at 31 December 2002 has been decreased by HK\$1,478,000;
- (v) retained profits, capital reserve, hotel property revaluation reserve and exchange fluctuation reserve as at 31 December 2002 have been increased by HK\$55,259,000, decreased by HK\$135,719,000, HK\$1,391,000 and HK\$835,000, respectively;
- (vi) retained profits, capital reserve, hotel property revaluation reserve and exchange fluctuation reserve as at 1 January 2002 have been increased by HK\$58,669,000, decreased by HK\$135,719,000, HK\$638,000 and HK\$835,000, respectively; and
- (vii) a net decrease in the net profit from ordinary activities attributable to shareholders of HK\$3,410,000 for the year ended 31 December 2002 which resulted from: a decrease in the recognition of negative goodwill as income of HK\$8,870,000, a net increase in tax charge of HK\$12,514,000 and a net decrease in minority interests charged to the consolidated profit and loss account of HK\$17,974,000.

38. Share capital

Authorised:

2,000,000,000 ordinary shares of HK\$0.10 each

Issued and fully paid:

622,500,000 ordinary shares of HK\$0.10 each

Company	
2003	2002
HK\$'000	HK\$'000
200,000	200,000
62,250	62,250

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 39 to the financial statements. No share options were granted or exercised during the year.

39. Share option schemes

Company

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The directors of the Company may, at their discretion, invite employees, including executive directors, of the Company and any of its subsidiaries, to take up options to subscribe for ordinary shares of the Company at HK\$1 per grant of options. The Scheme became effective on 16 May 1997 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 Scheme (the "Maximum Number") is an amount equivalent, upon their exercise, to 10% of the ordinary shares of the Company in issue at any time. No option may be granted to any one person which if exercised in full would result in the total number of ordinary shares of the Company issued and issuable to him/her under all the options previously granted to him/her and the said option exceeding 25% of the Maximum Number. At 31 December 2003, the number of ordinary shares issuable under share options granted under the Scheme was 11,150,000, which represented approximately 1.8% of the Company's shares in issue as at that date.

An option may not be transferred and is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part.

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

39. Share option schemes *(continued)***Company** *(continued)*

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the nominal value of an ordinary share; and (ii) 80% of the average of the closing prices of the Company's ordinary shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option.

The following share options were outstanding under the Scheme as at 31 December 2003:

Name or category of participant	Notes	Number of share options			At 31 December 2003
		At 1 January 2003	Granted during the year	Lapsed during the year	
Directors					
Mr. Hu Zhao Guang <i>(note (c))</i>	(a)	400,000	–	(400,000)	–
	(b)	3,600,000	–	(3,600,000)	–
		4,000,000	–	(4,000,000)	–
Mr. Li Fu Cheng	(a)	200,000	–	–	200,000
	(b)	1,800,000	–	–	1,800,000
		2,000,000	–	–	2,000,000
Mr. Xing Chun Hua <i>(note (c))</i>	(a)	240,000	–	(240,000)	–
	(b)	2,160,000	–	(2,160,000)	–
		2,400,000	–	(2,400,000)	–
Mr. Zheng Wan He	(a)	200,000	–	–	200,000
	(b)	1,800,000	–	–	1,800,000
		2,000,000	–	–	2,000,000
Mr. Wei En Hong	(a)	200,000	–	–	200,000
	(b)	1,800,000	–	–	1,800,000
		2,000,000	–	–	2,000,000
Mr. Li Zhong Gen	(a)	200,000	–	–	200,000
	(b)	1,800,000	–	–	1,800,000
		2,000,000	–	–	2,000,000
Other employees					
In aggregate	(a)	320,000	–	–	320,000
	(b)	2,830,000	–	–	2,830,000
		3,150,000	–	–	3,150,000
		17,550,000	–	(6,400,000)	11,150,000

39. Share option schemes *(continued)*

Company *(continued)*

Notes:

