

I N T E R I M R E P O R T 2 0 0 5



北京控股有限公司
BEIJING ENTERPRISES HOLDINGS LIMITED

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CORPORATE INFORMATION

GENERAL INFORMATION:

Registered Office

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Wanchai, Hong Kong
Tel: (852) 2915 2898
Fax: (852) 2857 5084

Website

<http://www.behl.com.hk>

Stock Code

392

Company Secretary

Mr. Tam Chun Fai *CPA CFA*

Share Registrars

Tengis Limited
G/F, BEA Harbour View Centre,
56 Gloucester Road,
Wanchai, Hong Kong

DIRECTORS:

Executive Directors

Mr. Yi Xi Qun (*Chairman*)
Mr. Zhang Hong Hai (*Vice Chairman
and CEO*)
Mr. Li Fu Cheng (*Vice Chairman*)
Mr. Bai Jin Rong (*Vice Chairman*)
Mr. Guo Ying Ming
Mr. Liu Kai (*Vice President*)
Mr. Zheng Wan He
Mr. Li Man
Mr. Guo Pu Jin
Mr. Zhou Si
Mr. E Meng (*Vice President*)

Independent Non-executive Directors

Mr. Lau Hon Chuen, Ambrose
Dr. Lee Tung Hai, Leo
Mr. Wang Xian Zhang
Mr. Wu Jiesi
Mr. Robert A. Theleen

PROFESSIONALS:

Auditors

Ernst & Young

Legal Advisers

as to Hong Kong law:

Johnson Stokes & Master

as to PRC law:

Haiwen & Partners

as to US law:

Sullivan & Crommell

PRINCIPAL BANKERS:

In Hong Kong:

Bank of China (Hong Kong) Limited

Bank of Communications,

Hong Kong Branch

BNP Paribas, Hong Kong Branch

Calyon, Hong Kong Branch

CITIC Ka Wah Bank Limited

Rabobank, Hong Kong Branch

In Mainland China:

Agricultural Bank of China

Bank of China

China Construction Bank

Guangdong Development Bank

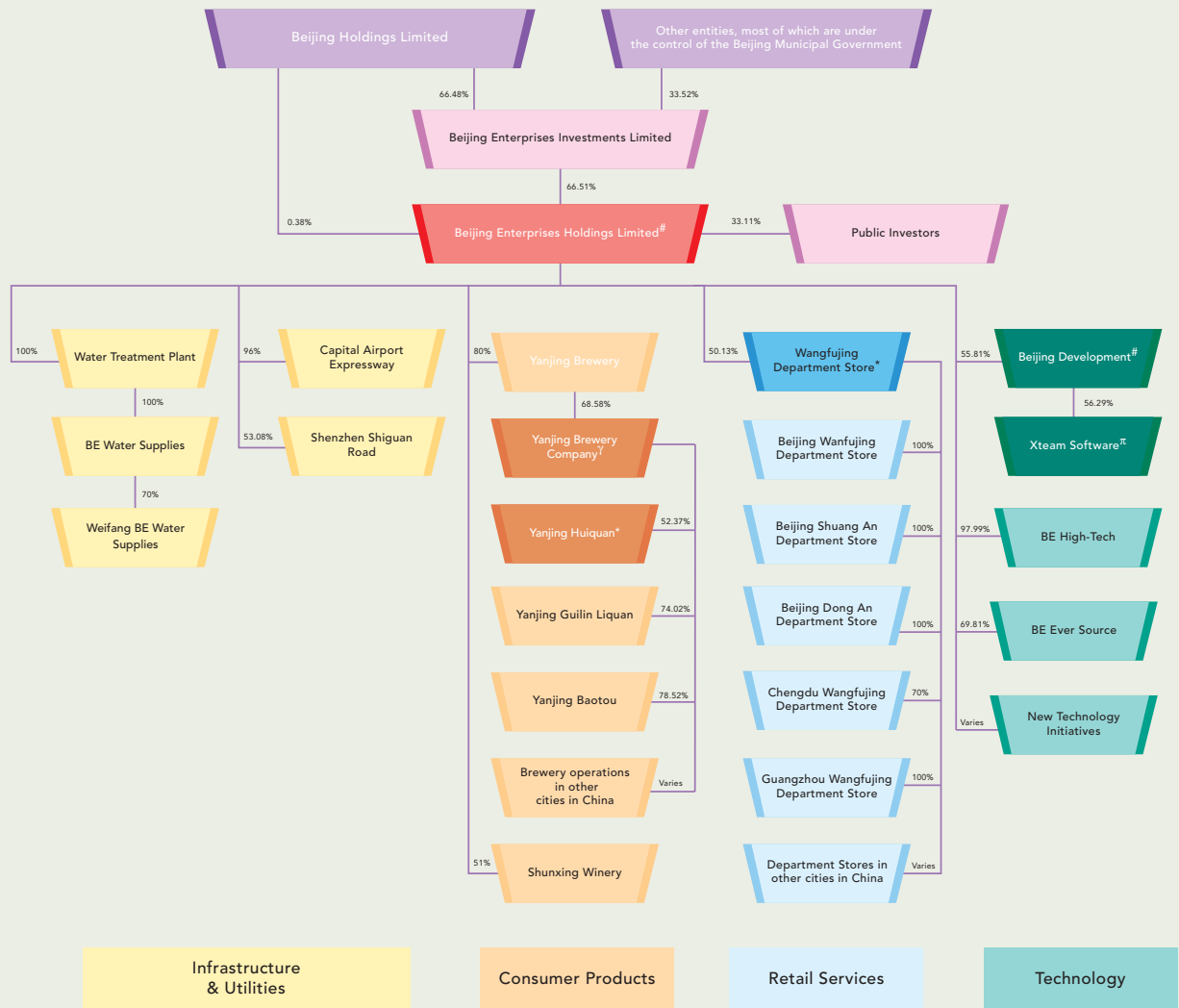
The Industrial and Commercial Bank
of China

ADR Depository Bank:

The Bank of New York

CORPORATE STRUCTURE

AS AT 8TH SEPTEMBER, 2005



* Listed on Shanghai Stock Exchange
 γ Listed on Shenzhen Stock Exchange
 # Listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")
 π Listed on the GEM Board of the Stock Exchange

HIGHLIGHTS

Turnover for the first half of 2005 amounted to HK\$5.14 billion, representing an increase of 14.9% over the corresponding period of last year.

