1. Corporate information

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

- production, distribution and sale of consumer products, including beer, dairy products (discontinued during the year – note 11) and processed food products in Beijing and other provinces in the People's Republic of China (the "PRC")
- investment in transportation infrastructure, including the Capital Airport Expressway, which connects the Capital Airport and the city centre of Beijing, and the Shenzhen Shiguan Road and Bridge, which is located in Shenzhen Municipality, the PRC
- the provision of tourism services in Badaling Great Wall and Longqingxia, scenic areas in Beijing
- the provision of hotel services in Beijing and Wuxian, Jiangsu Province, the PRC
- the provision of retail services in Beijing and certain other cities in the PRC
- investment in commercial and residential properties in Beijing and Hong Kong
- operation of a water purification and treatment plant in Beijing
- property construction and development
- production, distribution and sale of telecommunication equipment; and the provision of telecommunications and information technology ("IT") related services
- construction of geothermal energy systems and provision of related installation services
- restaurant operations in the PRC, Thailand, Indonesia, Singapore and Malaysia

As at 31 December 2004 and the date of approval of these financial statements, the immediate holding company of the Company is Beijing Enterprises Investments Limited, which is incorporated in the British Virgin Islands, and in the opinion of the directors, the ultimate holding company is Beijing Holdings Limited ("BHL"), which is incorporated in Hong Kong.

2. Changes in accounting policies

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has resolved to early adopt all HKFRSs issued up to the date of approval of these financial statements.

The HKFRSs which are relevant to these financial statements are set out below and the financial statements for the year ended 31 December 2003 have been restated in accordance with the relevant requirements.

- HKAS 1 "Presentation of Financial Statements"
- HKAS 2 "Inventories"
- HKAS 7 "Cash Flow Statements"
- HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"
- HKAS 10 "Events after the Balance Sheet Date"
- HKAS 11 "Construction Contracts"
- HKAS 12 "Income Taxes"
- HKAS 14 "Segment Reporting"
- HKAS 16 "Property, Plant and Equipment"
- HKAS 17 "Leases"
- HKAS 18 "Revenue"
- HKAS 19 "Employee Benefits"
- HKAS 20 "Accounting for Government Grants and Disclosure of Government Assistance"
- HKAS 21 "The Effects of Changes in Foreign Exchange Rates"
- HKAS 23 "Borrowing Costs"
- HKAS 24 "Related Party Disclosures"
- HKAS 27 "Consolidated and Separate Financial Statements"
- HKAS 28 "Investments in Associates"
- HKAS 31 "Interests in Joint Ventures"
- HKAS 32 "Financial Instruments: Disclosure and Presentation"
- HKAS 33 "Earnings per Share"
- HKAS 34 "Interim Financial Reporting"
- HKAS 36 "Impairment of Assets"
- HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"
- HKAS 38 "Intangible Assets"
- HKAS 39 "Financial Instruments: Recognition and Measurement"
- HKAS 40 "Investment Property"
- HKFRS 2 "Share-based Payment"
- HKFRS 3 "Business Combinations"

2. Changes in accounting policies *(continued)*

•	HKFRS 5	"Non-current Assets Held for Sale and Discontinued Operations"
•	HKAS-Int 10	"Government Assistance – No Specific Relation to Operating Activities (HKAS 20)"
•	HKAS-Int 13	"Jointly-Controlled Entities – Non-Monetary Contributions by Venturers"
•	HKAS-Int 15	"Operating Leases – Incentives"
•	HKAS-Int 21	"Income Taxes – Recovery of Revalued Non-Depreciable Assets"
•	HKAS-Int 27	"Evaluating the Substance of Transactions Involving the Legal Form of a Lease"
•	HKAS-Int 29	"Disclosure – Service Concession Arrangements"
•	HKFRS-Int 4	"Determining whether an Arrangement contains a Lease"
•	SSAP-Int 23	"The Appropriate Accounting Policies for Hotel Properties"
•	SSAP-Int 24	"Revenue – Pre-completion Contracts for the Sale of Development Properties"

All relevant changes in the accounting policies have been made in accordance with the provisions of the respective standards.

The major effect of adoption of these HKFRSs are summarised as follows:

(a) The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and any accumulated impairment losses. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at cost less accumulated depreciation and any accumulated impairment losses.

(b) The adoption of HKAS 16, HKAS 40 and SSAP-Int 23 has resulted in a change in accounting policy for the Group's investment and hotel properties.

Changes in valuation of the investment property were previously dealt with in an investment property revaluation reserve, on a portfolio basis. Following the adoption of HKAS 40, all changes in valuation of the investment property would be recognised in the profit and loss account. There is no impact on these financial statements as a result of this change in accounting policy because the Group's investment properties had a net revaluation deficit position as at 31 December 2004, 2003 and 2002 and the changes in valuation of the Group's investment properties during the years ended 31 December 2004 and 2003 would be recognised in the profit and loss account irrespective of whether the old policy or the new policy is applied.

2. Changes in accounting policies *(continued)*

(b) *(continued)*

Hotel properties were previously not depreciated, except where the unexpired terms of the lease is 20 years or less, in which case depreciation was provided on the then carrying amount over the remaining term of the lease, and were stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Upon the adoption of HKAS 16, HKAS 40 and SSAP-Int 23, hotel properties would be stated at valuation less accumulated depreciation and any accumulated impairment losses. The effect on these financial statements for the year ended 31 December 2004 as a consequence of this change in accounting policy for hotel properties is summarised as follows:

- share of profits and losses of jointly-controlled entities for the year ended 31 December 2004 was decreased by an aggregate amount of HK$6,797,000, net of deferred tax effect, in respect of the additional deprecation charge provided for the hotel properties held by two jointly-controlled entities of the Group; and

- each of the basic and diluted earnings per share amounts for profit for the year and for profit from continuing operations has been decreased by HK$0.01.

In the absence of any specific transitional requirements in HKAS 16, HKAS 40 and SSAP-Int 23, the new accounting policy has been applied retrospectively. The comparative statements for the year ended 31 December 2003 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 2003 is summarised as follows:

- retained profits and the hotel property revaluation reserve as at 31 December 2003 have been decreased and increased by HK$21,267,000, respectively;

- retained profits and the hotel property revaluation reserve as at 1 January 2003 have been decreased and increased by HK$18,044,000, respectively;

- a net decrease in the profit for the year attributable to equity holders of the parent of HK$3,223,000 and a corresponding increase in revaluation surplus credited to the hotel property revaluation reserve for the year ended 31 December 2003; and

- each of the basic and diluted earnings per share amounts for profit for the year and for profit from continuing operations has been decreased by HK$0.01.

2. Changes in accounting policies *(continued)*

(c) HKFRS 2 requires an expense to be recognised where the Group buys goods or services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. HKFRS 2 requires the expensing of employees' and directors' share options and other share-based incentives by using an option-pricing model.

The Group has taken advantage of the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to share options granted after 7 November 2002 that had not vested on or before 31 December 2003. The expenses so calculated are not material to the financial statements for the years ended 31 December 2004 and 2003.

(d) The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in accounting policy for goodwill and negative goodwill. Prior to the adoption:

- goodwill arising from acquisitions after 1 January 2001 was amortised on the straight-line basis over a period of not exceeding 20 years;

- goodwill was assessed for impairment at each balance sheet date;

- to the extent that negative goodwill did not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill arising from acquisitions after 1 January 2001 was recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets; and

- on disposal of subsidiaries, jointly-controlled entities or associates, any attributable goodwill or negative goodwill previously eliminated against or credited to the consolidated capital reserve at the time of acquisition was written back and included in the calculation of the gain or loss on disposal.

In accordance with the provisions of HKFRS 3:

- the Group ceased amortisation of goodwill from 1 January 2004;

- accumulated amortisation of goodwill arising on the acquisition of subsidiaries and minority interests, and jointly-controlled entities as at 1 January 2004 has been eliminated with a corresponding decrease in the respective cost of goodwill at that date;

- from the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment;

2. Changes in accounting policies *(continued)*

(d) *(continued)*

- any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired as at the date of acquisition over the cost of the business combination is recognised immediately in the consolidated profit and loss account. In addition, following the transitional provisions of HKFRS 3, the carrying amounts of the negative goodwill recognised on the consolidated balance sheet or remained credited to the consolidated capital reserve as at 1 January 2004 were derecognised by way of a corresponding adjustment to the opening retained profits as at 1 January 2004; and

- on disposal of subsidiaries, jointly-controlled entities or associates, any attributable goodwill previously eliminated against the consolidated capital reserve at the time of acquisition is transferred to the consolidated retained profits as a movement in reserves and is not included in the calculation of the gain or loss on disposal.

HKFRS 3 is prospectively applied and the effect of its adoption on these financial statements in respect of the year ended 31 December 2004 is summarised as follows:

- accumulated amortisation of goodwill arising on the acquisition of subsidiaries and minority interests, and jointly-controlled entities as at 1 January 2004 of HK$36,822,000 and HK$10,079,000, respectively, have been eliminated with a corresponding decrease in the respective cost of goodwill at that date;

- the carrying amounts of the negative goodwill recognised on the consolidated balance sheet and remained credited to the consolidated capital reserve as at 1 January 2004 of HK$7,547,000 and HK$657,924,000, respectively, were derecognised by way of a corresponding adjustment to the opening retained profits and minority interests as at 1 January 2004 of HK$663,614,000 and HK$1,857,000, respectively;

- the excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of those companies acquired by the Group during the year over cost of business combinations in an aggregate amount of HK$35,767,000 was fully recognised as income for the year ended 31 December 2004; and

- in respect of disposal of a jointly-controlled entity and an associate during the year, the attributable goodwill previously eliminated against the consolidated capital reserve at the respective time of their acquisition of HK$40,757,000 and HK$74,167,000, respectively, were transferred to the consolidated retained profits as a movement in reserves and is not included in the calculation of the gain or loss on disposal.

2. Changes in accounting policies *(continued)*

(e) The adoption of HKFRS 5, which has resulted in a change in accounting policy on the recognition of a discontinued operation. Prior to the adoption of HKFRS 5, the Group would have previously recognised a discontinued operation at the earlier of when:

- the Group enters into a binding sale agreement; and
- the board of directors have approved and announced a formal disposal plan.

HKFRS 5 now requires an operation to be classified as discontinued when the criteria to be classified as held for sale have been met or the Group has disposed of the operation. Held for sale is when the carrying amount of an operation will be recovered principally through a sale transaction and not through continuing use. The result of this change in accounting policy is that a discontinued operation is recognised by the Group at a later point than the accounting policy previously adopted due to the recognition criteria being stricter under HKFRS 5.

(f) The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Until 31 December 2003, investments of the Group were classified into long term investments and short term investments, which were stated in the balance sheet at cost less any accumulated impairment losses and at fair value, respectively, and any impairment losses on long term investments and changes in fair value of the short term investments were recognised in the profit and loss account in the period in which they arise.

In accordance with the provisions of HKAS 39, the investments have been classified into available-for-sale financial assets and financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were held. As a result of the adoption of HKAS 39, all the investments are now stated at fair value in the balance sheet, except for certain available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. In addition, all the investments as at 31 December 2003 that should be measured at fair value on adoption of HKAS 39 should be remeasured at 1 January 2004 and any adjustment of the previous carrying amount should be recognised as an adjustment of the balance of retained profits at 1 January 2004.

In accordance with the provisions of HKAS 32, the terms of a non-derivative financial instrument are evaluated to determine whether it contains both a liability and an equity component and shall be classified separately as a financial liability or an equity instrument, respectively.

2. Changes in accounting policies *(continued)*

(f) *(continued)*

The effect of the changes in accounting policies on these financial statements as a result of the adoption of HKAS 32 and HKAS 39 is summarised as follows:

- all long term investments of the Group and the Company as at 31 December 2003 were redesignated into available-for-sale financial assets on 1 January 2004. The aggregate differences between the respective carrying value of each investment as at 31 December 2003 and the respective fair value at 1 January 2004 is insignificant and hence, no adjustment has been made against the retained profits at 1 January 2004;

- all short term investments of the Group and the Company as at 31 December 2003 were redesignated into financial assets at fair value through profit or loss on 1 January 2004. There is no effect on remeasurement as the accounting policy on measurement of the Group's short term investments as at 31 December 2003 is the same as that for the financial assets at fair value through profit or loss; and

- the equity component of the convertible notes of the Group issued by Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), a non-wholly owned subsidiary of the Company, is not material and the whole amount of the convertible notes is accounted for as a financial liability of the Group.

(g) The adoption of SSAP-Int 24 has resulted in a change in accounting policy for the recognition of revenue arising from pre-completion contracts for the sale of development properties.

Prior to the adoption of SSAP-Int 24, the estimated profit on pre-sold properties under development was recognised over the course of development of the properties after execution of the formal sale and purchase agreement. The amount of estimated profit was 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. In addition, properties under development which have been pre-sold were stated at cost plus estimated attributable profits less foreseeable losses and sales deposits received.

In accordance with the provisions of SSAP-Int 24, revenue arising from pre-completion contracts for the sale of development properties that do not fall within the scope of HKAS 11 "Construction Contracts" is recognised 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 properties under development sold. Such properties are stated at cost.

2. Changes in accounting policies *(continued)*

(g) *(continued)*

There is no impact on these financial statements on the adoption of this interpretation as the Group did not have any pre-sold properties under development during the years ended 31 December 2004 and 2003.

(h) HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

(i) HKAS 1, 2, 7, 8, 10, 11, 12, 14, 18, 19, 20, 21, 23, 27, 28, 31, 33, 34, 37, HKAS-Int 10, 13, 15, 21, 27, 29 and HKFRS-Int 4 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation in the consolidated balance sheet, consolidated profit and loss account and consolidated statement of changes in equity, including the following:
  - investment properties, which were previously included in fixed assets, are now presented separately on the face of the balance sheet;
  - taxes of jointly-controlled entities and associates attributable to the Group, which were previously included in the tax charge on the consolidated profit and loss account, are now included in the share of profits and losses of jointly-controlled entities and associates, respectively; and
  - minority interests are now included in the equity section of the balance sheet.
- HKAS 8, 21, 28 and 31 affect certain disclosures of the financial statements.

3. Summary of significant accounting policies

Statement of compliance and basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of hotel and investment properties, and financial assets that have been measured at fair value, as further explained below.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group has control.

All significant intercompany transactions and balances within the Group, including unrealised profits arising from intra-group transactions, have been eliminated in full on consolidation. Unrealised losses are eliminated unless costs cannot be recovered.

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 dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any accumulated 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 Group/Company has unilateral control, directly or indirectly, over the joint venture company;

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

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

(d) an available-for-sale financial asset, 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 accumulated impairment losses. Goodwill arising on the acquisition of jointly-controlled entities, which was not previously eliminated against the consolidated capital reserve, is included as part of the Group's interests in jointly-controlled entities.

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 accumulated impairment losses.

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

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.

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 accumulated impairment losses. Goodwill arising on the acquisition of associates, which was not previously eliminated against the consolidated capital reserve, is included as part of the Group's interests in associates.

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 accumulated impairment losses.