- (a) These options were granted on 3 March 1998, at an exercise price per share of HK\$17.03. 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 at any time in the next 10 years commencing on 1 September 1998. No such options were exercised during the year.
- (b) These options were granted on 23 June 1998 at an exercise price per share of HK\$17.03. The consideration paid by each director and employee for the options granted was HK\$1 per grant of options. The options may be exercised in 9 equal portions. The first portion is exercisable at any time commencing on 1 January 1999, and one additional portion becomes exercisable on 1 January in each of the following years. All of the options (to the extent not exercised) will become exercisable on 1 January 2007, and if not otherwise exercised, will lapse on 1 January 2009. No portion of these share options was exercised during the year.
- (c) Owing to the resignation of Messrs. Hu Zhao Guang and Xing Chun Hua on 29 May 2003, the share options granted to them lapsed on the same date.

Beijing Development

At 31 December 2003, the interests of the directors of the Company in options to subscribe for shares of Beijing Development, an indirectly owned subsidiary of the Company listed on the Stock Exchange, under the share option scheme of Beijing Development, were as follows:

Name of directors	Notes	Number of share options			At 31 December 2003
		At 1 January 2003	Granted during the year	Lapsed during the year	
Mr. Xiong Da Xin <i>(note (c))</i>	(a)	2,800,000	–	(2,800,000)	–
	(b)	1,200,000	–	(1,200,000)	–
		4,000,000	–	(4,000,000)	–
Mr. Bai Jin Rong <i>(note (c))</i>	(a)	2,600,000	–	(2,600,000)	–
	(b)	1,200,000	–	(1,200,000)	–
		3,800,000	–	(3,800,000)	–
		7,800,000	–	(7,800,000)	–

39. Share option schemes *(continued)*

Beijing Development *(continued)*

Notes:

- (a) These options were granted on 19 June 2001 at an exercise price of HK\$1.13 per option. The options may be exercised in 2 or 3 equal portions. The first portion is exercisable at any time commencing on 1 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26 June 2006. No portion of these share options was exercised during the year.
- (b) These options were granted on 18 January 2002 at an exercise price of HK\$1.00 per option. The closing price of ordinary shares of Beijing Development on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options was HK\$0.98. The options can be exercised in 3 equal portions. The first portion is exercisable at any time commencing on 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17 January 2007. No portion of these share options was exercised during the year.
- (c) Owing to the resignation of Messrs. Xiong Da Xin and Bai Jin Rong on 15 October 2003 and 31 December 2002, respectively, the share options granted to them lapsed on 1 October 2003 and 31 March 2003, respectively.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

40. Reserves

(a) Group

- (i) The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 30 to 31 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 2003 was distributable in the form of cash dividends.
- (iii) Certain amounts of goodwill and negative goodwill arising on the acquisition of subsidiaries, jointly-controlled entities and associates in prior years remain eliminated against/credited to the consolidated capital reserve as further explained in notes 16, 18 and 19 to the financial statements.

(b) Company

	Share premium account	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	4,839,497	712,755	5,552,252
Net loss for the year	–	(93,136)	(93,136)
Interim 2002 dividend	–	(62,250)	(62,250)
Proposed final 2002 dividend	–	(112,050)	(112,050)
At 31 December 2002 and 1 January 2003	4,839,497	445,319	5,284,816
Net profit for the year	–	50,109	50,109
Interim 2003 dividend	–	(62,250)	(62,250)
Proposed final 2003 dividend	–	(112,050)	(112,050)
At 31 December 2003	4,839,497	321,128	5,160,625

41. Notes to the consolidated cash flow statement

(a) Acquisition of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Fixed assets	39,115	466,833
Operating concession	–	614,313
Licence	8,108	–
Interest in a jointly-controlled entity	–	14,255
Due to jointly-controlled entities	–	(22,433)
Long term investments	22,610	23,924
Inventories	114,756	12,146
Trade and bills receivables	75,074	17,998
Other receivables	52,759	21,556
Cash and bank balances	81,631	93,431
Trade and bills payables	(27,755)	(76,813)
Accruals and other liabilities	(85,658)	(67,270)
Due to related companies	(14,544)	–
Taxes payable	(861)	(38,057)
Bank and other borrowings	(179,934)	(426,518)
Other long term liabilities	–	(20,074)
Minority interests	(19,572)	(161,960)
Net assets	65,729	451,331
Goodwill arising on acquisition – note 16	141,154	42,256
Negative goodwill arising on acquisition	–	(5,445)
	206,883	488,142
Satisfied by:		
Cash	161,987	488,142
Reclassification to interests in subsidiaries from long term investments	33,446	–
Issue of shares by a subsidiary	11,450	–
	206,883	488,142