Profit attributable to shareholders of the Company for the first half of 2005 amounted to HK\$327 million, representing an increase of 11.5% over the corresponding period of last year.

Basic earnings per share amounted to HK\$0.53.

An interim dividend of HK10 cents per share is declared for the six months ended 30th June, 2005.

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Beijing Enterprises Holdings Limited (the "Company") is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2005 and the unaudited condensed consolidated balance sheet of the Group as at 30th June, 2005 with the comparative figures in 2004. The consolidated turnover of the Group was HK\$5.14 billion for the first half of 2005, increased by 14.9% comparing to the corresponding period of last year. Profit attributable to shareholders of the Company was HK\$327 million, increased by 11.5% comparing to the first half of 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review for the First Half of 2005

The core businesses of the Group maintained steady growth in the first half of the year. The consolidated turnover increased by 14.9% to HK\$5.14 billion as compared to the corresponding period of last year. The administrative expenses to turnover ratio slightly increased, mainly attributable to the acquisition and establishment of new department stores by Wangfujing Department Store. The profit attributable to shareholders of the Company increased by 11.5% to HK\$327 million as compared to the restated figures of last year.

The asset restructuring of the Group achieved satisfactory results. With the completion of disposal of equity interests in San Yuan Foods, the results of the Group will no longer be dragged down by consolidating the loss of San Yuan Foods. The transaction brought an exceptional accounting gain of HK\$103 million in the first half of the year.

Infrastructure and Utilities

During the period, the traffic volume of the Capital Expressway increased by 10.68% to 21.24 million vehicles. Turnover increased by 9.7% to HK\$180 million. Profit attributable to the Group increased by 11% to HK\$104 million. The traffic volume of the Capital Expressway is showing signs of saturation and the Group will improve the efficiency of toll gates in order to relieve the pressure of traffic volume.

Water Treatment contributed a net profit of HK\$65.39 million for the period and remained a major source of cashflow for the Group. The operation of Shenzhen Guanshun Road was affected by improvement projects and traffic diversion, making the traffic volume for the first half decreased by 7.8 % to 5.01 million vehicles. Profit attributable to the Group was HK\$10.05 million.

BUSINESS OVERVIEW AND OUTLOOK

Consumer Products

The business of Yanjing Brewery continued to grow. The sales volume during the period increased by 6.5% to 1.47 million tons. Turnover increased by 20% to HK\$2.146 billion. Profit attributable to the Group increased by 17.8% to HK\$77.71 million as compared to the corresponding period of last year. As certain convertible bondholders of Yanjing Brewery exercised the convertible bonds during the period, the Group's shareholding in Yanjing Brewery was diluted and a gain on deemed disposal attributable to the Group of HK\$11.18 million was recognised. If the above factor is not taken into consideration, the operating results have increased slightly compared to the corresponding period of last year. Yanjing Brewery was recently awarded the qualification of being a sponsor in the Beijing Olympic Games in 2008, which enhanced the acknowledgement of the brand name and leaving a positive impact on the market promotion of Yanjing Brewery.

The transfer of equity interests in San Yuan Foods was completed during the period and the Group no longer consolidated the loss of San Yuan Foods, making the overall results of consumer products business improved significantly.

Retail and Tourism Services

Turnover of Wangfujing Department Store increased significantly by 66% to HK\$2.25 billion. The increase was mainly attributable to the consolidated results with the new outlets the acquisition of the controlling interests of Dong An Plaza and Shuang An Department Store. Although some new department stores have not achieved economies of scale and recorded losses for the period, the contribution of Wangfujing Department Store to the Group's profit increased by 211% to HK\$11.84 million as compared to the corresponding period of last year.

For the tourism business, the number of tourists increased tremendously during the period and there saw a significant improvement in the results. However, due to the restructuring of its asset portfolio, the Group decided to withdraw from the tourism business. Subsequent to the balance sheet date, the Group entered into a sale and purchase agreement to dispose of its 75% equity interest in Beijing Badaling Tourism Company Limited. An extraordinary gain is expected to arise from this transaction and will be recognised in the second half of the year.

BUSINESS OVERVIEW AND OUTLOOK

Other businesses

Beijing Enterprises Ever Source Limited, in which the Group holds approximately 69.81% equity interest, was affected by the continuous macro economic measures introduced by the PRC Government in the first half of the year. Its results dropped significantly and recorded an operating loss of approximately HK\$13.67 million. The enterprise is now adjusting its direction of business and reinforcing its control over the collection of trade receivables in order to consolidate its business. Despite short-term uncertainties, the technology possessed by Ever Source was further recognized by inspection organizations of the PRC and was granted beneficial policies. The contracts newly entered into by Ever Source in the first half of the year increased by 150,000 sq. m. compared to the corresponding period of last year, laying a good foundation for revival in the future.