Business combinations

Goodwill

Goodwill arising on the acquisition of subsidiaries, jointly-controlled entities and associates is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill arising on the acquisition of subsidiaries is recognised in the consolidated balance sheet as an asset and in the case of jointly-controlled entities and associates, the goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill on acquisitions after 1 January 2004 is not amortised and goodwill already carried in the consolidated balance sheet is not amortised after 1 January 2004. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

Business combinations (continued)

Goodwill (continued)

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill arising on acquisitions before 1 January 2001 was eliminated against the consolidated capital reserve in the year of acquisition. The Group applied the transitional provisions of HKFRS 3 that permitted such goodwill to remain eliminated against the consolidated capital reserve and that required such goodwill not to be recognised in the consolidated profit and loss account when the Group disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates become impaired.

Excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity being acquired over cost

On acquisition of subsidiaries, jointly-controlled entities and associates, if the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity being acquired recognised as at the date of acquisition exceeds the cost of the business combination, the Group shall reassess the identification and measurement of the identifiable assets, liabilities and contingent liabilities of that entity and the measurement of the cost of the business combination; and recognise immediately in consolidated profit and loss account any excess remaining after that reassessment.

Negative goodwill (applicable to the accounting year ended 31 December 2003)

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.

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

Business combinations (continued)

Negative goodwill (applicable to the accounting year ended 31 December 2003) (continued)

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 provisions 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.

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 or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

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.

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

Impairment of assets (continued)

A previously recognised impairment loss for an asset other than goodwill 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. Any impairment losses made against goodwill is not reversed.

Fixed assets and depreciation

Hotel properties

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

Changes in the carrying amount of hotel properties as a result of a revaluation 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.

Depreciation of hotel properties is calculated on the straight-line basis to write off the valuation of each hotel property over their estimated useful lives of 30 to 40 years.

On derecognition 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.

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

Fixed assets and depreciation *(continued)*

Other fixed assets

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

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 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%

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the profit and loss account in the period the item is derecognised.

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 accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of fixed assets or investment properties when completed and ready for use.

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are owned by the Group or held by the Group under finance leases to earn rentals or for capital appreciation or both. Such properties are not depreciated, and are measured initially at cost including all transaction costs and, after initial recognition, carried at fair values, being their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the fair values of investment properties are recognised in the profit and loss account in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss arising from the retirement or disposal of investment property, calculated as the difference between the net disposal proceeds and the carrying amount of the investment property, is recognised in the profit and loss account in the period of the retirement or disposal.

Lease premium for land

Leasehold land premiums are lump sum upfront payments to acquire long-term interest in lessee-occupied properties.

Lease premium for land relating to buildings of the Group are stated at cost and are amortised over the period of the lease on the straight-line basis to the profit and loss account. Leasehold premium for land relating to investment properties and properties developed for sale are not amortised and included as part of the cost of such properties.

Properties under development

Properties under development represent properties developed for sale and are stated at cost less any accumulated impairment losses. Cost comprises the lease premium for land and 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.

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

Properties held for sale

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

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

Intangible assets

Intangible assets acquired separately are capitalised at cost and from a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Useful lives of acquired intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are stated at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with indefinite useful lives are stated at cost and not amortised.

Intangible assets are tested for impairment annually either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

An intangible asset is derecognised on disposal or no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of the intangible asset, calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset, is recognised in the profit and loss account in the period the intangible asset is derecognised.

Operating concessions

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

Management information systems

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

Licences

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

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

Intangible assets (continued)

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

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.

Regular way purchases and sales of financial assets

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

Available-for-sale financial assets

Available-for-sale financial assets are investments in listed and unlisted equity securities which are intended to be held for a continuing strategic or long term purpose and are stated at fair value, except for those equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses.

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

Available-for-sale financial assets (continued)

In respect of available-for-sale financial assets carried at fair value, the gains or losses arising from changes in the fair value of an investment are dealt with as movements in the investment revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, when the cumulative gain or loss derived from the investment recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

In respect of available-for-sale financial assets carried at cost less any accumulated impairment losses, when there is objective evidence that an impairment loss has been incurred on an investment, the carrying amount of the investment should be reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and the amount of the impairment is charged to the profit and loss account in the period in which it arises. Any impairment losses recognised shall not be reversed.

Long term investments (applicable to the accounting year ended 31 December 2003)

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 accumulated 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.

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

Financial assets at fair value through profit or loss (previously known as "Short term investments")

Financial assets at fair value through profit or loss 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.

Construction contracts

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

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

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

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

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

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

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

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less allowance for any uncollectible amounts.

An estimate for doubtful debts for trade and other receivables is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Bank and other borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, bank and other borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

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

Convertible bonds

The component of the convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of issue costs. The corresponding interest on those convertible bonds is charged as interest expense in the profit and loss account. On the issue of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity attributable to equity holders of the parent, net of issue costs. The value of the conversion option is not changed in subsequent years.

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

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.

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

Provisions

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

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

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.

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

Income tax (continued)

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 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.

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.

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

Related parties

A party is related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with, the Group;

(ii) has an interest in the Group that gives it significant influence over the Group; or

(iii) has joint control over the Group;

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

(c) the party is an associate;

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

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

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

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

Foreign currency translation

The functional and presentation currency of the Company is Hong Kong dollars (HK$).

The functional currencies of subsidiaries, jointly-controlled entities and associates in Mainland China and overseas are measured using Renminbi (RMB) and the currency of the primary economic environment in which the entity operates, respectively. On consolidation, the assets and liabilities of these overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date and, their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to the exchange translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in the exchange translation reserve relating to that particular foreign operation is recognised in the consolidated profit and loss account.

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

Foreign currency translation (continued)

Transactions in foreign currencies are initially recorded in the functional currency exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rates ruling at the balance sheet date. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to the exchange translation reserve until the disposal of the net investment, at which time they are recognised in the profit and loss account. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in the exchange translation reserve. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

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.

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.

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

Revenue recognition

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

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

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

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

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

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

(f) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

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

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

Dividends

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

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

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

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.

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.

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

Employee benefits (continued)

Equity compensation benefits

The Company, Beijing Development (Hong Kong) Limited ("Beijing Development") and Xteam Software International Limited ("Xteam"), each operates a share option scheme for the granting of non-transferable options, for the purpose of providing incentives and rewards, to eligible participants who contribute to the success of the operations of the Group, the Beijing Development group and the Xteam group, respectively.

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

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

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

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

Employee benefits (continued)

Equity compensation benefits (continued)

The Group has taken advantage of the transitional provisions of HKFRS 2 in respect of the share options granted under the share option schemes and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on or before 31 December 2003.

Upon the exercise of share options, the resulting shares issued are recorded by the Company, Beijing Development or Xteam as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company, Beijing Development or Xteam in the respective share premium 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 (discontinued during the year – note 11);

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

(e) the water treatment operations segment operates a water treatment plant in Beijing and sells purified water;

4. Segment information *(continued)*

(f) the hotel operations segment engages in the operation of hotels in Beijing and Wuxian, Jiangsu Province, the PRC, 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 a then associate, Siemens Communication Networks Ltd., Beijing ("Beijing Siemens", previously known as "Beijing International Switching System Co., Ltd."), 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 sale 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 2004:

2004

Group

	Continuing operations											Discontinued operations		
	Brewery operations HK$'000	Retail operations HK$'000	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	Total HK$'000	Dairy operations HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment revenue:														
Sales to external customers	3,494,029	3,021,404	435,371	490,566	1,243	-	294,226	436,399	230,693	376,025	8,779,956	885,684	-	9,665,640
Intersegment sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue	100,660	44,436	(1,815)	-	16	-	4,564	1,942	23,917	44,080	217,800	16,498	-	234,298
Total	3,594,689	3,065,840	433,556	490,566	1,259	-	298,790	438,341	254,610	420,105	8,997,756	902,182	-	9,899,938
Segment results	405,108	130,100	262,327	194,297	(523)	-	(88,666)	85,429	57,690	(136,731)	909,031	(108,744)		800,287
Interest income											43,708	1,043		44,751
Unallocated revenue and gains											126,342	2,139		128,481
Unallocated expenses											(48,870)	-		(48,870)
Profit/(loss) from operating activities											1,030,211	(105,562)		924,649
Finance costs											(130,338)	(7,710)		(138,048)
Share of profits and losses of:														
Jointly-controlled entities	(5,799)	17,647	-	-	35,571	9,289	-	(116)	-	11,122	67,714	(11,261)		56,453
Associates	11,586	-	-	-	-	-	-	19,897	-	19,692	51,175	-		51,175
Amortisation of goodwill arising on acquisition of jointly-controlled entities	-	-	-	-	-	-	-	-	-	-	-	-		-
Profit/(loss) before tax											1,018,762	(124,533)		894,229
Tax											(233,156)	3,687		(229,469)
Profit/(loss) for the year											785,606	(120,846)		664,760
Attributable to:														
Equity holders of the parent											571,892	(68,704)		503,188
Minority interests											213,714	(52,142)		161,572
											785,606	(120,846)		664,760

4. Segment information *(continued)*

(a) Business segments *(continued)*

2004 *(continued)*

Group

	Continuing operations											Discontinued operations		
	Brewery operations HK$'000	Retail operations HK$'000	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	Total HK$'000	Dairy operations HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment assets	6,201,523	2,955,555	2,215,978	1,358,356	-	-	646,950	667,849	409,847	7,062,469	21,518,527	1,153,079	(4,938,888)	17,732,718
Share of net assets of:														
Jointly-controlled entities	-	225,401	-	-	(15,643)	297,781	-	43,585	-	40,705	591,829	125,113	-	716,942
Associates	335,376	20,406	-	-	-	-	22,610	140	-	171,778	550,310	-	-	550,310
	6,536,899	3,201,362	2,215,978	1,358,356	(15,643)	297,781	669,560	711,574	409,847	7,274,952	22,660,666	1,278,192	(4,938,888)	18,999,970
Unallocated assets											418,172	26,541	-	444,713
Total assets											23,078,838	1,304,733	(4,938,888)	19,444,683
Segment liabilities	1,464,257	979,599	439,043	266,104	-	-	692,894	139,369	110,822	3,444,926	7,537,014	230,763	(4,938,888)	2,828,889
Unallocated liabilities											4,751,565	263,032	-	5,014,597
Total liabilities											12,288,579	493,795	(4,938,888)	7,843,486
Other segment information:														
Depreciation	337,957	91,923	48,866	74	-	-	18,628	3,887	592	26,512	528,439	64,546	-	592,985
Amortisation of intangible assets	-	-	30,711	70,656	-	-	-	2,263	1,058	-	104,688	-	-	104,688
Impairment losses on:														
Segment assets	-	-	-	-	-	-	1,016	-	-	28,370	29,386	17,512	-	46,898
Unallocated assets														44,300
Capital expenditure	649,621	242,801	8,809	-	-	-	2,848	40,629	1,797	35,909	982,414	92,393	-	1,074,807

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 2003:

2003

Group

	Continuing operations											Discontinued operations		
	Brewery operations HK$'000	Retail operations HK$'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 (Restated)	Total HK$'000 (Restated)	Dairy operations HK$'000 (Restated)	Eliminations HK$'000	Consolidated HK$'000 (Restated)
Segment revenue:														
Sales to external customers	2,880,337	2,184,964	361,445	414,561	2,095	–	248,545	386,665	190,521	297,203	6,966,336	1,003,811	–	7,970,147
Intersegment sales	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other revenue	35,400	41,470	1,653	–	–	–	5,647	10,021	11,420	136,665	242,276	46,303	–	288,579
Total	2,915,737	2,226,434	363,098	414,561	2,095	–	254,192	396,686	201,941	433,868	7,208,612	1,050,114	–	8,258,726
Segment results	333,709	65,260	203,015	151,262	346	–	19,516	68,487	48,965	9,487	900,047	13,956		914,003
Interest income											36,506	2,092		38,598
Unallocated revenue and gains											19,788	–		19,788
Unallocated expenses											(46,577)	–		(46,577)
Profit from operating activities											909,764	16,048		925,812
Finance costs											(125,762)	(24,608)		(150,370)
Share of profits and losses of:														
Jointly-controlled entities	(60)	17,118	–	–	(12,746)	2,044	–	(230)	–	4,844	10,970	1,989		12,959
Associates	(720)	19	–	–	–	–	–	24,347	–	17,734	41,380	(8,024)		33,356
Amortisation of goodwill arising on acquisition of jointly-controlled entities	(678)	(342)	–	–	–	–	–	–	–	(3,679)	(4,699)	–		(4,699)
Profit/(loss) before tax											831,653	(14,595)		817,058
Tax											(196,171)	6,810		(189,361)
Profit/(loss) for the year											635,482	(7,785)		627,697
Attributable to:														
Equity holders of the parent											449,204	841		450,045
Minority interests											186,278	(8,626)		177,652
											635,482	(7,785)		627,697

4. Segment information *(continued)*

(a) ***Business segments*** *(continued)*

2003 *(continued)*

Group

	Continuing operations											Discontinued operations		
	Brewery operations HK$'000	Retail operations HK$'000	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	Total HK$'000	Dairy operations HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment assets	5,709,792	2,472,515	2,144,147	1,166,439	27,989	–	1,113,158	628,786	329,836	6,337,380	19,930,042	1,098,317	(4,683,095)	16,345,264
Share of net assets of:														
Jointly-controlled entities	89,756	356,935	–	–	124,153	285,397	–	21,533	–	29,788	907,562	138,099	–	1,045,661
Associates	10,010	16,231	–	–	–	–	22,610	195,868	–	152,505	397,224	22,320	–	419,544
	5,809,558	2,845,681	2,144,147	1,166,439	152,142	285,397	1,135,768	846,187	329,836	6,519,673	21,234,828	1,258,736	(4,683,095)	17,810,469
Unallocated assets											360,395	22,892	–	383,287
Total assets											21,595,223	1,281,628	(4,683,095)	18,193,756
Segment liabilities	1,374,927	488,590	455,138	344,799	32,741	–	1,000,507	171,666	59,926	3,018,870	6,947,164	173,301	(4,683,095)	2,437,370
Unallocated liabilities											4,455,978	208,862	–	4,664,840
Total liabilities											11,403,142	382,163	(4,683,095)	7,102,210
Other segment information:														
Depreciation, as restated	301,586	59,738	44,137	85	1,367	–	20,277	7,978	2,214	31,998	469,380	60,170	–	529,550
Amortisation:														
Goodwill/(negative goodwill), net	225	711	1,178	–	–	–	–	7,585	3,596	5,650	18,945	(4,264)	–	14,681
Intangible assets	–	–	30,711	70,656	–	–	–	1,917	704	–	103,988	–	–	103,988
Impairment losses on:														
Segment assets	–	–	–	–	–	–	–	–	–	18,426	18,426	9,421	–	27,847
Unallocated assets														46,577
Capital expenditure, as restated	537,858	51,648	2,626	–	10	–	5,293	27,943	4,214	50,608	680,200	93,135	–	773,335