41. Notes to the consolidated cash flow statement *(continued)***(a) Acquisition of subsidiaries** *(continued)*

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

	2003	2002
	HK\$'000	HK\$'000
Cash and bank balances acquired	81,631	93,431
Cash consideration payable	(161,987)	(488,142)
<i>Add:</i> Outstanding payable at year end	4,811	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(75,545)	(394,711)

The main subsidiaries acquired in respect of the acquisition of subsidiaries during the year mentioned above included Eversource Scientific and Beikong Eversource, which were acquired by the Group in April 2003. The two companies, together with their respective subsidiaries, are engaged in the construction of geothermal energy systems and the provision of related installation services. Further details of the two companies are included in note 17 to the financial statements.

The subsidiaries acquired during the year contributed HK\$292,607,000 to the Group's consolidated turnover, and had a net profit after tax and before minority interests of HK\$66,017,000 for the year.

The subsidiaries acquired in the prior year contributed HK\$409,738,000 to the Group's consolidated turnover, and had a net profit after tax and before minority interests of HK\$40,314,000 for that year.

41. Notes to the consolidated cash flow statement *(continued)***(b) Disposal of subsidiaries**

	2003	2002
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	–	682,655
Operating concession	–	50,871
Due from a jointly-controlled entity	–	26,353
Interests in associates	–	3,315
Due from an associate	–	1,154
Due to an associate	–	(368)
Long term investments	–	2,493
Inventories	–	25,216
Trade and bills receivables	–	6,982
Other receivables	–	27,541
Cash and bank balances	–	127,700
Trade and bills payables	–	(12,944)
Accruals and other liabilities	–	(98,411)
Taxes payable	–	(8,961)
Bank and other borrowings	–	(107,395)
Minority interests	–	(268,775)
Net assets	–	457,426
Gain on disposal of subsidiaries – note 5	–	2,561
	–	459,987
Satisfied by:		
Cash	–	1,593
Reclassification to interests in jointly-controlled entities from interests in subsidiaries	–	458,394
	–	459,987

41. Notes to the consolidated cash flow statement *(continued)***(b) Disposal of subsidiaries** *(continued)*

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

	2003	2002
	HK\$'000	HK\$'000
Cash and bank balances disposed of	–	(127,700)
Cash consideration received	–	1,593
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	(126,107)

The results of the subsidiaries disposed of in the prior year contributed HK\$245,880,000 to the Group's consolidated turnover, and had a net profit after tax and before minority interests of HK\$36,167,000 for that year.

(c) Major non-cash transactions

During the year, 12,722,400 ordinary shares of Beijing Development were issued as a part of the consideration for the acquisition of a 60% equity interest in Wisdom Elite Holdings Limited ("Wisdom Elite"), the holding company of VST Software, which is engaged in the development of software.

(d) Restricted cash and cash equivalent balances

Short term pledged bank balances of the Group of HK\$9,785,000 (2002: Short term pledged time deposits of HK\$44,116,000) were pledged to banks to secure certain bank loans granted to the Group, as further explained in notes 20 and 34 to the financial statements.

A long term pledged bank balance of HK\$7,812,000 (2002: HK\$9,901,000) and short term pledged bank balances of HK\$33,444,000 (2002: HK\$17,772,000) were pledged to banks as security for mortgage loans granted to certain purchasers of the Group's properties held for sale, as further explained in note 20 to the financial statements.

Short term pledged bank balances of HK\$13,646,000 (2002: Short term pledged time deposits of HK\$966,000) were pledged as guarantees for tenders and contracts, as further explained in note 20 to the financial statements.