The scale of other technology businesses and newly established businesses was not significant and the results of these businesses growth steadily as compared to the corresponding period of last year.

BUSINESS OVERVIEW AND OUTLOOK

CAPITALISATION AND FINANCIAL POSITION

The financial condition of the Group remained stable. Equity attributable to shareholders of the Company increased to approximately HK\$8.08 billion while minority interests amounted to approximately HK\$3.83 billion as of 30th June, 2005. Total borrowings were HK\$3.88 billion. Net debt (total borrowings minus cash) was HK\$374 million at period end date, representing a 4.6% net debt to equity ratio. Bank borrowings were predominately in Renminbi with the remaining 20.1% in US Dollars.

SIGNIFICANT POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 18 to the condensed consolidated financial statements.

STRATEGIES AND PROSPECTS

The Group has been trying to simplify its business structure and has formed into a corporate structure where Infrastructure and Utilities are the major components in the asset portfolio while supported by a brand name consumer product concept. In terms of infrastructure, the Company will reinforce the investment on and expand the business of toll roads and water treatment. With the large population base of Beijing, the Company is now looking into the projects of pipeline gas. In addition, the Group will continually integrate its existing assets and businesses with the aim of generating a higher asset return.

Being the largest overseas-integrated enterprise group in Beijing, the Company has confidence in its future development. It will consolidate its position as the financing window of Beijing in the international capital market and provide financing channels and management experience for the development of public facilities and infrastructure for the economic development and urban construction of Beijing city. The Company will take the initiative in meeting the challenges in the coming years, introduce more impetus for profit growth to the enterprise, develop the Company into the most important investment and finance platform of Beijing and continue to be one of the red chip companies that carries weight in Hong Kong.

BUSINESS OVERVIEW AND OUTLOOK

EMPLOYEES

As at 30th June, 2005, the core businesses of the Group employ approximately 39,600 employees throughout the country. The Group confirmed that the level of remuneration of its employees is market competitive.

APPRECIATION

On behalf of the Board, I would like to express my sincere thanks to all the Group's employees for their continuous support and dedicated services.

By order of the Board
Yi Xi Qun
Chairman

Hong Kong, 8th September, 2005

INTERIM DIVIDEND

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK10 cents per share in cash for the six months ended 30th June, 2005 (2004: HK10 cents) payable on 9th November, 2005 to shareholders whose names appear on the Register of Members of the Company on 7th October, 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 5th October, 2005, Wednesday to 7th October, 2005, Friday, both dates inclusive, during which period no transfers of shares will be effected. In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's Share Registrars, Tengis Limited at G/F., Bank of Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on, 4th October, 2005, Tuesday.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June, 2005

		For the six months ended 30th June,	
		2005	2004
		Unaudited	Unaudited
		HK\$'000	HK\$'000
		(Restated)	
	Notes	_____	_____
TURNOVER	3		
Continuing operations		5,143,410	4,019,594
Discontinued operations	10	–	456,269
		_____	_____
		5,143,410	4,475,863
Cost of sales		(3,705,312)	(3,212,279)
		_____	_____
Gross profit		1,438,098	1,263,584
Interest income		30,657	12,715
Other income and gains, net	4	195,757	173,846
Selling and distribution costs		(468,836)	(452,685)
Administrative expenses		(544,698)	(453,785)
Other operating expenses, net		(42,361)	(44,495)
		_____	_____
PROFIT FROM OPERATING ACTIVITIES	5	608,617	499,180
Finance costs	6	(76,965)	(70,867)
Share of profits and losses of:	7		
Jointly-controlled entities		(6,335)	(1,284)
Associates		14,356	32,805
		_____	_____
PROFIT/(LOSS) BEFORE TAX			
Continuing operations	9	436,380	508,363
Discontinued operations	10	103,293	(48,529)
		539,673	459,834
TAX	8		
Continuing operations	9	(123,897)	(101,171)
Discontinued operations	10	–	1,529
		(123,897)	(99,642)
		_____	_____
PROFIT/(LOSS) FOR THE PERIOD			
Continuing operations	9	312,483	407,192
Discontinued operations	10	103,293	(47,000)
		415,776	360,192
		=====	=====

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June, 2005

		For the six months ended 30th June,	
		2005	2004
		Unaudited HK\$'000	Unaudited HK\$'000 (Restated)
	Notes		
ATTRIBUTABLE TO:			
Shareholders of the Company:			
Continuing operations	9	223,595	319,534
Discontinued operations		103,293	(26,274)
		326,888	293,260
Minority interests		88,888	66,932
		415,776	360,192
EARNINGS PER SHARE			
Basic for profit for the period	11	HK\$0.53	HK\$0.47
Basic for profit from continuing operations		HK\$0.36	HK\$0.51
Diluted for profit for the period		HK\$0.52	HK\$0.46
Diluted for profit from continuing operations		HK\$0.36	HK\$0.51
DIVIDEND PER SHARE	12	HK10 cents	HK10 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2005