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	
	2004 HK$'000	2003 HK$'000	**2004 HK$'000**	2003 HK$'000 (Restated)	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000 (Restated)
Segment revenue:										
Sales to external customers	**34,742**	10,720	**9,445,907**	7,799,291	**184,991**	160,136	**-**	–	**9,665,640**	7,970,147
Intersegment sales	**10,367**	12,918	**-**	–	**38,731**	27,575	**(49,098)**	(40,493)	**-**	–
Other revenue	**12,660**	7,598	**221,638**	280,287	**-**	694	**-**	–	**234,298**	288,579
Total	**57,769**	31,236	**9,667,545**	8,079,578	**223,722**	188,405	**(49,098)**	(40,493)	**9,899,938**	8,258,726
Other segment information:										
Segment assets	**5,892,477**	5,131,231	**16,713,069**	15,825,713	**66,060**	71,415	**(4,938,888)**	(4,683,095)	**17,732,718**	16,345,264
Share of net assets of:										
Jointly-controlled entities	**58**	63	**716,884**	1,045,598	**-**	–	**-**	–	**716,942**	1,045,661
Associates	**-**	(357)	**550,310**	419,901	**-**	–	**-**	–	**550,310**	419,544
	5,892,535	5,130,937	**17,980,263**	17,291,212	**66,060**	71,415	**(4,938,888)**	(4,683,095)	**18,999,970**	17,810,469
Unallocated assets									**444,713**	383,287
Total assets									**19,444,683**	18,193,756
Capital expenditure	**8**	916	**1,072,045**	757,056	**2,754**	15,363	**-**	–	**1,074,807**	773,335

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 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:

	2004	2003
	HK$'000	HK$'000
Turnover		
Brewery operations	**3,494,029**	2,880,337
Retail operations	**3,021,404**	2,184,964
Expressway and toll road operations	**435,371**	361,445
Water treatment operations	**490,566**	414,561
Hotel operations	**1,243**	2,095
Property construction and development	**294,226**	248,545
Telecommunications and IT related services and products	**436,399**	386,665
Geothermal energy systems and related installation services	**230,693**	190,521
Corporate and others	**376,025**	297,203
Continuing operations	**8,779,956**	6,966,336
Discontinued operations – Dairy operations	**885,684**	1,003,811
	9,665,640	7,970,147
Other revenue		
Compensation income	**7,492**	13,897
Rental income	**37,452**	28,406
Service income	**1,013**	3,240
Investment income	**3,053**	7,429
Government grants*	**66,788**	51,471
Sale of raw materials	**15,117**	17,141
Indemnification from a related company recognised – *note 49*	**19,500**	21,949
Others	**51,370**	36,583
	201,785	180,116

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

	2004 HK$'000	2003 HK$'000
Gains, net		
Excess of the Group's interest in the net fair value of the investees' identifiable assets, liabilities and contingent liabilities over cost recognised as income	**35,767**	–
Negative goodwill recognised as income – *note 19*	**–**	10,414
Gain on disposal of fixed assets, net	**–**	8,948
Gain on disposal of investment properties	**238**	–
Gain on deemed disposal of interests in subsidiaries**	**20,715**	96,530
Gain on partial disposal of interest in a jointly-controlled entity	**–**	779
Gain on disposal of interests in associates***	**96,766**	–
Gain on deemed disposal of interest in an associate	**369**	–
Gain on disposal of available-for-sale financial assets	**6,298**	–
Gain on disposal of long term investments	**–**	8,008
Gain on disposal of financial assets at fair value through profit or loss	**841**	–
Gain on disposal of short term investments	**–**	1,227
Unrealised gain on revaluation of short term investments, net	**–**	2,345
	160,994	128,251
Other revenue and gains, net	**362,779**	308,367

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

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

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. ("Sanyuan Foods"), 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 Sanyuan Foods 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.

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

6. Profit from operating activities

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

	Notes	**2004 HK$'000**	2003 HK$'000 (Restated)
Cost of inventories sold		**6,123,409**	5,005,021
Cost of properties sold		**336,525**	115,015
Cost of services provided		**546,000**	569,232
Depreciation	*15*	**592,985**	529,550
Amortisation of operating concessions*	*18*	**101,367**	101,367
Amortisation of management information systems*	*18*	**1,886**	1,886
Amortisation of licences*	*18*	**1,435**	735
Research and development expenditure:			
Current year expenditure		**14,890**	11,089
Less: Capitalised in deferred development costs	*18*	**(3,642)**	(2,164)
		11,248	8,925
Impairment arising during the year**	*18*	**–**	13,294
		11,248	22,219
Goodwill:	*19*		
Amortisation for the year**		**–**	20,396
Impairment arising during the year**		**17,512**	7,488
		17,512	27,884
Impairment of fixed assets**	*15*	**29,386**	–
Impairment of interest in an associate**		**–**	7,065
Impairment of available-for-sale financial assets**		**44,300**	–
Impairment of long term investments**		**–**	46,577
(Gain)/loss on disposal of fixed assets, net***		**14,370**	(8,948)
Loss on disposal of interests in subsidiaries		**6,433**	–
Loss on deemed disposal of interest in a jointly-controlled entity		**680**	–
Unrealised loss on revaluation of financial assets at fair value through profit or loss, net		**4,570**	–
Minimum lease payments under operating leases of land and buildings		**131,584**	103,703
Amortisation of lease premium for land	*17*	**9,693**	8,682
Auditors' remuneration		**7,474**	7,350
Provision against an amount due from an associate		**474**	–
Provision for doubtful trade receivables		**34,855**	18,865
Provision for doubtful other receivables		**60,300**	17,855
Provision for inventories		**3,183**	2,282

6. Profit from operating activities *(continued)*

	Notes	**2004 HK$'000**	2003 HK$'000 (Restated)
Staff costs (excluding directors' remuneration – *note 8*):			
Wages, salaries and staff welfare		**642,307**	597,562
Net pension scheme contributions		**50,528**	68,173
		692,835	665,735
Exchange losses, net		**1,094**	1,235
Net rental income		**(33,753)**	(27,030)
Investment income:			
Listed		**(1,116)**	–
Unlisted		**(1,937)**	(7,429)

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

** The amortisation of goodwill for the year and the impairments of deferred development costs, goodwill, fixed assets, interest in an associate, available-for-sale financial assets and long term investments for the year are included in "Other operating expenses, net" on the face of the consolidated profit and loss account.

*** Included in the proceeds from the disposal of fixed assets are compensations of HK$17,237,000 (2003: HK$10,406,000) in aggregate received from third parties for those fixed assets that were lost or given up.

7. Finance costs

	Group	
	2004 HK$'000	2003 HK$'000
Interest on convertible bonds	**7,193**	7,913
Interest on bank loans and other loans wholly repayable within five years	**123,744**	134,153
Interest on other loans	**8,215**	9,108
Total finance costs	**139,152**	151,174
Less: Interest capitalised in fixed assets	**(1,104)**	(804)
	138,048	150,370

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	
	2004	2003
	HK$'000	HK$'000
Fees:		
Executive directors	**640**	–
Non-executive director	**–**	40
Independent non-executive directors	**540**	240
	1,180	280
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**5,103**	5,596
Pension scheme contributions	**260**	163
	5,363	5,759
	6,543	6,039

(a) Independent non-executive directors

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

	2004	2003
	HK$'000	HK$'000
Mr. Lau Hon Chuen, Ambrose	**100**	80
Mr. Lee Tung Hai, Leo	**120**	80
Mr. Wang Xian Zhang	**120**	80
Mr. Wu Jie Si	**100**	–
Mr. Robert A. Theleen	**100**	–
	540	240

There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

8. Directors' remuneration *(continued)*

(b) *Executive directors and a non-executive director*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
2004				
Executive directors:				
Mr. Yi Xi Qun	**–**	**2,274**	**97**	**2,371**
Mr. Zhang Hong Hai	**–**	**1,513**	**88**	**1,601**
Mr. Li Fu Cheng	**80**	**–**	**–**	**80**
Mr. Guo Ying Ming	**80**	**–**	**–**	**80**
Mr. Liu Kai	**–**	**1,316**	**75**	**1,391**
Mr. Zheng Wan He	**80**	**–**	**–**	**80**
Mr. Guo Pu Jin	**80**	**–**	**–**	**80**
Mr. Li Man	**80**	**–**	**–**	**80**
Mr. Bao Zong Ye	**80**	**–**	**–**	**80**
Mr. Wei En Hong	**80**	**–**	**–**	**80**
Mr. Bi Yu Xi	**–**	**–**	**–**	**–**
Mr. Li Zhong Gen	**80**	**–**	**–**	**80**
	640	**5,103**	**260**	**6,003**
Non-executive director:				
Mr. Fang Fang	**–**	**–**	**–**	**–**
	640	**5,103**	**260**	**6,003**
2003				
Executive directors:				
Mr. Yi Xi Qun	–	604	–	604
Mr. Hu Zhao Guang	–	1,283	–	1,283
Mr. Zhang Hong Hai	–	–	–	–
Mr. Xiong Da Xin	–	1,832	88	1,920
Mr. Li Fu Cheng	–	83	–	83
Mr. Guo Ying Ming	–	–	–	–
Mr. Liu Kai	–	1,296	75	1,371
Mr. Zheng Wan He	–	83	–	83
Mr. Li Man	–	83	–	83
Mr. Bao Zong Ye	–	–	–	–
Mr. Xing Chun Hua	–	83	–	83
Mr. Wei En Hong	–	83	–	83
Mr. Bi Yu Xi	–	83	–	83
Mr. Li Zhong Gen	–	83	–	83
	–	5,596	163	5,759
Non-executive director:				
Mr. Fang Fang	40	–	–	40
	40	5,596	163	5,799

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 (2003: three) directors. Details of the remuneration of the five highest paid employees for the year are set out below:

	2004 **HK$'000**	2003 HK$'000
Salaries, allowances and benefits in kind	**7,887**	6,795
Pension scheme contributions	**342**	187
	8,229	6,982

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

	2004 **Number of employees**	2003 Number of employees
HK$1,000,001 – HK$1,500,000	**2**	4
HK$1,500,001 – HK$2,000,000	**2**	1
HK$2,000,001 – HK$2,500,000	**1**	–
	5	5

10. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The income tax provision in respect of operations in Mainland China and overseas is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004	2003
	HK$'000	HK$'000
		(Restated)
Continuing operations:		
Current – PRC		
Hong Kong	**712**	571
Mainland China	**239,301**	189,875
Current – Overseas	**486**	14
Underprovision in prior years	**5**	4,499
Deferred – *note 39*	**(7,348)**	1,212
Tax charge from continuing operations	**233,156**	196,171
Discontinued operations:		
Current – Mainland China, the PRC	**1,693**	5,174
Overprovision in prior years	**–**	(7,863)
Deferred – *note 39*	**(5,380)**	(4,121)
Tax charge from discontinued operations – *note 11(a)*	**(3,687)**	(6,810)
Total tax charge for the year	**229,469**	189,361

In accordance with the presentation requirements of HKAS 1 early adopted by the Group during the year as detailed in note 2(i) to the financial statements, taxes of jointly-controlled entities and associates attributable to the Group, which were previously included in tax charge on the consolidated profit and loss account, are now included in the share of profits and losses of jointly-controlled entities and associates, respectively. The comparative amounts for the year ended 31 December 2003 have been restated to conform to the current year's presentation.

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 majority of its subsidiaries are domiciled to the tax expense/(income) at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2004

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	**(141,952)**		**1,029,007**		**7,174**		**894,229**	
Tax at the statutory tax rate	**(24,841)**	**17.5**	**339,573**	**33.0**	**2,152**	**30.0**	**316,884**	**35.4**
Lower tax rate for specific provinces or local authority	**–**	**–**	**(85,686)**	**(8.3)**	**(1,530)**	**(21.3)**	**(87,216)**	**(9.8)**
Adjustments in respect of current tax of previous periods	**–**	**–**	**5**	**–**	**–**	**–**	**5**	**–**
Income not subject to tax	**(12,220)**	**8.6**	**(106,398)**	**(10.3)**	**(86)**	**(1.2)**	**(118,704)**	**(13.3)**
Expenses not deductible for tax	**27,608**	**(19.4)**	**19,179**	**1.9**	**307**	**4.3**	**47,094**	**5.3**
Tax losses not recognised as deferred tax assets	**10,387**	**(7.3)**	**66,004**	**6.4**	**764**	**10.6**	**77,155**	**8.6**
Tax losses utilised from previous periods	**(6)**	**–**	**(4,622)**	**(0.4)**	**(1,121)**	**(15.6)**	**(5,749)**	**(0.6)**
Tax charge at the Group's effective rate	**928**	**(0.6)**	**228,055**	**22.3**	**486**	**6.8**	**229,469**	**25.6**

Group – 2003

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000 (Restated)	% (Restated)	HK$'000	%	HK$'000 (Restated)	% (Restated)
Profit/(loss) before tax	(163,369)		983,916		(3,389)		817,058	
Tax at the statutory tax rate	(28,589)	17.5	324,659	33.0	(1,016)	30.0	295,054	36.1
Lower tax rate for specific provinces or local authority	–	–	(115,526)	(11.7)	(703)	20.7	(116,229)	(14.2)
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	(82,173)	(8.4)	(332)	9.8	(88,033)	(10.8)
Expenses not deductible for tax	20,904	(12.8)	16,791	1.7	977	(28.8)	38,672	4.7
Tax losses not recognised as deferred tax assets	13,785	(8.4)	51,976	5.3	1,191	(35.1)	66,952	8.2
Tax losses utilised from previous periods	–	–	(3,588)	(0.4)	(103)	3.0	(3,691)	(0.5)
Tax charge/(credit) at the Group's effective rate	(9)	–	189,507	19.2	(137)	4.0	189,361	23.1

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

11. Discontinued operations

On 6 December 2004, the Company publicly announced that it has entered into two separate share transfer agreements on 3 December 2004 with 北京三元集團有限責任公司 ("San Yuan Group"), a related company, and BHL, the ultimate holding company, to conditionally dispose of all its interests in Beijing Enterprises (Dairy) Limited ("BE Dairy"), a wholly-owned subsidiary of the Company, as to 65.46% and 34.54% to San Yuan Group and BHL at a consideration of RMB323.6 million (approximately HK$304.9 million) and RMB237.4 million (approximately HK$223.6 million), respectively. The disposal transactions are subject to approval by shareholders of the Company and certain government authorities in the PRC.

Subsequent to the balance sheet date, the disposal transactions were approved by the shareholders of the Company in an extraordinary general meeting held on 7 January 2005, while the approval from certain government authorities in the PRC are yet to be obtained as at the date of approval of these financial statements. In the opinion of the directors, the completion of the disposal transactions is due to be completed in the year ending 31 December 2005.