42. CONTINGENT LIABILITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given in respect of mortgage loans granted by banks to the Group's purchasers of properties held for sale	56,901	56,820	–	–
Guarantees given for banking facilities granted to a jointly-controlled entity	14,131	–	–	–
Guarantees given for banking facilities granted and utilised by a non-wholly owned subsidiary	–	–	–	174,282
Guarantee given for the Convertible Bonds issued by Yanjing Brewery – note 35	–	–	659,444	659,444
	71,032	56,820	659,444	833,726

43. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (as included in note 14 to the financial statements) under operating lease arrangements, with leases negotiated for original terms ranging from 1 to 24 years. The terms of the leases generally require the tenants to pay security deposits.

At 31 December 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	33,075	19,536	–	8,500
In the second to fifth years, inclusive	95,907	79,633	–	–
After five years	63,417	59,814	–	–
	192,399	158,983	–	8,500

43. OPERATING LEASE ARRANGEMENTS *(continued)*

(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 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	118,778	80,145	2,476	–
In the second to fifth years, inclusive	405,704	272,027	619	–
After five years	1,339,419	818,413	–	–
	1,863,901	1,170,585	3,095	–

44. CAPITAL COMMITMENTS

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Land and buildings:		
Authorised, but not contracted for	2,485	144,742
Contracted, but not provided for	119,897	143,390
	122,382	288,132
Plant and machinery:		
Authorised, but not contracted for	37,174	–
Contracted, but not provided for	107,824	122,142
	144,998	122,142
Acquisition of subsidiaries and capital contribution to a jointly-controlled entity:		
Authorised, but not contracted for	210,244	–
Contracted, but not provided for	254,039	–
	464,283	–
Total capital commitments	731,663	410,274

The Company had no material capital commitments as at 31 December 2003 (2002: Nil).

45. POST BALANCE SHEET EVENTS

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

- (i) On 9 January 2004, the Company entered into a conditional sale and purchase agreement to dispose of a 20% interest in BISC, a 40% indirectly owned associate of the Company, to Siemens Aktiengesellschaft, one of the joint venture partners of BISC, for a cash consideration of US\$24,000,000. The completion of the transaction and payment of the consideration are conditional upon obtaining approvals from the relevant PRC authorities with respect to the transaction and the conversion of BISC from an equity joint venture company into a joint stock company. As at the date of approval of these financial statements, the transaction has yet to be completed. Since the fulfillment of the aforesaid conditions and the related timing of completion of the transaction are uncertain, the financial effect of the transaction cannot be estimated reliably at present.
- (ii) On 10 February 2004, Beijing Development (and other vendors) entered into a conditional agreement with Xteam Software International Limited ("Xteam") pursuant to which Beijing Development has agreed to transfer all its interest in its software businesses to Xteam in consideration for the issue of new shares by Xteam to Beijing Development and the other vendors representing, in aggregate, 75% of the enlarged issued share capital of Xteam (on a fully diluted basis). Shares of Xteam agreed to be issued to Beijing Development represent approximately 56.29% of the enlarged issued share capital of Xteam (based on the present shareholding structures of Beijing Development and Xteam). The Listing Division of the Stock Exchange has ruled that the transaction constitutes a reverse takeover for Xteam and a spin-off for Beijing Development. Beijing Development and Xteam have applied for such rulings to be reviewed by the Listing Committee of the Stock Exchange. Since it is uncertain whether the transaction will be able to proceed or not, the financial effect of the transaction cannot be estimated reliably at present.
- (iii) On 12 March 2004, Sanyuan Australian Economic and Trade Co. Pty Ltd ("SACT"), a subsidiary of San Yuan, entered into a sale and purchase agreement to dispose of its entire interest in Sanyuan Challenge, a 50% owned associate of SACT, to the remaining joint venture partner of Sanyuan Challenge for a cash consideration of A\$2,610,000. The pre-tax financial effect resulting from this transaction is not significant.
- (iv) On 19 March 2004, San Yuan entered into a sale and purchase agreement to dispose of a 35% interest in Sanyuan Jiaming, a 75% owned subsidiary of San Yuan, to a related company for a cash consideration of RMB17,094,175. The pre-tax financial effect resulting from this transaction is not significant.
- (v) On 31 March 2004, Yanjing Brewery acquired a 38.148% interest in Huiquan Brewage which is engaged in the production and sale of brewery products in the PRC and whose shares are listed on the Shanghai Stock Exchange, for a cash consideration of RMB376,711,500.