	Notes	30th June, 2005 Unaudited HK\$'000	31st December, 2004 Audited HK\$'000
ASSETS			
Non-current assets:			
Fixed assets		7,544,098	6,338,571
Investment properties		342,722	342,722
Lease premium for land		444,418	430,193
Intangible assets		1,510,447	1,560,413
Goodwill		326,143	330,198
Interests in jointly-controlled entities		541,731	556,678
Interests in associates		283,893	590,869
Properties under development		141,558	132,032
Trade and bills receivables	13	14,667	69,310
Other receivables		187,656	176,881
Pledged bank balances		8,775	8,743
Available-for-sale financial assets		337,291	285,056
Deferred tax assets		49,181	62,747
		11,732,580	10,884,413
Current assets:			
Lease premium for land		8,176	8,176
Properties held for sale		59,364	62,990
Inventories		1,435,408	1,239,969
Amounts due from customers for contract work		32,533	16,915
Trade and bills receivables	13	1,156,360	790,034
Other receivables		988,170	825,359
Financial assets at fair value through profit or loss		82,555	50,202
Taxes recoverable		27,487	20,167
Pledged bank balances		23,722	45,168
Cash and cash equivalents		3,470,311	4,141,464
		7,284,086	7,200,444
Non-current assets classified as held for sale	10	–	1,304,733
		7,284,086	8,505,177
TOTAL ASSETS		19,016,666	19,389,590

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2005

	Notes	30th June, 2005 Unaudited HK\$'000	31st December, 2004 Audited HK\$'000
EQUITY AND LIABILITIES:			
Equity attributable to shareholders of the Company:			
Issued capital		62,250	62,250
Reserves		7,955,455	7,694,348
Proposed dividend		62,250	124,500
		8,079,955	7,881,098
Minority interests		3,833,590	3,720,099
TOTAL EQUITY		11,913,545	11,601,197
Non-current liabilities:			
Bank and other borrowings		279,438	1,705,134
Convertible bonds		543,606	587,424
Other long term liabilities		8,619	8,466
Deferred tax liabilities		161,902	163,735
		993,565	2,464,759
Current liabilities:			
Trade and bills payables	14	707,311	765,782
Amounts due to customers for contract work		60,023	51,770
Other payables and accruals		1,854,390	1,544,281
Taxes payable		434,011	368,369
Bank and other borrowings		3,053,821	2,099,637
		6,109,556	4,829,839
Liabilities directly associated with non-current assets classified as held for sale	10	–	493,795
		6,109,556	5,323,634
TOTAL LIABILITIES		7,103,121	7,788,393
TOTAL EQUITY AND LIABILITIES		19,016,666	19,389,590

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2005

	Attributable to shareholders of the Company										
	Issued capital	Share premium account	Capital reserve	Hotel		PRC reserve fund	Retained profits	Proposed dividend	Total	Minority interests	Total equity
				property revaluation reserve	Exchange fluctuation reserve						
				Unaudited	Unaudited						
Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st January, 2005	62,250	4,839,497	(210,685)	-	32,287	620,601	2,412,648	124,500	7,881,098	3,720,099	11,601,197
Income for the period recognised directly in equity											
- Exchange realignment	-	-	-	-	161	-	-	-	161	307	468
Profit for the period	-	-	-	-	-	-	326,888	-	326,888	88,888	415,776
<i>Total recognised income and expense for the period</i>	-	-	-	-	161	-	326,888	-	327,049	89,195	416,244
Deemed disposal of interests in a subsidiary	-	-	-	-	-	-	-	-	-	(13,979)	(13,979)
Acquisition of minority interests	-	-	-	-	-	-	-	-	-	(4,618)	(4,618)
Capital contribution from minority interests	-	-	-	-	-	-	-	-	-	43,902	43,902
Acquisition of interests in subsidiaries	-	-	-	-	-	-	-	-	-	431,720	431,720
Disposal of interests in subsidiaries	-	-	(136,328)	-	(3,692)	(19,758)	156,086	-	(3,692)	(357,208)	(360,900)
Goodwill released upon disposal of interests in a subsidiary	-	-	58,914	-	-	-	(58,914)	-	-	-	-
Final 2004 dividend declared	-	-	-	-	-	-	-	(124,500)	(124,500)	-	(124,500)
Interim 2005 dividend	-	-	-	-	-	-	(62,250)	62,250	-	-	-
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(75,521)	(75,521)
Transfer to reserves	-	-	16,109	-	-	55,195	(71,304)	-	-	-	-
At 30th June, 2005	62,250	4,839,497*	(271,990)*	-*	28,756*	656,038*	2,703,154*	62,250	8,079,955	3,833,590	11,913,545

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2005

		Attributable to shareholders of the Company										
		Share		Hotel		Exchange		PRC				
		Issued	premium	Capital	revaluation	fluctuation	reserve	Retained	Proposed	Total	Minority	Total
		capital	account	reserve	reserve	reserve	fund	profits	dividend	Unaudited	interests	equity
		Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2004:												
	As previously reported	62,250	4,839,497	306,643	3,570	34,966	603,433	1,583,729	112,050	7,546,138	3,545,408	11,091,546
	Prior period adjustments	2(a) -	-	(657,924)	21,267	-	-	642,347	-	5,690	1,857	7,547
	As restated	62,250	4,839,497	(351,281)	24,837	34,966	603,433	2,226,076	112,050	7,551,828	3,547,265	11,099,093
Expense for the period recognised directly in equity – Exchange realignment												
		-	-	-	-	(490)	-	-	-	(490)	(556)	(1,046)
Profit for the period, as restated												
	2(b)	-	-	-	-	-	-	293,260	-	293,260	66,932	360,192
Total recognised income and expense for the period												
		-	-	-	-	(490)	-	293,260	-	292,770	66,376	359,146
Capital contribution from minority interests												
		-	-	-	-	-	-	-	-	-	106,027	106,027
Acquisition of minority interests												
		-	-	-	-	-	-	-	-	-	(2,087)	(2,087)
Acquisition of interests in subsidiaries												
		-	-	-	-	-	-	-	-	-	61,640	61,640
Disposal of interests in subsidiaries												
		-	-	-	-	-	-	-	-	-	(38,919)	(38,919)
Goodwill released upon disposal of interests in an associate												
		-	-	74,167	-	-	-	(74,167)	-	-	-	-
Final 2003 dividend declared												
		-	-	-	-	-	-	-	(112,050)	(112,050)	-	(112,050)
Interim 2004 dividend												
		-	-	-	-	-	-	(62,250)	62,250	-	-	-
Dividend paid to minority shareholders												
		-	-	-	-	-	-	-	-	-	(94,773)	(94,773)
Transfer to reserves												
		-	-	303	-	-	20,762	(21,065)	-	-	-	-
At 30th June, 2004, as restated												
		62,250	4,839,497	(276,811)	24,837	34,476	624,195	2,361,854	62,250	7,732,548	3,645,529	11,378,077