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

(a) The results of the discontinued operations for the years ended 31 December 2004 and 2003 are summarised as follows:

	2004 HK$'000	2003 HK$'000
Turnover	**885,684**	1,003,811
Expenses	**(1,010,217)**	(1,018,406)
Loss before tax from discontinued operations	**(124,533)**	(14,595)
Tax	**3,687**	6,810
Net loss attributable to discontinued operations	**(120,846)**	(7,785)

11. Discontinued operations *(continued)*

(b) The major classes of assets and liabilities of the discontinued operations measured at the lower of carrying amount and fair value less costs to sell as at 31 December 2004 are as follows:

	Notes	**2004 HK$'000**	2003 HK$'000
Assets:			
Fixed assets	*15*	**665,406**	–
Investment properties	*16*	**2,420**	–
Lease premium for land	*17*	**60,950**	–
Goodwill	*19*	**2,196**	–
Interests in jointly-controlled entities		**125,113**	–
Available-for-sale financial assets		**22,892**	–
Inventories		**85,280**	–
Trade and bills receivables		**120,424**	–
Other receivables		**81,650**	–
Taxes recoverable		**3,649**	–
Pledged bank balances		**156**	–
Cash and cash equivalents		**134,597**	–
Non-current assets classified as held for sale		**1,304,733**	–
Liabilities:			
Trade and bills payables		**(64,171)**	–
Other payables and accruals		**(166,592)**	–
Bank and other borrowings		**(262,281)**	–
Deferred tax liabilities		**(751)**	–
Liabilities directly associated with non-current assets classified as held for sale		**(493,795)**	–
Net assets attributable to the discontinued operations		**810,938**	–

11. Discontinued operations *(continued)*

(c) The net cash flows of the discontinued operations for the years ended 31 December 2004 and 2003 are as follows:

	2004 HK$'000	2003 HK$'000
Net cash inflow from operating activities	**41,910**	18,904
Net cash outflow from investing activities	**(47,014)**	(106,172)
Net cash inflow from financing activities	**7,183**	111,426
Net cash inflow incurred by the discontinued operations	**2,079**	24,158

(d) Loss per share from discontinued operations

Basic from discontinued operations	**(HK$0.11)**	–
Diluted from discontinued operations	**N/A**	N/A

12. Profit for the year attributable to equity holders of the parent

The profit for the year attributable to equity holders of the parent for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK$383,143,000 (2003: HK$50,109,000) (note 35(b)).

13. Dividends

	2004 HK$'000	2003 HK$'000
Interim – HK$0.10 (2003: HK$0.10) per ordinary share	**62,250**	62,250
Proposed final – HK$0.20 (2003: HK$0.18) per ordinary share	**124,500**	112,050
	186,750	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.

14. Earnings per share

The calculation of the basic and diluted earnings per share for the year ended 31 December 2004 is based on the following data:

Earnings:

	2004	2003
	HK$'000	HK$'000
		(Restated)
(i) For profit for the year:		
Profit for the year attributable to equity holders of the parent, used in the basic earnings per share calculation	**503,188**	450,045
Interest expense for the year relating to the liability component of the convertible bonds of Yanjing Brewery, net of current tax	**4,819**	5,302
Decrease in profit for the year of Yanjing Brewery attributable to the Group, as a result of the dilution of interest in Yanjing Brewery assuming the exercise of all the outstanding convertible bonds issued by Yanjing Brewery	**(14,077)**	(11,314)
Profit for the year attributable to equity holders of the parent, used in the diluted earnings per share calculation	**493,930**	444,033

14. Earnings per share *(continued)*

Earnings: (continued)

(ii) For profit for the year from continuing operations:

	2004	2003
	HK$'000	HK$'000 (Restated)
Profit for the year from continuing operations attributable to equity holders of the parent, used in the basic earnings per share calculation	**571,892**	449,204
Interest expense for the year relating to the liability component of the convertible bonds of Yanjing Brewery, net of current tax	**4,819**	5,302
Decrease in profit for the year of Yanjing Brewery attributable to the Group, as a result of the dilution of interest in Yanjing Brewery assuming the exercise of all the outstanding convertible bonds issued by Yanjing Brewery	**(14,077)**	(11,314)
Profit for the year from continuing operations attributable to equity holders of the parent, used in the diluted earnings per share calculation	**562,634**	443,192

Number of ordinary shares:

	2004	2003
Weighted average number of ordinary shares in issue during the year used in basic and diluted earnings per share calculations	**622,500,000**	622,500,000

The exercise of the outstanding share options of the Company and Beijing Development, a subsidiary of the Company, during the years ended 31 December 2004 and 2003 did not have a diluting effect on the Group's basic earnings per share for these years.

The exercise of the outstanding share options of Xteam, a subsidiary of the Company acquired in 2004, during the year ended 31 December 2004 did not have a diluting effect on the Group's basic earnings per share for the year.

15. Fixed assets

Group

	Notes	Expressway and related structures HK$'000 (note (a))	Leasehold buildings HK$'000 (notes (a), (c), (e), (f))	Leasehold improvements HK$'000	Plant and machinery HK$'000 (note (c))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note(b))	Hotel properties HK$'000 (note (d))	Total HK$'000
Cost or valuation:										
At 1 January 2003:										
As previously reported		1,204,937	3,165,936	319,436	3,463,832	303,053	252,139	593,398	295,020	9,597,751
Effect of adopting HKAS 1 and 17	2(a), (i)	–	(484,840)	–	–	–	–	–	(277,261)	(762,101)
As restated		1,204,937	2,681,096	319,436	3,463,832	303,053	252,139	593,398	17,759	8,835,650
Acquisition of subsidiaries, as restated	45(a)	–	8,442	–	17,519	2,374	1,926	87	–	30,348
Additions, as restated		–	52,880	23,279	174,098	42,652	33,668	442,708	–	769,285
Transfer from construction in progress		–	161,032	2,900	282,163	9,434	2,256	(457,785)	–	–
Disposals, as restated		–	(38,051)	(723)	(60,464)	(4,215)	(13,658)	(21,634)	–	(138,745)
Reclassifications		–	17,392	–	65,307	(79,511)	(3,188)	–	–	–
Exchange realignment		–	817	741	–	657	95	–	–	2,310
At 31 December 2003		1,204,937	2,883,608	345,633	3,942,455	274,444	273,238	556,774	17,759	9,498,848
At 1 January 2004:										
As previously reported		1,204,937	3,395,612	345,633	3,942,455	274,444	273,238	556,774	295,220	10,288,313
Effect of adopting HKAS 1 and 17	2(a), (i)	–	(512,004)	–	–	–	–	–	(277,461)	(789,465)
As restated		1,204,937	2,883,608	345,633	3,942,455	274,444	273,238	556,774	17,759	9,498,848
Acquisition of subsidiaries	45(a)	–	258,034	28,534	317,965	29,960	18,409	985	–	653,887
Additions		–	181,913	23,363	158,797	47,378	31,520	616,194	–	1,059,165
Transfer from construction in progress		809	155,644	64,397	272,476	28,282	7,663	(529,271)	–	–
Transfer to investment properties	16	–	(65,649)	–	–	–	–	(43,793)	–	(109,442)
Disposals		–	(89,649)	(46,796)	(55,441)	(6,232)	(33,306)	(25,074)	(4,234)	(260,732)
Attributable to discontinued operations	11(b)	–	(350,887)	–	(566,467)	–	(51,887)	(34,944)	(13,525)	(1,017,710)
Disposal of subsidiaries	45(b)	–	(9,189)	(1,140)	(83,472)	(100)	(2,548)	(822)	–	(97,271)
At 31 December 2004		**1,205,746**	**2,963,825**	**413,991**	**3,986,313**	**373,732**	**243,089**	**540,049**	**–**	**9,726,745**
Analysis of cost or valuation:										
At 31 December 2004										
At cost		1,205,746	2,963,825	413,991	3,986,313	373,732	243,089	540,049	–	9,726,745
At 31 December 2003										
At cost		1,204,937	2,883,608	345,633	3,942,455	274,444	273,238	556,774	–	9,481,089
At valuation		–	–	–	–	–	–	–	17,759	17,759
		1,204,937	2,883,608	345,633	3,942,455	274,444	273,238	556,774	17,759	9,498,848

15. Fixed assets *(continued)*

Group *(continued)*

	Notes	Expressway and related structures HK$'000 *(note (a))*	Leasehold buildings HK$'000 *(notes (a), (c), (e), (f))*	Leasehold improvements HK$'000	Plant and machinery HK$'000 *(note (c))*	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 *(note(b))*	Hotel properties HK$'000 *(note (d))*	Total HK$'000
Accumulated depreciation and impairment:										
At 1 January 2003:										
As previously reported		111,970	535,642	248,078	1,441,856	141,591	117,968	–	–	2,597,105
Effect of adopting HKAS 17	*2(a)*	–	(75,633)	–	–	–	–	–	–	(75,633)
As restated		111,970	460,009	248,078	1,441,856	141,591	117,968	–	–	2,521,472
Acquisition of subsidiaries	*45(a)*	–	2,930	–	2,915	306	377	–	–	6,528
Depreciation provided for the year, as restated		25,633	95,142	44,250	298,456	37,947	28,122	–	–	529,550
Disposals, as restated		–	(1,025)	(475)	(41,761)	(2,432)	(11,379)	–	–	(57,072)
Reclassifications		–	5,752	–	36,047	(41,613)	(186)	–	–	–
Exchange realignment		–	109	471	–	248	41	–	–	869
At 31 December 2003		137,603	562,917	292,324	1,737,513	136,047	134,943	–	–	3,001,347
At 1 January 2004:										
As previously reported		137,603	629,202	292,324	1,737,513	136,047	134,943	–	–	3,067,632
Effect of adopting HKAS 17	*2(a)*	–	(66,285)	–	–	–	–	–	–	(66,285)
As restated		137,603	562,917	292,324	1,737,513	136,047	134,943	–	–	3,001,347
Acquisition of subsidiaries	*45(a)*	–	66,552	26,730	174,541	22,292	9,142	–	–	299,257
Depreciation provided for the year		30,068	143,992	26,199	311,168	48,439	33,119	–	–	592,985
Impairment during the year recognised in the profit and loss account		–	28,370	–	1,016	–	–	–	–	29,386
Disposals		–	(7,739)	(38,315)	(49,709)	(4,948)	(23,745)	–	–	(124,456)
Transfer to investment properties	*16*	–	(49,105)	–	–	–	–	–	–	(49,105)
Attributable to discontinued operations	*11(b)*	–	(58,415)	–	(259,913)	–	(33,976)	–	–	(352,304)
Disposal of subsidiaries	*45(b)*	–	(591)	(290)	(7,634)	(35)	(386)	–	–	(8,936)
At 31 December 2004		**167,671**	**685,981**	**306,648**	**1,906,982**	**201,795**	**119,097**	**–**	**–**	**3,388,174**
Net book value:										
At 31 December 2004		**1,038,075**	**2,277,844**	**107,343**	**2,079,331**	**171,937**	**123,992**	**540,049**	**–**	**6,338,571**
At 31 December 2003, as restated		1,067,334	2,320,691	53,309	2,204,942	138,397	138,295	556,774	17,759	6,497,501

15. Fixed assets *(continued)*

(a) The leasehold buildings, expressway and related structures included above are held under the following lease terms:

Group

	Hong Kong HK$'000	**Elsewhere** HK$'000	**Total** HK$'000
Long term leases	51,580	–	51,580
Medium term leases	8,500	4,109,491	4,117,991
	60,080	4,109,491	4,169,571

(b) ***Construction in progress***

Construction in progress represents the following major projects which remained incomplete as at 31 December 2004:

Group

Name of project	**Expected year of completion**	HK$'000
Wangfujing Beixia	2006	186,750
Brewery production plants	2005	294,344
Other projects	Various	58,955
		540,049

15. Fixed assets *(continued)*

(c) Certain of the above leasehold buildings, plant and machinery with an aggregate net book value at the balance sheet date of HK$519,673,000 (2003: HK$183,378,000) were pledged to secure certain bank and other loans granted to the Group *(note 36(d)(i))*.

(d) At 31 December 2003, the hotel properties were revalued by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on the open market income capitalisation basis.

(e) Certain leasehold buildings of the Group and the Company were reclassified from investment properties during the year ended 31 December 2000 at the then carrying amount of HK$41,000,000, as valued on 31 December 1999 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, on the open market value basis. Had the carrying values of these leasehold buildings been carried at historical cost less accumulated depreciation, their carrying values would have been HK$35,304,000 (2003: HK$36,228,000).

(f) The impairment losses of HK$29,386,000 in aggregate recognised during the year ended 31 December 2004 mainly represent the write-down of certain properties in Hong Kong in the "Corporate and others" segment to their recoverable amounts upon their being transferred to investment properties during the year. The recoverable amount was based on fair value less costs to sell and was determined based on valuations performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers. The valuations undertaken were based on the open market value basis using the Direct Comparison Approach.

15. Fixed assets *(continued)*

Company

	Note	Leasehold 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:							
At 1 January 2003:							
As previously reported		41,000	9,239	4,608	940	134,000	189,787
Effect of adopting HKAS 1	*2(i)*	–	–	–	–	(134,000)	(134,000)
As restated		41,000	9,239	4,608	940	–	55,787
Additions		1,319	–	230	1,312	–	2,861
Disposals		–	–	–	(196)	–	(196)
At 31 December 2003		42,319	9,239	4,838	2,056	–	58,452
At 1 January 2004:							
As previously reported		42,319	9,239	4,838	2,056	134,000	192,452
Effect of adopting HKAS 1	*2(i)*	–	–	–	–	(134,000)	(134,000)
As restated		42,319	9,239	4,838	2,056	–	58,452
Additions		–	769	516	–	–	1,285
At 31 December 2004		**42,319**	**10,008**	**5,354**	**2,056**	**-**	**59,737**
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
At 1 January 2004		3,286	9,129	4,303	789	–	17,507
Provided for the year		962	77	262	261	–	1,562
At 31 December 2004		**4,248**	**9,206**	**4,565**	**1,050**	**-**	**19,069**
Net book value:							
At 31 December 2004		**38,071**	**802**	**789**	**1,006**	**-**	**40,668**
At 31 December 2003, restated		39,033	110	535	1,267	–	40,945

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

16. Investment properties

	Notes	Group 2004 HK$'000	Group 2003 HK$'000	Company 2004 HK$'000	Company 2003 HK$'000
At valuation:					
At beginning of year:					
As previously reported		**–**	–	**–**	–
Effect of adopting HKAS 1	*2(i)*	**277,461**	277,261	**134,000**	134,000
As restated		**277,461**	277,261	**134,000**	134,000
Transfer from leasehold buildings	*15*	**16,544**	–	**–**	–
Transfer from construction in progress	*15*	**43,793**	–	**–**	–
Disposals		**(6,441)**	–	**–**	–
Attributable to discontinued operations	*11(b)*	**(2,420)**	–	**–**	–
Surplus on revaluation		**13,785**	200	**–**	–
At end of year, as restated		**342,722**	277,461	**134,000**	134,000

(a) Investment properties of the Group as at 31 December 2004 are held under the following lease terms:

Group

	Hong Kong HK$'000	Elsewhere HK$'000	Total HK$'000
Long term leases	94,325	–	94,325
Medium term leases	6,500	241,897	248,397
	100,825	241,897	342,722

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

16. Investment properties *(continued)*

(b) The investment properties are leased to third parties under operating leases, further summary details of which are included in note 47(a) to the financial statements. The gross rental income received and receivable by the Group and the Company and related expenses in respect of these investment properties are summarised as follows:

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Gross rental income	**22,249**	15,080	**6,598**	5,011
Direct expenses	**(3,700)**	(1,792)	**(742)**	(449)
Net rental income	**18,549**	13,288	**5,856**	4,562

(c) Certain of the Group's investment properties with an aggregate net book value at the balance sheet date of HK$6,500,000 (2003: HK$12,940,000) were pledged to secure certain bank and other loans granted to the Group (note 36(d)(i)).