46. RELATED PARTY TRANSACTIONS

Save as the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material transactions with related parties during the year:

Name of company	Nature of transaction	Notes	2003 HK\$'000	2002 HK\$'000
Ultimate holding company				
Beijing Holdings Limited and its associates	Rental income	(a)	2,675	2,809
	Rental and related expenses	(a)	3,514	4,492
Joint venture partners of subsidiaries and their associates				
Yanjing Beer Group and its associates	Purchase of bottle labels	(b)	57,561	49,615
	Purchase of bottle caps	(b)	40,806	48,569
	Purchase of raw materials	(c)	39,457	126,700
	Sale of beer	(d)	20,465	21,890
	Canning service fees paid	(e)	18,024	21,495
	Comprehensive support service fees paid	(f)	14,644	14,644
	Land rent expenses	(g)	1,643	1,643
	Trademark licensing fees paid	(h)	16,030	16,174
	Less: 20% refund for advertising subsidies	(h)	(3,206)	(3,235)
	Interest expenses on advances made	(i)	1,018	1,413
	Establishment of a subsidiary	(j)	58,570	–
北京三元集團有限責任公司 (Beijing San Yuan Group Company) (“San Yuan Group”) and its associates	Purchase of raw milk	(c)	171,405	189,288
	Land use fee paid	(k)	2,770	2,515
	Sales of land and buildings	(l)	–	3,451
	Sales of properties held for sale	(d)	–	1,206
	Rental income and property management fee	(m)	–	1,761
	Acquisition of a land	(n)	12,247	–
	Acquisition of equity interest in 北京八達嶺乳業有限公司 (“Badaling Dairy”)	(o)	6,335	–
北京嘉銘房地產開發 有限責任公司 (Beijing Jia Ming Property Development Company Limited)	Purchase of properties held for sale	(p)	25,066	–
	Acquisition of a land	(q)	–	21,432

46. RELATED PARTY TRANSACTIONS *(continued)*

Name of company	Nature of transaction	Notes	2003 HK\$'000	2002 HK\$'000
Joint venture partners of subsidiaries and their associates (continued)				
延慶縣八達嶺特區辦事處 (Badaling Tourism Zones Special Administration ("BTZA") and its associates	Management fee income Waive of operating concession fees payable Establishment of a subsidiary	(r) (s) (t)	– – –	46,386 9,544 80,000
北京首都旅遊集團有限公司 (Beijing Capital Tourism Group Company Limited ("Capital Tourism") and its associates	Land use fees paid	(u)	–	3,407
北京京試高科技發展中心 (Beijing Jing Shi High-Tech Development Centre)	Acquisition of a 17.985% equity interest in High-Tech	(v)	42,120	–
Jointly-controlled entities				
Beijing McDonald's	Sale of dairy products	(d)	19,394	28,722
Sanyuan Challenge	Purchase of dairy products	(c)	4,830	–
Associates				
BISC	Interest income	(w)	–	3,782
萬博物業管理有限公司 (Wanbo Property Management Company Limited)	Rental income	(a)	–	9,421

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

Notes:

- (a) The rentals were determined by reference to the prevailing open market rentals at the time when the lease agreements were entered into.
- (b) 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 for the preceding year.