* These reserves accounts comprise the consolidated reserves of HK\$7,955,455,000 (2004: HK\$7,694,348,000) in the condensed consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2005

	For the six months ended 30th June,	
	2005 Unaudited HK\$'000	2004 Unaudited HK\$'000
Net cash inflow from operating activities	537,319	227,102
Net cash inflow/(outflow) from investing activities	52,521	(438,426)
Net cash outflow from financing activities	(739,995)	(86,248)
Decrease in cash and cash equivalents	(150,155)	(297,572)
Cash and cash equivalents at beginning of period	3,507,843	3,083,000
Cash and cash equivalents at end of period	<u>3,357,688</u>	<u>2,785,428</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,620,124	2,262,500
Non-pledged time deposits with original maturity of less than three months when acquired	749,813	536,760
Less: Bank overdrafts	(12,249)	(13,832)
	<u>3,357,688</u>	<u>2,785,428</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements for the six months ended 30th June, 2005 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of these interim financial statements are the same as those used in the annual financial statements for the year ended 31st December, 2004.

2. COMPARATIVE AMOUNTS

As disclosed in the Company's 2004 annual financial statements, the Group resolved to early adopt all the new Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") up to the date of approval of the 2004 annual financial statements, for the preparation of the 2004 annual financial statements. The early adoption took place after the Group prepared its unaudited condensed interim consolidated financial statements for the six months ended 30th June, 2004 and accordingly, the Group's results for the six months ended 30th June, 2004 were previously reported in accordance with Statements of Standard Accounting Practice ("SSAPs") issued by the HKICPA. In order to conform to the current period's presentation and comply with the new requirements of HKFRSs, certain comparative amounts have been restated and reclassified accordingly.

The HKFRSs which have impacts on the unaudited condensed interim consolidated financial statements for the six months ended 30th June, 2004 are set out below:

- HKAS 1 "Presentation of Financial Statements"
- HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"
- HKAS 16 "Property, Plant and Equipment"
- HKAS 24 "Related Party Disclosures"
- HKAS 36 "Impairment of Assets"
- HKAS 38 "Intangible Assets"
- HKAS 40 "Investment Property"
- HKFRS 3 "Business Combinations"
- SSAP-Int 23 "The Appropriate Accounting Policies for Hotel Properties"

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. COMPARATIVE AMOUNTS (continued)

Summary details of the changes in accounting policies are set out in note 2 to the 2004 annual financial statements and the major effects of the changes in accounting policies on the unaudited condensed interim consolidated financial statements for the six months ended 30th June, 2004 are summarised as follows:

(a) Effect of prior period adjustments on opening balance of total equity at 1st January, 2004

	Increase/(decrease) in					
	Capital reserve	Hotel property revaluation reserve	Retained profits	Equity attributable to shareholders of the Company	Minority interests	Total equity
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
HKAS 16, HKAS 40 and SSAP-Int 23						
Hotel properties now stated at valuation less accumulated depreciation and any accumulated impairment losses	-	21,267	(21,267)	-	-	-
HKFRS 3						
Derecognition of negative goodwill	(657,924)	-	663,614	5,690	1,857	7,547
Total effect at 1st January, 2004	(657,924)	21,267	642,347	5,690	1,857	7,547

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. COMPARATIVE AMOUNTS (continued)

(b) Effect of prior period adjustments on profit after tax for the six months ended 30th June, 2004

	Increase/(decrease) in profit for the period attributable to		Increase/ (decrease) in profit for the period Unaudited HK\$'000	Increase/(decrease) in earnings per share amount for profit for the period	
	Shareholders	Minority		Basic	Diluted
	of the	interests		Unaudited	Unaudited
	Company	Unaudited		Unaudited	Unaudited
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$	HK\$
HKFRS 3, HKAS 36 and HKAS 38					
Goodwill previously eliminated against reserves now not included in the calculation of the gain on disposal of interests in an associate	74,167	-	74,167	0.12	0.12
Discontinuation of amortisation of goodwill from 1st January, 2004	8,957	3,911	12,868	0.01	0.01
Reversal of recognition as income of those negative goodwill which were derecognised as at 1st January, 2004	(594)	-	(594)	Immaterial	Immaterial
Total effect for the period	<u>82,530</u>	<u>3,911</u>	<u>86,441</u>	<u>0.13</u>	<u>0.13</u>

(c) The adoption of HKAS 1 has resulted in a change in presentation in the consolidated profit and loss account. Taxes of jointly-controlled entities and associates attributable to the Group for the six months ended 30th June, 2004 of HK\$7,374,000 and HK\$994,000, respectively, 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.

(d) HKAS 8 and 24 affect certain disclosures of the interim financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SEGMENT INFORMATION

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. The following tables present revenue and results for the Group's business and geographical segments.