(d) At 31 December 2004, the investment properties were revalued by DTZ Debenham Tie Leung Limited and CB Richard Ellis Limited, independent professionally qualified valuers, on the open market income capitalisation basis or the open market value basis using the Direct Comparison Approach.

17. Lease premium for land

Group

	Notes	**2004 HK$'000**	2003 HK$'000
Cost:			
At beginning of year:			
As previously reported		**–**	–
Effect of adopting HKAS 17	*2(a)*	**512,004**	484,840
As restated		**512,004**	484,840
Acquisition of subsidiaries	*45(a)*	**113,370**	15,295
Additions		**18,771**	31,026
Disposals		**(28,083)**	(19,157)
Attributable to discontinued operations	*11(b)*	**(79,276)**	–
Disposal of subsidiaries	*45(b)*	**(5,270)**	–
At end of year		**531,516**	512,004
Accumulated amortisation:			
At beginning of year:			
As previously reported		**–**	–
Effect of adopting HKAS 17	*2(a)*	**66,285**	75,633
As restated		**66,285**	75,633
Acquisition of subsidiaries	*45(a)*	**39,002**	–
Amortisation for the year		**9,693**	8,682
Disposals		**(3,296)**	(18,030)
Attributable to discontinued operations	*11(b)*	**(18,326)**	–
Disposal of subsidiaries	*45(b)*	**(211)**	–
At end of year		**93,147**	66,285
Net book value:			
At end of year		**438,369**	445,719
Portion classified as current assets		**(8,176)**	(9,693)
Long term portion		**430,193**	436,026

The leasehold land of the Group as at 31 December 2004 is held under medium term leases.

18. Intangible assets

Group

	Operating concessions HK$'000 *(note (a))*	Management information systems HK$'000	Licences HK$'000	Deferred development costs* HK$'000 *(note (b))*	Total HK$'000
Cost:					
At 1 January 2003	2,027,321	18,868	–	11,130	2,057,319
Acquisition of a subsidiary – *note 45(a)*	–	–	8,108	–	8,108
Additions	–	–	1,886	2,164	4,050
At 31 December 2003 and 1 January 2004	2,027,321	18,868	9,994	13,294	2,069,477
Additions	–	–	12,000	3,642	15,642
At 31 December 2004	**2,027,321**	**18,868**	**21,994**	**16,936**	**2,085,119**
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 and 1 January 2004	401,901	4,088	735	13,294	420,018
Amortisation provided for the year	101,367	1,886	1,435	–	104,688
At 31 December 2004	**503,268**	**5,974**	**2,170**	**13,294**	**524,706**
Net book value:					
At 31 December 2004	**1,524,053**	**12,894**	**19,824**	**3,642**	**1,560,413**
At 31 December 2003	1,625,420	14,780	9,259	–	1,649,459

* Internally generated

18. 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.

As at 31 December 2004, the remaining amortisation period of this operating concession is 14 years.

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

As at 31 December 2004, the remaining amortisation period of this operating concession is 17 years and 4 months.

(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.

19. 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

	Notes	**Goodwill** HK$'000	**Negative goodwill** HK$'000
Cost:			
At 1 January 2003		171,725	(68,625)
Acquisition of subsidiaries	*45(a)*	141,154	–
Acquisition of minority interests		26,710	(4,545)
At 31 December 2003		339,589	(73,170)
At 1 January 2004:			
As previously reported		339,589	(73,170)
Effect of adopting HKFRS 3	*2(d)*	(36,822)	73,170
As restated		302,767	–
Acquisition of subsidiaries	*45(a)*	27,052	–
Acquisition of minority interests		4,761	–
Reclassification from interests in jointly-controlled entities as a result of the related jointly-controlled entities became subsidiaries during the year	*21*	17,682	–
Attributable to discontinued operations	*11(b)*	(22,064)	–
At 31 December 2004		**330,198**	**–**
Accumulated amortisation and impairment/(recognition as income):			
At 1 January 2003		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)
At 1 January 2004:			
As previously reported		39,178	(65,623)
Effect of adopting HKFRS 3	*2(d)*	(36,822)	65,623
As restated		2,356	–
Impairment during the year recognised in the profit and loss account		17,512	–
Attributable to discontinued operations	*11(b)*	(19,868)	–
At 31 December 2004		**–**	**–**
Net book value:			
At 31 December 2004		**330,198**	**–**
At 31 December 2003		300,411	(7,547)

19. Goodwill and negative goodwill *(continued)*

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

The amount of goodwill and negative goodwill remaining in the consolidated capital reserve, arising on the acquisition of subsidiaries prior to 1 January 2001, are as follows:

Group

	Goodwill eliminate against consolidated capital reserve HK$'000	**Negative goodwill credited to consolidated capital reserve** HK$'000
Cost:		
At 1 January 2003 and 31 December 2003	429,693	(657,924)
At 1 January 2004:		
As previously reported	429,693	(657,924)
Effect of adopting HKFRS 3 – *note 2(d)*	–	657,924
As restated and at 31 December 2004	**429,693**	**–**
Accumulated impairment:		
At 1 January 2003	–	–
Impairment during the year recognised in the profit and loss account	5,132	–
At 31 December 2003 and 2004	**5,132**	**–**
Net amount:		
At 31 December 2004	**424,561**	**–**
At 31 December 2003	424,561	(657,924)

19. Goodwill and negative goodwill *(continued)*

(a) As detailed in note 2(d) to the financial statements, on the adoption of HKFRS 3 during the year:

- the Group ceased amortisation of goodwill from 1 January 2004;
- accumulated amortisation of goodwill arising on the acquisition of subsidiaries and minority interests of HK$36,822,000 as at 1 January 2004 has been eliminated with a corresponding decrease in the cost of goodwill as at 1 January 2004;
- from the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment; and
- following the transitional provisions of HKFRS 3, the carrying amount of the negative goodwill recognised on the consolidated balance sheet and remained credited to the consolidated capital reserve of HK$7,547,000 and HK$657,924,000, respectively, as at 1 January 2004 were derecognised by way of an adjustment to the opening retained profits and minority interests as at 1 January 2004 of HK$663,614,000 and HK$1,857,000, respectively.

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

Carrying amount of the goodwill acquired through acquisitions has been allocated to the relevant business units of the following individual business segments of the Group for impairment testing as follows:

Group

	Notes	**31 December 2004 HK$'000**	1 January 2003 HK$'000
Continuing operations:			
Retail operations segment	*(i)*	**33,822**	7,018
Expressway and toll road operations segment	*(ii)*	**21,687**	21,687
Telecommunications and IT related services and products segment	*(i)*	**132,622**	128,107
Geothermal energy systems segment	*(i)*	**104,283**	104,283
Others		**37,784**	23,239
		330,198	284,334
Discontinued operations – Dairy operations	*11(b)*	**2,196**	16,077
Total goodwill		**332,394**	300,411

19. Goodwill and negative goodwill *(continued)*

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

(i) The recoverable amounts of the relevant business units of these business segments have been determined based on a value in use calculation using cash flow projections which are based on financial budgets approved by management covering a period ranging from 5 years to 9 years. The discounted rate applied to cash flow projections is 5%.

(ii) The recoverable amount of the relevant business unit in the expressway and toll road operations segment has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering a 18-year period which were prepared by reference to a traffic and toll revenue forecast issued by independent valuers. The discount rate applied to cash flow projections is 13.5%, which is the average discounted rate for the toll road industry in Mainland China.

During the year ended 31 December 2004, an impairment loss of HK$17,512,000 has been recognised in the profit and loss account for the goodwill of a business unit of the Group's dairy operations segment as the senior management of the Group believes that that business unit is unable to generate positive cashflows in the foreseeable future.

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

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

- *Budgeted turnover*
  Budgeted turnover are based on the following assumptions:

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

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

19. Goodwill and negative goodwill *(continued)*

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

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

- *Business environment*
  No major changes in the existing political, legal and economic conditions in the PRC and other locations in which the assessed entity carried on its business.

20. Interests in subsidiaries

	Company	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	**4,100,247**	4,120,771
Due from subsidiaries	**2,890,020**	2,415,770
Loans to a subsidiary	**–**	20,255
Due to subsidiaries	**(813,280)**	(571,005)
	6,176,987	5,985,791
Provision for impairment	**(261,751)**	(165,414)
	5,915,236	5,820,377

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The loans to a subsidiary in the prior year were unsecured, bore interest at the prevailing market rate of bank loans with a similar tenure and had no fixed terms of repayment.

20. Interests in subsidiaries *(continued)*

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 Company	Group	Principal activities
Beijing Yanjing Brewery Company Limited *	PRC/ Mainland China	RMB674,643,432	–	54.86	Production and sale of beer
燕京啤酒(包頭雪鹿)股份有限公司 (Baotou Yanjing Brewery Company Limited) ("Yanjing Baotou")	PRC/ Mainland China	RMB193,219,374	–	43.08 †	Production and sale of beer
燕京啤酒(桂林漓泉)股份有限公司 (Yanjing Brewery (Guilin Liquan) Company Limited)	PRC/ Mainland China	RMB138,600,000	–	40.61 †	Production and sale of beer
燕京啤酒(赤峰)有限責任公司 (Yanjing Brewery (Chifeng) Company Limited)	PRC/ Mainland China	RMB113,070,200	–	38.81 †	Production and sale of beer
燕京啤酒(贛州)有限責任公司 (Yanjing Brewery (Ganzhou) Company Limited)	PRC/ Mainland China	RMB86,880,000	–	52.61	Production and sale of beer
燕京啤酒(衡陽)有限公司 (Yanjing Brewery (Hengyang) Company Limited)	PRC/ Mainland China	RMB180,660,000	–	51.43	Production and sale of beer
湖南燕京啤酒有限公司 (Hunan Yanjing Brewery Company Limited)	PRC/ Mainland China	RMB95,000,000	–	50.82	Production and sale of beer
江西燕京啤酒有限責任公司 (Jiangxi Yanjing Brewery Company Limited)	PRC/ Mainland China	RMB129,511,385	–	41.66 †	Production and sale of beer

20. 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 Company	Percentage of attributable equity interest held by Group	Principal activities
燕京啤酒（萊州）有限公司 (Yanjing Brewery (Laizhou) Company Limited)	PRC/ Mainland China	RMB187,053,800	–	69	Production and sale of beer
燕京啤酒（山東無名）股份有限公司 (Yanjing Brewery (Shandong Wuming) Company Limited)	PRC/ Mainland China	RMB83,499,643	–	30.57†	Production and sale of beer
燕京啤酒（襄樊）有限公司 (Yanjing Brewery (Xiangfan) Company Limited)	PRC/ Mainland China	RMB170,700,000	–	53.58	Production and sale of beer
福建燕京啤酒有限公司 (Fujian Yanjing Brewery Company Limited)	PRC/ Mainland China	RMB140,000,000	–	52.9	Production and sale of beer
北京燕京飲料有限公司 (Beijing Yanjing Beverage Company Limited)	PRC/ Mainland China	US$20,000,000	–	41.15†	Production and sale of beverages
燕京啤酒（浙江仙都）有限公司 (Yanjing Brewery (Zhejiang Xiandu) Company Limited)	PRC/ Mainland China	RMB133,350,000	–	41.15†	Production and sale of beer
燕京啤酒（長沙）有限公司 (Yanjing Brewery (Changsha) Company Limited)	PRC/ Mainland China	RMB50,000,000	–	52.12	Production and sale of beer

20. 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 Company	Group	Principal activities
長沙華南燕京啤酒銷售有限公司 (Changsha Huanan Yanjing Brewery Sales Co., Ltd.)	PRC/ Mainland China	RMB20,000,000	–	52.12	Production and sale of beer
燕京啤酒(仙桃)有限公司 (Yanjing Brewery (Xiantao) Company Limited) δ	PRC/ Mainland China	RMB100,000,000	–	54.67	Production and sale of beer
廣東燕京啤酒有限公司 (Guangdong Yanjing Brewery Company Limited) δ	PRC/ Mainland China	RMB100,000,000	–	66.15	Production and sale of beer
燕京啤酒(曲阜三孔)有限責任公司 (Yanjing Brewery Qufu Sankong Co., Ltd.) ("Yanjing Sankong") δ	PRC/ Mainland China	RMB230,769,230	–	55.55	Production and sale of beer
Beijing Wangfujing Department Store (Group) Co., Ltd. ("Wangfujing") #	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.)	PRC/ Mainland China	RMB50,000,000	–	35.07 †	Department store operations and property development
廣州王府井百貨大樓有限責任公司 (Guangzhou Wangfujing Department Store Company Limited)	PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations

20. 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 Company	Group	Principal activities
武漢王府井百貨有限責任公司 (Wuhan Wangfujing Department Store Company Limited)	PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations
包頭王府井百貨有限責任公司 (Baotou Wangfujing Department Store Co., Ltd.)	PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations
重慶王府井百貨有限責任公司 (Chongqing Wangfujing Department Store Co., Ltd.)	PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations
石家庄王府井百貨有限責任公司 (Shijiazhuang Wangfujing Department Store Co., Ltd.)	PRC/ Mainland China	RMB10,000,000	–	50.1	Department store operations
北京雙安商場有限責任公司 (Beijing Shuang An Department Store Co., Ltd.) ("Shuang An")δ	PRC/ Mainland China	RMB280,000,000	–	50.1	Department store operations
Beijing Sanyuan Foods Co., Ltd. #	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)	PRC/ Mainland China	RMB67,714,661	–	41.88 †	Production and sale of dairy products

20. 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 Company	Group	Principal activities
Beijing Capital Expressway Development Co., Ltd.	PRC/ Mainland China	US$64,053,700	–	96	Operations of an expressway
Shenzhen Guanshun Road & Bridge Co., Ltd.	PRC/ Mainland China	RMB217,500,000	–	53.08	Operations of a toll road
恆有源科技發展有限公司 (Ever Source Scientific and Technology Development Co., Ltd.)	PRC/ Mainland China	RMB118,685,285	10.41	68.65	Production and sale of geothermal energy systems
北京北控恆有源科技發展有限公司 (Beijing Enterprises Ever Source (Beijing) Company Limited) Ω	PRC/ Mainland China	US$3,000,000	–	69.81	Licence holding
北京永源熱泵有限責任公司 (Beijing Ever Hot Pumps Co., Ltd.) ("Ever Hot Pumps") δ	PRC/ Mainland China	RMB2,483,160	–	35.60 †	Production and sale of machineries for geothermal energy systems
北京恆有源環境系統設備安裝工程有限公司 (Beijing Ever Source Environmental Equipment Installation Co., Ltd.)	PRC/ Mainland China	RMB10,000,000	–	54.92	Installation of geothermal energy systems
Beijing Bei Kong Water Production Co., Ltd. Ω	PRC/ Mainland China	US$1,000,000	100	100	Operations of a water treatment plant
北京宏業房地產開發有限責任公司 (Beijing Hongye Real Estate Development Co. Ltd.)	PRC/ Mainland China	RMB30,000,000	–	50.1	Property investment and development