46. RELATED PARTY TRANSACTIONS *(continued)*

Notes: (continued)

- (c) The purchase prices for raw materials, raw milk and dairy products were determined by reference to the prevailing market rates.
- (d) The selling prices of the beer, properties held for sale and dairy products were determined by reference to the prevailing market rates.
- (e) Canning service fees were charged at a rate equal to the costs of the canning services incurred by Yanjing Beer Group plus a pre-agreed profit margin.
- (f) Comprehensive support service fees paid included the following:
 - a security and canteen services fee which was 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.
- (g) Land rent expenses were charged at a mutually-agreed amount of RMB1,744,000 per annum.
- (h) 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. 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.
- (i) Interest expenses paid to Yanjing Beer Group arose from advances made to Yanjing Brewery, which bore interest at the prevailing market rates at the time the advances were made.
- (j) The capital contribution made by the Group to the subsidiary is in accordance with the joint venture agreement entered into between Yanjing Brewery and a wholly owned subsidiary of Yanjing Beer Group.
- (k) The land use fee was charged at a mutually-agreed amount of RMB2,940,000 (2002: RMB2,670,000) for the year ended 31 December 2003.
- (l) The consideration received was based on a mutually-agreed amount of RMB3,663,000.
- (m) The rental income and property management fee were based on mutually-agreed rates of RMB1,460,000 and RMB410,000, respectively.
- (n) The consideration paid was based on a mutually-agreed amount of RMB13,000,000.
- (o) The consideration paid was determined on the basis of the fair values of Badaling Dairy with reference to the appraisal reports prepared by an independent PRC valuer.

46. RELATED PARTY TRANSACTIONS *(continued)*

Notes: (continued)

- (p) The consideration paid for the purchase was determined by reference to the value of the properties of RMB26,608,000 as at 30 September 2003 as assessed by an independent PRC qualified valuer.
- (q) The consideration paid for the acquisition was determined by reference to the value of the land of RMB23,090,000 as at 8 February 2002 as assessed by an independent PRC qualified valuer.
- (r) The management fee income was determined based on 40% of the gross entrance fees to the Badaling Great Wall received, subject to adjustment by reference to the quality of the services rendered by the Group as assessed by BTZA.
- (s) In 2002, an associate of BTZA waived the operating concession fees payable by Badaling Tourism of RMB10,130,000 in relation to the operation of the Group's tourism business at the Badaling Great Wall.
- (t) The capital contribution made by the Group to the subsidiary is in accordance with the joint venture agreement entered into between the Company, Badaling Tourism and an associate of BTZA.
- (u) Land use fees were determined based on 3% of the annual gross turnover of Jian Guo Hotel.
- (v) The equity interest in High-Tech was acquired at a mutually-agreed amount of HK\$42,120,000.
- (w) The interest income received in the prior year arose from loans to BISC, which bore interest at 5.85% per annum.

In addition to the above material transactions entered into during the year, Yanjing Beer Group has undertaken to indemnify the Group for an amount of HK\$21,949,000 (2002: HK\$25,071,000) which is equivalent to the net impact to the Group's net profit as a result of the corporate income tax of Yanjing Brewery being in excess of 15% for the year ended 31 December 2003. The indemnification, which would be executed if the relevant tax payment is required to be made by Yanjing Brewery, was recognised by the Group in the current year to match with the corporate income tax charge of Yanjing Brewery accrued by the Group.

On 31 December 2003, B E Information Technology Group Limited (formerly named Cyber Vantage Group Limited) ("BEITG"), an indirect wholly owned subsidiary of Beijing Development, acquired 49% of the issued share capital of Beijing Jetric Holdings Limited ("Beijing Jetric") from Cosmos Vantage Limited ("Cosmos Vantage"), a related party, in consideration for the issue of 200 ordinary shares of BEITG to Cosmos Vantage. In addition, BEITG acquired in aggregate 40% of the issued share capital of Wisdom Elite from two individual substantial shareholders of Wisdom Elite in consideration for the issue of 80 ordinary shares of BEITG in aggregate to the two individual substantial shareholders. Following the completion of the transactions, Beijing Jetric and Wisdom Elite became wholly owned subsidiaries of BEITG and BEITG was owned as to 72% by Beijing Development, 20% by Cosmos Vantage and 8% by the two individual substantial shareholders.

47. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of two new/revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated. In addition, certain comparative amounts have been reclassified to conform to the current year's presentation.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2004.