(a) Business segments

For the six months ended 30th June, 2005

					Continuing operations
	Brewery operations	Retail operations	Expressway and toll road operations	Water treatment operations	Tourism operations
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Segment revenue					
External sales	2,146,327	2,176,080	217,913	238,182	-
Intersegment sales	-	-	-	-	-
Other income and gains, net	32,332	35,296	753	-	-
Total	2,178,659	2,211,376	218,666	238,182	-
Segment results	233,331	75,907	144,071	78,359	-
Interest income					
Unallocated income and gains, net					
Unallocated expenses					
Profit from operating activities					
Finance costs					
Share of profits and losses of:					
Jointly-controlled entities	-	-	-	-	(178)
Associates	(2,073)	-	-	-	-
Profit before tax					
Tax					
Profit for the period					

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Property construction and development	Telecom-	Geothermal energy systems	Corporate and others	Total	Discontinued operations		Consolidated
	munications and IT related services and products				Dairy operations	Elimination	
Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
8,236	66,884	40,738	249,050	5,143,410	-	-	5,143,410
451	-	-	-	451	-	(451)	-
1,689	2,954	2,143	2,886	78,053	-	-	78,053
<u>10,376</u>	<u>69,838</u>	<u>42,881</u>	<u>251,936</u>	<u>5,221,914</u>	<u>-</u>	<u>(451)</u>	<u>5,221,463</u>
<u>(8,680)</u>	<u>(1,730)</u>	<u>(12,327)</u>	<u>(38,239)</u>	470,692	-	-	470,692
				30,657	-	-	30,657
				14,411	103,293	-	117,704
				(10,436)	-	-	(10,436)
				505,324	103,293	-	608,617
				(76,965)	-	-	(76,965)
-	(1,539)	-	(4,618)	(6,335)	-	-	(6,335)
114	(250)	-	16,565	14,356	-	-	14,356
				436,380	103,293	-	539,673
				(123,897)	-	-	(123,897)
				<u>312,483</u>	<u>103,293</u>	-	<u>415,776</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

For the six months ended 30th June, 2004

					Continuing operations
	Brewery operations Unaudited HK\$'000 (Restated)	Retail operations Unaudited HK\$'000 (Restated)	Expressway and toll road operations Unaudited HK\$'000	Water treatment operations Unaudited HK\$'000	Tourism operations Unaudited HK\$'000 (Restated)
Segment revenue					
External sales	1,787,097	1,274,231	205,475	198,291	–
Intersegment sales	–	–	–	–	–
Other income and gains, net	22,252	10,780	3,363	–	–
Total	1,809,349	1,285,011	208,838	198,291	–
Segment results	195,311	45,799	136,516	72,457	–
Interest income					
Unallocated income and gains, net					
Unallocated expenses					
Profit/(loss) from operating activities					
Finance costs					
Share of profits and losses of:					
Jointly-controlled entities	(5,799)	6,179	–	–	5,389
Associates	8,285	–	–	–	–
Profit before tax					
Tax					
Profit for the period					

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Property construction and development	Telecom- munications and IT related services and products	Geothermal energy systems	Corporate and others	Total	Discontinued operations	Elimination	Consolidated
	Unaudited HK\$'000 (Restated)	Unaudited HK\$'000	Unaudited HK\$'000		Unaudited HK\$'000 (Restated)		
78,876	166,335	76,516	232,773	4,019,594	456,269	–	4,475,863
432	–	–	–	432	–	(432)	–
5,411	3,421	1,680	4,310	51,217	1,156	–	52,373
<u>84,719</u>	<u>169,756</u>	<u>78,196</u>	<u>237,083</u>	<u>4,071,243</u>	<u>457,425</u>	<u>(432)</u>	<u>4,528,236</u>
<u>4,309</u>	<u>(4,910)</u>	<u>9,265</u>	<u>(18,840)</u>	<u>439,907</u>	<u>(38,051)</u>		<u>401,856</u>
				11,914	801		12,715
				111,388	10,085		121,473
				(36,444)	(420)		(36,864)
				526,765	(27,585)		499,180
				(64,261)	(6,606)		(70,867)
–	(3,023)	–	2,284	5,030	(6,314)		(1,284)
(674)	20,997	–	12,221	40,829	(8,024)		32,805
				508,363	(48,529)		459,834
				(101,171)	1,529		(99,642)
				<u>407,192</u>	<u>(47,000)</u>		<u>360,192</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SEGMENT INFORMATION (continued)

(b) Geographical segments

	Hong Kong		Mainland China		Overseas		Eliminations		Consolidated	
	For the		For the		For the		For the		For the	
	six months ended		six months ended		six months ended		six months ended		six months ended	
	30th June,		30th June,		30th June,		30th June,		30th June,	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
External sales	6,362	12,603	5,040,373	4,370,656	96,675	92,604	-	-	5,143,410	4,475,863
Intersegment sales	2,928	7,367	-	-	7,427	15,158	(10,355)	(22,525)	-	-
Other income and gains, net	428	3,430	77,625	48,435	-	508	-	-	78,053	52,373
Total segment revenue	9,718	23,400	5,117,998	4,419,091	104,102	108,270	(10,355)	(22,525)	5,221,463	4,528,236

4. OTHER INCOME AND GAINS, NET

	For the six months ended 30th June,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
		(Restated)
Other income		
Investment income	225	8,898
Corporate income tax and value-added tax refund	2,934	13,001
Rental income	22,491	13,143
Others	52,496	41,066
	78,146	76,108
Gains, net		
Gain on deemed disposal of interests in a subsidiary arising from the dilution of the Group's interest in that subsidiary upon the exercise of convertible bonds of that subsidiary by certain bondholders in exchange for ordinary shares of that subsidiary	13,979	-
Gain on disposal of fixed assets, net	306	43
Gain on disposal of available-for-sale financial assets	33	1,320
Gain on disposal of interests in subsidiaries	103,293	-
Gain on disposal of interests in an associate	-	96,375
	117,611	97,738
	195,757	173,846