20. 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 Company	Group	Principal activities
Beijing Maglev Technology Development Co., Ltd.	PRC/ Mainland China	RMB80,000,000	63.75	90.94	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
Xteam Software International Limited δ Δ π	Cayman Islands/ Hong Kong	HK$37,584,718	–	31.42 †	Investment holding
衝浪平台(中國)軟件技術有限公司 (Xteam Software (China) Co., Limited) δ Δ Ω	PRC/ Mainland China	US$3,000,000	–	31.42 †	Sale of computer software and provision of related services
北控軟件有限公司 (Becom Software Co., Ltd.)	PRC/ Mainland China	RMB50,000,000	–	38.17 †	Provision of management information system services
北京北控電信通信息技術有限公司 (Beijing Enterprises Teletron Information Technology Co., Ltd.) Ω	PRC/ Mainland China	RMB65,000,000	–	40.18 †	Construction of information networks, provision of IT technical support and consultation services

20. 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 Company	Group	Principal activities
湖南教育信息服務有限公司 (Hunan Education Information Service Co., Ltd.)	PRC/ Mainland China	RMB10,000,000	–	22.88 †	Construction of information networks and provision of IT technical support services
北京北控偉仕軟件工程技術有限公司 (Beijing Enterprises VST Software Technology Co., Ltd.) ("VST Software")	PRC/ Mainland China	RMB2,000,000	–	31.42 †	Software development
Beijing Enterprises Holdings High-Tech Development Co., Ltd. ("High-Tech")	PRC/ Mainland China	US$30,000,000	97.99	97.99	Investment holding
Beijing Enterprises Holdings Investment Management Co., Ltd.	PRC/ Mainland China	HK$61,100,000	100	100	Provision of management and consultancy services
北京豐收葡萄酒有限公司 (Beijing Feng Shou Winery Co., Ltd.)	PRC/ Mainland China	US$2,700,000	51	51	Production and sale of wine
北京順興葡萄酒有限公司 (Beijing Shun Xing Wine Co., Ltd.)	PRC/ Mainland China	RMB11,880,000	51	51	Production and sale of wine
Beijing Western-Style Food Co., Ltd.	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.)	PRC/ Mainland China	US$4,000,000	–	47.71 †	Property investment

20. 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 Company	Group	Principal activities
Beijing Enterprises (Properties) Limited	British Virgin Islands/ Hong Kong	US$160	100	100	Property investment
Helken Industries Limited	Hong Kong	HK$2	100	100	Property investment
北京燕京中發生物技術有限公司 (Beijing Yanjing Zhong Fa Biochemical Technology Company Limited)	PRC/ Mainland China	RMB40,000,000	–	43.89 †	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 Sanyuan Foods 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 Sanyuan Foods held by the Group are legal person shares and cannot be traded on any stock exchange.

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

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

δ Acquired/incorporated during the year.

Δ Not audited by Ernst & Young Hong Kong or other Ernst & Young Global member firms.

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.

21. Interests in jointly-controlled entities

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost	**–**	–	**–**	28,286
Share of net assets	**591,829**	1,045,661	**–**	–
Goodwill on acquisition	**–**	17,682	**–**	–
Due from jointly-controlled entities	**19,942**	54,214	**13,406**	13,905
Due to jointly-controlled entities	**(55,093)**	(88,092)	**(14,195)**	(23,691)
	556,678	1,029,465	**(789)**	18,500

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

Group

	Notes	**Goodwill** HK$'000
Cost:		
At 1 January 2003 and 31 December 2003		27,761
At 1 January 2004:		
As previously reported		27,761
Effect of adopting HKFRS 3	*2(d)*	(10,079)
As restated		17,682
Reclassification to goodwill arising on acquisition of subsidiaries as a result of the related jointly-controlled entities became subsidiaries during the year	*19*	(17,682)
At 31 December 2004		**–**
Accumulated amortisation:		
At 1 January 2003		5,380
Amortisation provided for the year		4,699
At 31 December 2003		10,079
At 1 January 2004:		
As previously reported		10,079
Effect of adopting HKFRS 3	*2(d)*	(10,079)
As restated and at 31 December 2004		–
Net book value:		
At 31 December 2004		**–**
At 31 December 2003		17,682

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

(a) (continued)

As detailed in note 3 to the financial statements, in respect of the acquisitions of jointly-controlled entities before 1 January 2001, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of acquisitions, which occurred prior to the adoption of the HKFRS, to remain eliminated against the consolidated capital reserve.

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

Group

	Goodwill eliminated against consolidated capital reserve HK$'000
Cost:	
At 1 January 2003 and 31 December 2003	159,188
Disposal of a jointly-controlled entity – note 2(d)	(40,757)
At 31 December 2004	**118,431**
Accumulated impairment:	
At 1 January 2003, 31 December 2003, 1 January 2004 and 31 December 2004	–
Net amount:	
At 31 December 2004	**118,431**
At 31 December 2003	159,188

As detailed in note 2(d) to the financial statements, on the adoption of HKFRS 3 during the year:

- the Group ceased amortisation of goodwill arising on acquisition of jointly-controlled entities from 1 January 2004;
- accumulated amortisation of goodwill arising on acquisition of jointly-controlled entities of HK$10,079,000 as at 1 January 2004 has been eliminated with a corresponding decrease in the cost of goodwill as at 1 January 2004; and
- from the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

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

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

(c) The Group's trade and bills receivable balances due from the jointly-controlled entities are disclosed in note 28 to the financial statements.

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

	2004 HK$'000	2003 HK$'000 (Restated)
SHARE OF RESULTS ATTRIBUTABLE TO THE GROUP		
Turnover	**961,800**	955,769
Other revenue	**151,648**	3,378
Total revenue	**1,113,448**	959,147
Total expenses	**(1,046,742)**	(941,782)
Profit before tax	**66,706**	17,365
Tax	**(10,253)**	(4,406)
Profit for the year	**56,453**	12,959
SHARE OF ASSETS AND LIABILITIES ATTRIBUTABLE TO THE GROUP		
Fixed assets	**469,528**	935,618
Operating concession *(note)*	**36,034**	37,094
Other non-current assets	**93,338**	268,095
Current assets	**278,602**	474,396
Non-current liabilities	**(116,410)**	(65,721)
Current liabilities	**(176,302)**	(602,674)
Minority interests	**–**	(1,147)
Losses in excess of investment costs not absorbed by the Group	**7,039**	–
Net assets	**591,829**	1,045,661

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

(d) *(continued)*

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

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

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

				Percentage of			
Company name	Business structure	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activities
Beijing McDonald's Food Co., Ltd.	Corporate	PRC/ Mainland China	US$20,800,000	28.56	50	50	Provision of fast food services
Beijing Badaling Tourism Co., Ltd. π	Corporate	PRC/ Mainland China	RMB286,000,000	75	75	75	Operations of tourism businesses and hotel operations
Beijing Long Qing Xia Tourism Development Co., Ltd. π	Corporate	PRC/ Mainland China	RMB120,000,000	75	75	75	Operations 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	PRC/ Mainland China	US$59,600,000	25.05	50	50	Provision of retail management services

21. 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 Ownership interest attributable to the Group	Percentage of Voting power	Percentage of Profit sharing	Principal activities
中關村國際商城發展有限公司 (Zhong Guan Cun Universal Mall Development Company Limited)	Corporate	PRC/ Mainland China	RMB145,000,000	10.02	20	20	Property development
北京秦昌玻璃有限公司 (Beijing Qin Chang Glass Company Limited) †	Corporate	PRC/ Mainland China	RMB100,000,000	29.40	28.6	30	Production and sale of flat glass
上海三元昂立營養食品有限公司	Corporate	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	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	PRC/ Mainland China	RMB50,000,000	24	44.4	43	Operations of contactless multipurpose electronics payment cards
北京王府井洋華堂商業有限公司 (Beijing Wangfujing Yanghuatang Commercial Company Limited) δ	Corporate	PRC/ Mainland China	US$12,000,000	20.04	42.86	40	Operations of a chain network of supermarkets

† The interest in this jointly-controlled entity, which was previously directly held by the Company, was transferred to another subsidiary during the year.

π These entities are accounted for as jointly-controlled entities as the Group's interests in these entities are held through a jointly-controlled entity of the Group.

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.

22. Interests in associates

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost	**–**	–	**141,742**	141,742
Share of net assets	**550,310**	419,544	**–**	–
Due from associates	**41,033**	32,338	**3,505**	4,002
	591,343	451,882	**145,247**	145,744
Provision for impairment	**–**	(7,065)	**–**	–
Provision against an amount due from an associate	**(474)**	–	**–**	–
	590,869	444,817	**145,247**	145,744

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

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

Group

	Goodwill eliminated against consolidated capital reserve
	HK$'000
Cost:	
At 1 January 2003 and 31 December 2003	224,569
Partial disposal of an associate – note 2(d)	(74,167)
At 31 December 2004	150,402
Accumulated impairment:	
At 1 January 2003, 31 December 2003, 1 January 2004 and 31 December 2004	–
Net amount:	
At 31 December 2004	**150,402**
At 31 December 2003	224,569

22. Interests in associates *(continued)*

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

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

	2004 **HK$'000**	2003 HK$'000
SHARE OF RESULTS ATTRIBUTABLE TO THE GROUP		
Turnover	**446,024**	822,406
Other revenue	**5,046**	27,475
Total revenue	**451,070**	849,881
Total expenses	**(391,888)**	(807,900)
Profit before tax	**59,182**	41,981
Tax	**(8,007)**	(8,625)
Profit for the year	**51,175**	33,356
SHARE OF ASSETS AND LIABILITIES ATTRIBUTABLE TO THE GROUP		
Fixed assets	**454,060**	225,923
Other non-current assets	**88,943**	162,541
Current assets	**248,089**	647,518
Non-current liabilities	**(21,169)**	(8,313)
Current liabilities	**(201,384)**	(606,026)
Minority interests	**(20,575)**	(2,099)
Losses in excess of investment costs not absorbed by the Group	**2,346**	–
Net assets	**550,310**	419,544

22. 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 Ownership interest attributable to the Group	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Beijing Peking University WBL Biotech Co., Ltd. †	Corporate	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 (Biosino Biotechnology and Science Inc.)	Corporate	PRC/ Mainland China	RMB70,017,528	34.29	33.3	35	Production and sale of magnet diagnostic and pharmaceutical products
北京機電院高技術股份有限公司 (BMEI Co., Ltd.)*	Corporate	PRC/ Mainland China	RMB135,872,209	38.27	36.4	38.27	Production and sale of mechanical and electrical equipment
Fujian Yanjing Huiquan Brewery Co., Ltd. ("Yanjing Huiquan") π δ	Corporate	PRC/ Mainland China	RMB250,000,000	20.93	38.15	38.15	Production and sale of beer

† This associate is directly held by the Company.

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

π Shares of Yanjing Huiquan are listed on the Shanghai Stock Exchange. The shares in Yanjing Huiquan held by the Group are legal person shares and cannot be traded on any stock exchange. The directors do not consider it appropriate to disclose a value of the Group's investment in Yanjing Huiquan based on the published price quotation of Yanjing Huiquan's listed shares as such information would be misleading.

δ Acquired during the year.

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.

23. Pledged bank balances

	Group	
	2004	2003
	HK$'000	HK$'000
Pledged bank balances – *note 32*	**53,911**	64,687
Less: Portion classified as current assets	**(45,168)**	(56,875)
Long term portion	**8,743**	7,812

(a) Short term pledged bank balances of HK$23,785,000 (2003: HK$9,785,000) were pledged to banks to secure certain short term bank loans granted to the Group (note 36(d)(iii)).

(b) A long term pledged bank balance of HK$8,743,000 (2003: HK$7,812,000) and short term pledged bank balances of HK$21,383,000 (2003: HK$33,444,000) were pledged to banks as security for mortgage loans granted to certain purchasers of the Group's properties held for sale.

(c) In the prior year, as at 31 December 2003, short term pledged bank balances of HK$13,646,000 were pledged as guarantees for tenders and contracts.

24. Available-for-sale financial assets/Long term investments

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Available-for-sale financial assets:				
Listed equity investments				
in Hong Kong, at fair value	**250**	–	**250**	–
Unlisted equity investments, at cost	**306,238**	–	**80,212**	–
Long term investments:				
Listed equity investments				
in Hong Kong, at cost	**–**	79,600	**–**	47,600
Unlisted equity investments, at cost	**–**	315,439	**–**	74,384
	306,488	395,039	**80,462**	121,984
Provision for impairment	**(21,432)**	(105,482)	**–**	(17,600)
	285,056	289,557	**80,462**	104,384

24. Available-for-sale financial assets/Long term investments *(continued)*

(i) Included in the unlisted equity investments of available-for-sale financial assets as at 31 December 2004 above is an amount of HK$90,763,000 which represents the Group's remaining 20% equity interest in Beijing Siemens, a then associate of the Group owned as to 40% by the Group before the Group disposed of its 20% equity interest in Beijing Siemens during the year as detailed in note 5 to the financial statements. The carrying amount of the remaining 20% equity interest in Beijing Siemens held by the Group, which amounted to HK$90,763,000 at the time of the disposal, is accounted for as available-for-sale financial assets as the Group no longer has any significant influence over Beijing Siemens and involves in any of its operating and financial decisions.

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

25. Properties held for sale

The carrying amount of the Group's properties held for sale that are carried at net realisable value was HK$53,195,000 (2003: HK$67,623,000) 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$1,250,000 (2003: HK$117,453,000) were pledged to secure certain bank and other loans granted to the Group (note 36(d)(ii)).

26. Inventories

	Group	
	2004	2003
	HK$'000	HK$'000
Raw materials	**963,351**	753,103
Work in progress	**84,508**	68,109
Finished goods	**112,585**	131,182
Trading stocks	**79,525**	53,817
	1,239,969	1,006,211

At 31 December 2004, none of the inventories was carried at fair value less costs to sell (2003: Nil).

27. Amounts due from/to customers for contract work

	Group	
	2004	2003
	HK$'000	HK$'000
Amounts due from customers for contract work	**16,915**	6,750
Amounts due to customers for contract work	**(51,770)**	(25,816)
	(34,855)	(19,066)
Contract costs incurred plus recognised profits less recognised losses to date	**53,567**	32,523
Less: Progress billings received and receivable	**(88,422)**	(51,589)
	(34,855)	(19,066)

28. Trade and bills receivables

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

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

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**755,437**	702,834	**3,742**	1,132
One to two years	**79,490**	66,606	**–**	–
Two to three years	**15,651**	20,332	**–**	–
Over three years	**8,766**	3,722	**–**	–
	859,344	793,494	**3,742**	1,132
Less: Portion classified as current assets	**(790,034)**	(744,128)	**(3,742)**	(1,132)
Long term portion	**69,310**	49,366	**–**	–

In the prior year, included in the Group's trade and bills receivables as at 31 December 2003 were amounts of HK$4,999,000 and HK$3,721,000 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 were unsecured, interest-free and were repayable within credit periods similar to those offered by the Group to its major customers.

29. Other receivables

	Note	Group 2004 HK$'000	Group 2003 HK$'000	Company 2004 HK$'000	Company 2003 HK$'000
Prepayments		**24,243**	48,379	**4,541**	7,523
Deposits and other debtors		**867,382**	684,868	**154,438**	8,196
Due from related companies	30	**102,623**	93,242	**21,670**	3,451
Due from holding companies	30	**7,992**	6,842	**1,883**	–
		1,002,240	833,331	**182,532**	19,170
Less: Portion classified as current assets		**(825,359)**	(688,090)	**(178,477)**	(15,239)
Long term portion		**176,881**	145,241	**4,055**	3,931

(a) The long term portion of other receivables as at 31 December 2004 mainly included the following:

(i) an investment deposit of HK$61,715,000 paid for the acquisition of an additional 14.2244% equity interest in Yanjing Huiquan (previously known as "Huiquan Brewage Group Inc. Fujian China") by Yanjing Brewery from other five shareholders of Yanjing Huiquan. The acquisition of Yanjing Huiquan was approved by relevant PRC government authorities and completed in March 2005.

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

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 Yanjing Huiquan by Yanjing Brewery. The acquisition was approved by the relevant PRC government authorities and completed in March 2004, when Yanjing Huiquan became an associate of the Group.

(b) Included in the Group's deposits and other debtors as at the balance sheet date is an aggregate amount of HK$139,759,000 (2003: HK$143,403,000) 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.

30. 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 28, 29 and 40 to the financial statements, respectively.

31. Financial assets at fair value through profit or loss/Short term investments

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity investments:				
Hong Kong	**21,937**	20,137	**9,366**	13,680
Elsewhere	**–**	26	**–**	–
	21,937	20,163	**9,366**	13,680
Unlisted equity investments in				
Mainland China	**290**	1,363	**–**	–
Unlisted fund	**27,975**	27,239	**27,725**	27,239
	50,202	48,765	**37,091**	40,919

32. Cash and cash equivalents

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**2,990,437**	2,059,019	**83,168**	11,506
Cash equivalents	**41,136**	–	**41,136**	–
Time deposits	**1,163,802**	1,713,960	**365,155**	578,224
	4,195,375	3,772,979	**489,459**	589,730
Less: Pledged bank balances – *note 23*	**(53,911)**	(64,687)	**–**	–
Cash and cash equivalents	**4,141,464**	3,708,292	**489,459**	589,730

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in RMB amounted to HK$2,729,703,000 (2003: HK$2,421,742,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

33. Share capital

	Company	
	2004	2003
	HK$'000	HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
622,500,000 ordinary shares of HK$0.10 each	**62,250**	62,250

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 34 to the financial statements. No share options were granted or exercised during the year.

34. Share option scheme

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 total number of ordinary shares of the Company in issue at any time. No option may be granted to any one person which if exercised in full would result in the total number of ordinary shares of the Company issued and issuable to him/her under all the options previously granted to him/her and the said option exceeding 25% of the Maximum Number. At 31 December 2004, the number of ordinary shares issuable under share options granted under the Scheme was 6,050,000, which represented approximately 0.97% of the Company's shares in issue as at that date.

An option may not be transferred, 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 the grant date. No option may be granted more than 10 years after the date of approval of the Scheme.

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

34. Share option scheme *(continued)*

The following share options were outstanding under the Scheme as at 31 December 2004:

Name or category of participant	*Notes*	Number of share options: At 1 January 2004	Granted during the year	Lapsed during the year	At 31 December 2004
Directors					
Mr. Li Fu Cheng	*(a)*	200,000	–	–	200,000
	(b)	1,800,000	–	–	1,800,000
		2,000,000	–	–	2,000,000
Mr. Zheng Wan He	*(a)*	200,000	–	–	200,000
	(b)	1,800,000	–	–	1,800,000
		2,000,000	–	–	2,000,000
Mr. Wei En Hong *(note (c))*	*(a)*	200,000	–	(200,000)	–
	(b)	1,800,000	–	(1,800,000)	–
		2,000,000	–	(2,000,000)	–
Mr. Li Zhong Gen *(note (c))*	*(a)*	200,000	–	(200,000)	–
	(b)	1,800,000	–	(1,800,000)	–
		2,000,000	–	(2,000,000)	–
Other employees					
In aggregate *(note (d))*	*(a)*	320,000	–	(110,000)	210,000
	(b)	2,830,000	–	(990,000)	1,840,000
		3,150,000	–	(1,100,000)	2,050,000
		11,150,000	–	(5,100,000)	6,050,000

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 following 10 years commencing on 1 September 1998. No such options were exercised during the year.

34. Share option scheme *(continued)*

(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. Wei En Hong and Li Zhong Gen on 28 April 2004 and 29 December 2004, respectively, the share options granted to them lapsed on their respective date of resignation.

(d) Owing to the resignation of certain employees during the year, a total of 1,100,000 share options granted to them lapsed during the year.

35. 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 33 to 34 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 2004 was distributable in the form of cash dividends.

(iii) Certain amounts of goodwill arising on the acquisition of subsidiaries, jointly-controlled entities and associates in prior years remain eliminated against the consolidated capital reserve as further explained in notes 19, 21 and 22 to the financial statements.

35. Reserves *(continued)*

(b) Company

	Share premium account HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2003	4,839,497	445,319	5,284,816
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 and 1 January 2004	4,839,497	321,128	5,160,625
Profit for the year	–	383,143	383,143
Interim 2004 dividend	–	(62,250)	(62,250)
Proposed final 2004 dividend	–	(124,500)	(124,500)
At 31 December 2004	**4,839,497**	**517,521**	**5,357,018**

36. Bank and other borrowings

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans:				
Secured	**651,869**	247,859	**–**	–
Unsecured	**2,712,495**	2,986,289	**1,400,850**	1,400,850
	3,364,364	3,234,148	**1,400,850**	1,400,850
Other loans, unsecured	**440,407**	456,507	**–**	–
Total bank and other loans	**3,804,771**	3,690,655	**1,400,850**	1,400,850
Bank loans repayable:				
Within one year	**1,936,928**	1,638,900	**–**	–
In the second year	**1,403,136**	167,285	**1,400,850**	–
In the third to fifth years, inclusive	**6,339**	1,407,785	**–**	1,400,850
Beyond five years	**17,961**	20,178	**–**	–
	3,364,364	3,234,148	**1,400,850**	1,400,850
Other loans repayable:				
Within one year	**162,709**	146,826	**–**	–
In the second year	**41,164**	34,008	**–**	–
In the third to fifth years, inclusive	**92,404**	100,185	**–**	–
Beyond five years	**144,130**	175,488	**–**	–
	440,407	456,507	**–**	–
Total bank and other loans	**3,804,771**	3,690,655	**1,400,850**	1,400,850
Less: Portion classified as current liabilities	**(2,099,637)**	(1,785,726)	**–**	–
Long term portion	**1,705,134**	1,904,929	**1,400,850**	1,400,850

36. Bank and other borrowings *(continued)*

(a) The bank loans of the Group and the Company include a five-year US$180 million syndicated loan facility obtained by the Company in 2001. The syndicated loan bears interest at LIBOR+0.6% and is fully repayable on 12 June 2006.

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

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

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

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

(b) The other loans include interest-free loans of HK$215,749,000 (2003: HK$219,132,000) and HK$nil (2003: HK$3,341,000) from related companies and a third party, respectively. The remaining other loans of HK$224,658,000 (2003: HK$234,034,000) bear interest at rates ranging from 5% to 9% (2003: 5% to 8%) per annum.

(c) HK$185,884,000 (2003: HK$396,668,000) of the Group's unsecured bank loans at the balance sheet date were guaranteed by the joint venture partners of certain of the Group's PRC subsidiaries or their associates and a jointly-controlled entity.

(d) Certain of the Group's bank loans are secured by the following:

(i) Mortgages over the Group's leasehold buildings, plant and machinery and investment properties with an aggregate carrying amount at the balance sheet date of HK$526,173,000 (2003: HK$196,318,000) (notes 15(c) and 16(c));

(ii) Mortgages over certain of the Group's properties held for sale with an aggregate carrying amount at the balance sheet date of HK$1,250,000 (2003: HK$117,453,000) (note 25); and

(iii) Mortgages over certain of the Group's bank balances at the balance sheet date of HK$23,785,000 (2003: HK$9,785,000) in aggregate (note 23(a)).

37. Convertible bonds

On 16 October 2002, Yanjing Brewery, a subsidiary held indirectly as to 54.86% by the Company, issued at face value five year 1.2% convertible bonds (the "Convertible Bonds") in an aggregate principal amount of RMB700,000,000 with a face value of RMB100 each.

The Convertible Bonds are convertible, at the option of the bondholders, into fully-paid ordinary shares of Yanjing Brewery at a conversion price of RMB10.59 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 dates inclusive. Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds are redeemable at face value at the end of the Conversion Period, together with any accrued interest.

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

The Convertible Bonds are guaranteed by the Company, which was approved by the shareholders of the Company in an extraordinary general meeting held on 11 April 2002. 北京燕京啤酒集團公司 (Beijing Yanjing Beer Group Company) ("Yanjing Beer Group"), which has beneficial interests in Yanjing Brewery, has undertaken to counter-indemnify the Company in respect of any contingencies arising from the portion of the guarantee exceeding the Company's effective proportional equity interest of 54.86% in Yanjing Brewery.

38. Other long term liabilities

	Group	
	2004	2003
	HK$'000	HK$'000
Pension and related liabilities	**–**	9,421
Deferred income *(note)*	**–**	11,143
Others	**8,466**	17,689
	8,466	38,253

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

39. Deferred tax

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

	2004	2003
	HK$'000	HK$'000
Deferred tax assets	**62,747**	44,965
Deferred tax liabilities	**(163,735)**	(163,570)
	(100,988)	(118,605)

39. Deferred tax *(continued)*

Group – 2004

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

	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 2004	(2,168)	(149,114)	(1,857)	34,534	(118,605)
Arising on acquisition of a subsidiary – *note 45(a)*	–	–	4,138	–	4,138
Deferred tax credited to profit and loss account during the year – *note 10*	–	–	243	12,485	12,728
Attributable to discontinued operations – *note 11(b)*	(1,134)	14,158	829	(13,102)	751
Net deferred tax assets/(liabilities) at 31 December 2004	**(3,302)**	**(134,956)**	**3,353**	**33,917**	**(100,988)**

39. Deferred tax *(continued)*

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	(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)

At 31 December 2004, deferred tax assets of HK$280,777,000 (2003: HK$230,332,000) 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 2004, there was no significant unrecognised deferred tax liability (2003: 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.

40. 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	
	2004	2003
	HK$'000	HK$'000
Within one year	**724,357**	625,678
One to two years	**18,703**	17,200
Two to three years	**8,141**	16,142
Over three years	**14,581**	12,085
	765,782	671,105

Included in the Group's trade and bills payables are amounts of HK$153,347,000 (2003: HK$84,999,000) 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.

41. Other Payables And Accruals

		Group		Company	
	Note	**2004**	2003	**2004**	2003
		HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals		**212,275**	138,121	**47,244**	39,473
Other liabilities		**1,104,018**	1,138,378	**5,170**	47,915
Due to related companies	*30*	**214,573**	85,601	**8,523**	9,481
Due to holding companies	*30*	**13,415**	74,174	**12,969**	74,174
		1,544,281	1,436,274	**73,906**	171,043

42. Taxes payable

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Income/profits tax	**195,635**	151,171	**–**	–
Consumption tax	**64,262**	55,403	**–**	–
Value-added tax	**85,605**	80,795	**–**	–
Business tax	**9,761**	19,992	**–**	–
Others	**13,106**	21,640	**9,124**	8,083
	368,369	329,001	**9,124**	8,083

43. Financial risk management objectives and policies

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

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

(i) Fair value and cash flow interest rate risks

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

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

43. Financial risk management objectives and policies *(continued)*

(ii) Foreign currency risk

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

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

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

(iii) Commodity price risk

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

(iv) Credit risk

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

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

(v) Liquidity risk

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

44. Financial instruments

Fair values

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

	Carrying amount		**Fair value**	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets:				
Non-current trade and bills receivables	**69,310**	49,366	**68,815**	49,013
Non-current other receivables	**176,881**	145,241	**175,517**	141,310
Non-current pledged bank balances	**8,743**	7,812	**8,548**	7,638
Financial liabilities:				
Non-current bank and other borrowings:				
Floating rate borrowings *(note (iii))*	**1,407,636**	1,408,523	**1,407,636**	1,408,523
Fixed rate borrowings *(note (iv))*	**178,868**	316,831	**177,496**	315,027
Interest-free borrowings *(note (v))*	**181,369**	179,575	**110,832**	110,503
Convertible bonds	**587,424**	659,444	**663,730**	654,564
Other long term liabilities (excluding deferred income)	**8,466**	27,110	**8,039**	25,743

(i) The carrying amounts of financial assets and liabilities which are due to receive or settle within one year are reasonable approximation of their respective fair value, accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 24(ii) to the financial statements, certain available-for-sale financial assets of the Group are not stated at fair value but at cost less any accumulated impairment losses because fair values of which cannot be reasonably assessed and therefore no disclosure of the fair values of these financial instruments is made.

(ii) The fair values of these financial instruments have been calculated by discounting the expected future cash flows at prevailing interest rates.

(iii) The balance mainly includes the syndicated loan of US$180 million borrowed by the Company which is due for repayment in 2006 (note 36(a)).

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

(v) The balance as at 31 December 2004 represented an interest-free loan of HK$181,369,000 obtained by the Group from a joint venture partner of a subsidiary and is repayable within 20 years.

44. Financial Instruments *(continued)*

Interest rate risk

The following tables set out the carrying amount, by maturity, of the Group's financial instruments as at 31 December 2004 and 2003 that are exposed to interest rate risk:

At 31 December 2004

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

Notes:

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

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

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

44. Financial Instruments *(continued)*

Interest rate risk (continued)

At 31 December 2003

	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Effective interest rate %
Floating rate:								
Pledged bank balances	56,875	7,812	–	–	–	–	64,687	0.72
Cash and cash equivalents	1,994,332	–	–	–	–	–	1,994,332	0.71
Bank and other borrowings	(57,097)	(887)	(1,401,758)	(936)	(964)	(3,978)	(1,465,620)	1.75
Fixed rate:								
Cash and cash equivalents	1,713,960	–	–	–	–	–	1,713,960	0.9
Bank and other borrowings	(1,685,731)	(198,572)	(33,842)	(32,458)	(32,484)	(19,475)	(2,002,562)	5.16
Convertible bonds	–	–	–	(659,444)	–	–	(659,444)	1.20

45. Notes to the consolidated cash flow statement

(a) Acquisition of subsidiaries

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

	Shuang An HK$'000 (note (i))	Yanjing Sankong HK$'000 (note (ii))	Others HK$'000 (note (iii))	2004 Total HK$'000	2003 Total HK$'000
Net assets acquired:					
Fixed assets	142,057	203,788	8,785	**354,630**	39,115
Lease premium for land	55,050	19,318	–	**74,368**	–
Licence	–	–	–	**–**	8,108
Available-for-sale financial assets/ Long term investments	–	282	–	**282**	22,610
Deferred tax assets	4,138	–	–	**4,138**	–
Inventories	32,447	72,376	5,551	**110,374**	114,756
Trade and bills receivables	2,648	10,502	3,078	**16,228**	75,074
Other receivables	6,831	6,051	13,021	**25,903**	52,759
Cash and bank balances	306,142	23,972	7,813	**337,927**	81,631
Trade and bills payables	(74,068)	(26,414)	(6,127)	**(106,609)**	(27,755)
Accruals and other liabilities	(153,455)	(66,862)	(23,631)	**(243,948)**	(85,658)
Due to related companies	–	–	–	**–**	(14,544)
Taxes payable	–	(3,679)	–	**(3,679)**	(861)
Bank and other borrowings	–	(71,879)	–	**(71,879)**	(179,934)
Minority interests	–	(61,640)	(7,749)	**(69,389)**	(19,572)
Net assets	321,790	105,815	741	**428,346**	65,729
Goodwill arising on acquisition – *note 19*	20,992	–	6,060	**27,052**	141,154
Goodwill reclassified from interests in jointly-controlled entities	6,838	13,566	–	**20,404**	–
Excess of the Group's interest in the net fair value of the investees' identifiable assets, liabilities and contingent liabilities over cost recognised as income	–	(5,738)	–	**(5,738)**	–
	349,620	113,643	6,801	**470,064**	206,883
Satisfied by:					
Cash	180,876	13,000	2,739	**196,615**	161,987
Costs associated with the acquisition	–	–	4,062	**4,062**	–
Reclassification to interests in subsidiaries from interests in jointly-controlled entities	168,744	100,643	–	**269,387**	–
Reclassification to interests in subsidiaries from long term investments	–	–	–	**–**	33,446
Issue of shares by a subsidiary	–	–	–	**–**	11,450
	349,620	113,643	6,801	**470,064**	206,883
Profit for the year since acquisition	5,000*	6,627*	16,249	**27,876**	66,017

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

45. Notes to the consolidated cash flow statement *(continued)*

(a) *Acquisition of subsidiaries (continued)*

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

	Shuang An HK$'000 *(note (i))*	**Yanjing Sankong** HK$'000 *(note (ii))*	**Others** HK$'000 *(note (iii))*	**2004 Total HK$'000**	2003 Total HK$'000
Cash and bank balances acquired	306,142	23,972	7,813	**337,927**	81,631
Cash consideration	(180,876)	(13,000)	(6,801)	**(200,677)**	(161,987)
Add: Outstanding payable at year end	86,670	–	–	**86,670**	4,811
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	211,936	10,972	1,012	**223,920**	(75,545)

(i) On 6 December 2004, Wangfujing, a non-wholly owned subsidiary of the Company, acquired the remaining 50% equity interest in Shuang An, a then jointly-controlled entity of the Group owned as to 50% by Wangfujing before the acquisition, at a cash consideration of RMB192 million (approximately HK$181 million). Shuang An is principally engaged in the operations of a department store in Beijing. Upon completion of the acquisition, the 100% equity interest in Shuang An is owned as to 80% by Wangfujing and 20% by a wholly owned subsidiary of Wangfujing, and Shuang An became a subsidiary of the Group.

The goodwill of HK$20,992,000 arising on the acquisition is attributable to certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. Such assets included customer loyalty and control over Shuang An.

(ii) On 9 April 2004, 北京燕京啤酒有限公司 (Beijing Yanjing Beer Co., Ltd) ("Yanjing Ltd"), a non-wholly owned subsidiary of the Company, acquired an additional 11.19% equity interest in Yanjing Sankong, a then jointly-controlled entity of the Group before the acquisition, at a consideration of RMB13.8 million (approximately HK$13.0 million) from the third party joint venture partner of Yanjing Sankong. Yanjing Sankong is principally engaged in the production and sale of beer in the Shangdong Province, the PRC. Upon completion of the acquisition, a 63.19% equity interest in Yanjing Sankong is owned as to 38.19% by Yanjing Ltd and 25% by a wholly owned subsidiary of the Company, and Yanjing Sankong became a subsidiary of the Group.

The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of Yanjing Sankong over the cost of acquisition of HK$5,738,000 mainly relates to expectation of future losses and expenses of Yanjing Sankong.

45. Notes to the consolidated cash flow statement *(continued)*

(a) Acquisition of subsidiaries (continued)

(iii) Others

Others mainly included the acquisition of Xteam, a company whose shares are listed on The Growth Enterprise Market of the Stock Exchange, by Beijing Development, a 55.81% subsidiary of the Company, during the year. On 16 August 2004, Prime Technology Group Limited ("PTG") and E-tron Limited ("E-tron"), wholly owned subsidiaries of Beijing Development, transferred the entire issued share capital of Wisdom Elite Holdings Limited ("Wisdom Elite", the holding company of VST Software, which is engaged in the development of software) and 51% of the issued share capital of Astoria Innovations Limited, respectively, to Xteam and 1,897,546,070 and 217,967,375 ordinary shares of Xteam were issued to PTG and E-tron, respectively, as consideration for the transactions. Upon completion of the transactions, Beijing Development holds an approximately 56.3% interest in Xteam and Xteam became a subsidiary of the Group.

If all of the above acquisitions had taken place on 1 January 2004, the profit for the year of the Group and the profit for the year from continuing operations of the Group would have been HK$684,554,000 and HK$805,400,000, respectively, and the revenue (comprising turnover, interest income, other revenue and gains, net) for the year of the Group and revenue for the year from continuing operations of the Group would have been HK$11,049,367,000 and HK$10,133,639,000, respectively.

45. Notes to the consolidated cash flow statement *(continued)*

(b) *Disposal of subsidiaries*

	2004 HK$'000	2003 HK$'000
Net assets disposed of:		
Fixed assets	88,335	–
Lease premium for land	5,059	–
Available-for-sale financial assets	3,860	–
Inventories	96,760	–
Trade and bills receivables	2,503	–
Other receivables	33,249	–
Cash and bank balances	46,154	–
Trade and bills payables	(55,981)	–
Accruals and other liabilities	(92,768)	–
Taxes payable	(12,796)	–
Bank and other borrowings	(32,973)	–
Minority interests	(43,148)	–
Net assets	38,254	–
Loss on disposal of subsidiaries – *note 6*	(6,433)	–
	31,821	–
Satisfied by:		
Cash	31,821	–

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

	2004 HK$'000	2003 HK$'000
Cash and bank balances disposed of	(46,154)	–
Cash consideration received	31,821	–
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(14,333)	–

45. Notes to the consolidated cash flow statement *(continued)*

(c) *Major non-cash transactions*

During the year ended 31 December 2004, 764,484 units of the Convertible Bonds issued by Yanjing Brewery with an aggregate principal amount of approximately RMB76,448,000 (approximately HK$72,020,000) were exercised by certain bondholders in exchange for ordinary shares of Yanjing Brewery at a conversion price of RMB10.59 per share. Apart from the foregoing and that disclosed in note (a)(iii) above, there are no major non-cash transactions of investing and financing activities for the year ended 31 December 2004

During the year ended 31 December 2003, 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.

(d) *Restricted cash and cash equivalent balances*

Short term pledged bank balances of the Group of HK$23,785,000 (2003: HK$9,785,000) were pledged to banks to secure certain bank loans granted to the Group, as stated in notes 23 and 36 to the financial statements.

A long term pledged bank balance of HK$8,743,000 (2003: HK$7,812,000) and short term pledged bank balances of HK$21,383,000 (2003: HK$33,444,000) were pledged to banks as security for mortgage loans granted to certain purchasers of the Group's properties held for sale, as stated in note 23 to the financial statements.

In the prior year, as at 31 December 2003, short term pledged bank balances of HK$13,646,000 were pledged as guarantees for tenders and contracts, as further explained in note 23 to the financial statements.

46. Contingent liabilities

	Group		**Company**	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given in respect of mortgage loans granted by banks to the Group's purchasers of properties held for sale	**30,032**	56,901	**–**	–
Guarantees given for banking facilities granted to a jointly-controlled entity	**–**	14,131	**–**	–
Guarantee given for the Convertible Bonds issued by Yanjing Brewery – *note 37*	**–**	–	**587,424**	659,444
	30,032	71,032	**587,424**	659,444

47. Operating lease arrangements

(a) *As lessor*

The Group leases its investment properties (as included in note 16 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 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		**Company**	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**13,628**	33,075	**–**	–
In the second to fifth years, inclusive	**74,050**	95,907	**–**	–
After five years	**34,703**	63,417	**–**	–
	122,381	192,399	**–**	–

(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 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**210,652**	118,778	**619**	2,476
In the second to fifth years, inclusive	**999,102**	405,704	**–**	619
After five years	**1,795,164**	1,339,419	**–**	–
	3,004,918	1,863,901	**619**	3,095

48. Capital commitments

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

	Group	
	2004	2003
	HK$'000	HK$'000
Land and buildings:		
Authorised, but not contracted for	**–**	2,485
Contracted, but not provided for	**118,321**	119,897
	118,321	122,382
Plant and machinery:		
Authorised, but not contracted for	**–**	37,174
Contracted, but not provided for	**109,915**	107,824
	109,915	144,998
Acquisition of subsidiaries and capital contribution to a jointly-controlled entity:		
Authorised, but not contracted for	**–**	210,244
Contracted, but not provided for	**265,842**	254,039
	265,842	464,283
Total capital commitments	**494,078**	731,663

The Company had no material capital commitments as at 31 December 2004 (2003: Nil).

49. 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:

Transactions with related parties

Name of company	Nature of transaction	*Notes*	2004 HK$'000	2003 HK$'000
The ultimate holding company				
BHL and its associates	Rental income	*(a)*	**2,675**	2,675
	Rental and related expenses	*(a)*	**3,012**	3,514
Joint venture partners of subsidiaries and their associates				
Yanjing Beer Group and its associates	Purchase of bottle labels	*(b)*	**65,701**	57,561
	Purchase of bottle caps	*(b)*	**46,574**	40,806
	Import of raw materials	*(c)*	**293,351**	39,457
	Sale of beer	*(d)*	**10,504**	20,465
	Canning service fees paid	*(e)*	**18,498**	18,024
	Comprehensive support service fees paid	*(f)*	**14,644**	14,644
	Land rent expenses	*(g)*	**1,742**	1,643
	Trademark licensing fees paid	*(h)*	**20,197**	16,030
	Less: Refund for advertising subsidies	*(h)*	**(3,566)**	(3,206)
	Interest expenses on advances made	*(i)*	**–**	1,018
	Establishment of a subsidiary	*(j)*	**–**	58,570
包頭市國有資產監督管理委員會 (Baotou State-Owned Asset Supervision Management Commission)	Acquisition of a 27.56% equity interest in Yanjing Baotou	*(k)*	**37,992**	–
承德實達農業發展有限公司 ("Chengde Argiculture")	Sale of a 67% equity interest in 燕京啤酒承德四海有限責任公司 (Yanjing Chengde Sihai Co., Ltd.) ("Yanjing Chengde")	*(l)*	**9,782**	–

49. Related party transactions *(continued)*

Name of company	Nature of transaction	*Notes*	**2004 HK$'000**	2003 HK$'000
Joint venture partners of subsidiaries and their associates *(continued)*				
San Yuan Group and its associates	Purchase of raw milk	*(m)*	**138,237**	171,405
	Land use fee paid	*(n)*	**3,024**	2,770
	Acquisition of a piece of land	*(o)*	**–**	12,247
	Acquisition of equity interest in 北京八達嶺乳業有限公司 ("Badaling Dairy")	*(p)*	**–**	6,335
	Sale of a hotel	*(q)*	**4,720**	–
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	*(r)*	**–**	25,066
北京嘉銘投資有限公司 (Beijing Jia Ming Investment Company Limited)	Sale of a 35% equity interest in 北京三元嘉銘房地產開發有限公司 (Beijing San Yuan Jia Ming Property Development Company Limited) ("Sanyuan Jia Ming")	*(s)*	**16,104**	–
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	*(t)*	**–**	42,120
China Major Holdings Limited	Acquisition of a 51% equity interest in Ever Hot Pumps	*(u)*	**1,209**	–
Jointly-controlled entities				
Beijing McDonald's	Sale of dairy products	*(d)*	**71,111**	19,394
Sanyuan Challenge	Purchase of dairy products	*(m)*	**–**	4,830

49. Related party transactions *(continued)*

Name of company	Nature of transaction	*Notes*	**2004 HK$'000**	2003 HK$'000
Key management personnel of subsidiaries				
Mr. Xu Seng Heng	Acquisition of a licence	*(v)*	**12,000**	–

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

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

(d) The selling prices of the beer and dairy products were determined by reference to the then 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 mutually agreed profit margin.

(f) Comprehensive support service fees paid included the following:

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

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

(g) Land rent expenses were charged at a mutually agreed amount of RMB1,849,000 (2003: 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 and RMB0.008 per bottle of beer sold by the subsidiaries of Yanjing Brewery. Yanjing Beer Group would refund 20% of the trademark licensing fees received from Yanjing Brewery to be used by Yanjing Brewery to develop and promote the "Yanjing" trademark.

49. Related party transactions *(continued)*

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

(l) The equity interest in Yanjing Chengde was sold at a price of RMB10,384,000 which was mutually agreed with Chengde Agriculture.

(m) The purchase prices for raw milk and dairy products were determined by reference to the then prevailing market rates.

(n) The land use fee was charged at a mutually agreed amount of RMB3,210,000 (2003: RMB2,940,000) for the year ended 31 December 2004.

(o) The consideration paid was based on a mutually agreed amount of RMB13,000,000.

(p) 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.

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

(r) 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.

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

(t) The equity interest in High-Tech was acquired at a mutually agreed amount of HK$42,120,000.

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

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

49. Related party transactions *(continued)*

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$19,500,000 (2003: HK$21,949,000) 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 2004. 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.

Compensation of key management personnel of the Group

	2004 **HK$'000**	2003 HK$'000
Short term employee benefits	**9,771**	9,440
Post-employment benefits	**354**	257
Termination benefits	**–**	–
Share-based payments	**–**	–
Total compensation paid to key management personnel	**10,125**	9,697

50. Events after the balance sheet date

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

(i) On 10 January 2005, as part of the restructuring plan of the Beijing Government and its plan to centralise the management of stated-owned assets, Beijing Enterprises Group Company Limited was established by the Beijing Government in the PRC and the interest in BHL, the ultimate holding company of the Company, held by the Beijing Government will be assigned to Beijing Enterprises Group Company Limited.

(ii) On 25 March 2005, Yanjing Brewery, a subsidiary of the Company, acquired a further 14.2244% interest in Yanjing Huiquan, which is engaged in the production and sale of beer in the PRC and the shares of which are listed on the Shanghai Stock Exchange, for a cash consideration of RMB131,575,700. Upon completion of the acquisition, Yanjing Brewery has a 52.3724% equity interest in Yanjing Huiquan and Yanjing Huiquan became a subsidiary of the Group.

Certain financial information disclosures as required by HKFRS 3 have not been made as the acquisition was close to the date of approval of these financial statements and the audit of the financial information of Yanjing Huiquan as at the acquisition date cannot be completed.

51. Comparative amounts

As further explained in note 2 to the financial statements, due to the adoption of HKFRSs during the current year, the accounting treatment and the 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.

52. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 12 April 2005.