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities was determined after charging the following:

	For the six months ended 30th June,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
		(Restated)
Depreciation	266,650	299,507
Amortisation of intangible assets	52,367	51,815
	<u>266,650</u>	<u>299,507</u>
	<u>52,367</u>	<u>51,815</u>

6. FINANCE COSTS

	For the six months ended 30th June,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interest on convertible bonds	3,525	3,945
Interest on bank loans and other loans wholly repayable within five years	73,137	66,829
Interest on other loans	303	93
	<u>3,525</u>	<u>3,945</u>
	<u>73,137</u>	<u>66,829</u>
	<u>303</u>	<u>93</u>
	<u>76,965</u>	<u>70,867</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. SHARE OF PROFITS AND LOSSES OF JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

An analysis of share of profits and losses of jointly-controlled entities and associates is as follow:

	For the six months ended 30th June,	
	2005 Unaudited HK\$'000	2004 Unaudited HK\$'000 (Restated)
i) Jointly-controlled entities:		
Share of profits and losses before tax	(4,710)	6,090
Share of tax	(1,625)	(7,374)
Share of profits and losses	<u>(6,335)</u>	<u>(1,284)</u>
ii) Associates:		
Share of profits and losses before tax	16,779	33,799
Share of tax	(2,423)	(994)
Share of profits and losses	<u>14,356</u>	<u>32,805</u>

8. TAX

	For the six months ended 30th June,	
	2005 Unaudited HK\$'000	2004 Unaudited HK\$'000 (Restated)
Continuing operations		
Current – PRC		
Hong Kong	663	194
Mainland China	110,382	104,676
Current – Overseas	1,119	951
Deferred	11,733	(4,650)
	<u>123,897</u>	<u>101,171</u>
Discontinued operations		
Current – Mainland China, the PRC	–	341
Deferred	–	(1,870)
	–	(1,529)
	<u>123,897</u>	<u>99,642</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. TAX (continued)

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

9. CONTINUING OPERATIONS

	From operations		From gain on disposal ⁽ⁱ⁾		Total	
	For the six months ended 30th June,		For the six months ended 30th June,		For the six months ended 30th June,	
	2005	2004	2005	2004	2005	2004
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)		(Restated)
Profit before tax	436,380	411,988	-	96,375	436,380	508,363
Tax	(123,897)	(101,171)	-	-	(123,897)	(101,171)
Profit for the period	<u>312,483</u>	<u>310,817</u>	<u>-</u>	<u>96,375</u>	<u>312,483</u>	<u>407,192</u>
Attributable to:						
Shareholders of the Company	223,595	223,159	-	96,375	223,595	319,534
Minority interests	88,888	87,658	-	-	88,888	87,658
	<u>312,483</u>	<u>310,817</u>	<u>-</u>	<u>96,375</u>	<u>312,483</u>	<u>407,192</u>

⁽ⁱ⁾ Gain on disposal of HK\$96,375,000 recognised in the six months ended 30th June, 2004 arose from the disposal of 20% equity interests in Siemens Communication Networks Ltd., Beijing (previously known as "Beijing International Switching System Co., Ltd.") by the Group in April 2004.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. DISCONTINUED OPERATIONS

As disclosed in the Company's 2004 annual financial statements, the Company entered into two separate share transfer agreements with 北京三元集團有限責任公司 ("San Yuan Group"), a related company, and Beijing Holdings Limited ("BHL"), the ultimate holding company, on 3rd December, 2004 to conditionally dispose of all its interest in Beijing Enterprises (Dairy) Limited ("BE Dairy"), a then 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 major asset of BE Dairy is its 55% equity interest in Beijing Sanyuan Foods Co., Ltd. ("San Yuan 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 operations represent a separate business segment of the Group and were solely undertaken by San Yuan Foods. Accordingly, the dairy operations segment has been reported as discontinued operations and was classified as a disposal group and was held for sale as at 31st December, 2004. The dairy operations were disposed of during the six months ended 30th June, 2005 and a gain on disposal of HK\$103,293,000 was recognised in the unaudited consolidated profit and loss account for the six months ended 30th June, 2005.

- (a) The results of the discontinued operations for the six months ended 30th June, 2005 and 2004 are summarised as follows:

	For the six months ended 30th June,	
	2005 Unaudited HK\$'000	2004 Unaudited HK\$'000
Turnover	–	456,269
Expenses	–	(504,798)
Loss from operations before tax	–	(48,529)
Gain on disposal of interests in subsidiaries constituting the discontinued operations	103,293	–
Profit/(loss) before tax from discontinued operations	103,293	(48,529)
Tax		
– related to loss from operations	–	1,529
– related to gain on disposal of interests in subsidiaries constituting the discontinued operations	–	–
Net profit/(loss) attributable to discontinued operations	103,293	(47,000)
Earnings/(loss) per share from discontinued operations		
– Basic	HK\$0.17	(HK\$0.04)
– Diluted	N/A	N/A

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. DISCONTINUED OPERATIONS (continued)

- (b) The major classes of assets and liabilities of the discontinued operation measured at the lower of carrying amount and fair value less costs to sell as at the balance sheet date are as follows:

	30th June, 2005 Unaudited HK\$'000	31st December, 2004 Audited HK\$'000
Assets:		
Fixed assets	–	665,406
Investment properties	–	2,420
Lease premium for land	–	60,950
Goodwill	–	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
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
Liabilities directly associated with non-current assets classified as held for sale	–	(493,795)
	<hr/>	<hr/>
Net assets attributable to the discontinued operations	–	810,938
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. DISCONTINUED OPERATIONS (continued)

- (c) The net cash flows of the discontinued operations for the periods ended 30th June, 2005 and 2004 are as follows:

	For the six months ended 30th June,	
	2005 Unaudited HK\$'000	2004 Unaudited HK\$'000
Net cash outflow from operating activities	–	(3,687)
Net cash outflow from investing activities	–	(48,730)
Net cash inflow from financing activities	–	32,377
Net cash outflow incurred by the discontinued operations	–	(20,040)

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30th June, 2005 is based on the following data:

Earnings:

- i) For profit for the period:

	For the six months ended 30th June,	
	2005 Unaudited HK\$'000	2004 Unaudited HK\$'000 (Restated)
Profit for the period attributable to shareholders of the Company, used in the basic earnings per share calculation	326,888	293,260
Interest expense for the period relating to the liability component of the convertible bonds of Beijing Yanjing Brewery Company Limited ("Yanjing Brewery"), net of current tax	2,362	2,643
Decrease in profit for the period 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	(4,875)	(7,256)
Profit for the period attributable to shareholders of the Company, used in the diluted earnings per share calculation	324,375	288,647

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. EARNINGS PER SHARE (continued)

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

	For the six months ended 30th June,	
	2005 Unaudited HK\$'000	2004 Unaudited HK\$'000 (Restated)
Profit for the period from continuing operations attributable to shareholders of the Company, used in the basic earnings per share calculation	223,595	319,534
Interest expense for the period relating to the liability component of the convertible bonds of Yanjing Brewery, net of current tax	2,362	2,643
Decrease in profit for the period 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	(4,875)	(7,256)
Profit for the period from continuing operations attributable to shareholders of the Company, used in the diluted earnings per share calculation	221,082	314,921
Number of ordinary shares:		
Weighted average number of ordinary shares in issue during the period used in basic and diluted earnings per share calculations	622,500,000	622,500,000

The exercise of the outstanding share options of the Company, Beijing Development (Hong Kong) Limited ("Beijing Development") and Xteam Software International Limited ("Xteam"), subsidiaries of the Company, during the six months ended 30th June, 2005 did not have a diluting effect on the Group's basic earnings per share for the period.

The exercise of the outstanding share options of the Company and Beijing Development during the six months ended 30th June, 2004 did not have a diluting effect on the Group's basic earnings per share for that period.

12. INTERIM DIVIDEND

On 8th September, 2005, the Board declared an interim dividend of HK10 cents per share (2004: HK10 cents), totalling HK\$62,250,000 (2004: HK\$62,250,000).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. 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 Group's trade and bills receivables as at the balance sheet date is as follows:

	30th June, 2005 Unaudited HK\$'000	31st December, 2004 Audited HK\$'000
Within one year	1,014,482	755,437
One to two years	122,587	79,490
Two to three years	21,433	15,651
Over three years	12,525	8,766
	<u>1,171,027</u>	<u>859,344</u>
Less: Portion classified as current assets	<u>(1,156,360)</u>	<u>(790,034)</u>
Long term portion	<u>14,667</u>	<u>69,310</u>

14. 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:

	30th June, 2005 Unaudited HK\$'000	31st December, 2004 Audited HK\$'000
Within one year	665,799	724,357
One to two years	17,124	18,703
Two to three years	14,801	8,141
Over three years	9,587	14,581
	<u>707,311</u>	<u>765,782</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. SHARE CAPITAL

	30th June, 2005 Unaudited HK\$'000	31st December, 2004 Audited HK\$'000
Authorised: 2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid: 622,500,000 ordinary shares of HK\$0.10 each	<u>62,250</u>	<u>62,250</u>

Share options

Details of the Company's share option scheme and the share options issued under the scheme are set out under the heading "Share option schemes" in the section of "Discloseable Information" on pages 41 to 46. No share options were granted or exercised during the period.

16. CONTINGENT LIABILITIES

	Group		Company	
	30th June, 2005 Unaudited HK\$'000	31st December, 2004 Audited HK\$'000	30th June, 2005 Unaudited HK\$'000	31st December, 2004 Audited HK\$'000
Guarantees given in respect of mortgage loans granted by banks to the Group's purchasers of properties held for sale	–	30,032	–	–
Guarantee given for the convertible bonds issued by Yanjing Brewery	–	–	543,606	587,424
	<u>–</u>	<u>30,032</u>	<u>543,606</u>	<u>587,424</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. CAPITAL COMMITMENTS

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

	30th June, 2005 Unaudited HK\$'000	31st December, 2004 Audited HK\$'000
Land and buildings:		
Authorised, but not contracted for	–	–
Contracted, but not provided for	142,083	118,321
	<u>142,083</u>	<u>118,321</u>
Plant and machinery:		
Authorised, but not contracted for	–	–
Contracted, but not provided for	104,335	109,915
	<u>104,335</u>	<u>109,915</u>
Acquisition of subsidiaries and capital contribution to a jointly-controlled entity:		
Authorised, but not contracted for	–	–
Contracted, but not provided for	236,103	265,842
	<u>236,103</u>	<u>265,842</u>
Total capital commitments	<u>482,521</u>	<u>494,078</u>

The Company had no material capital commitments as at 30th June, 2005 (2004: Nil).

18. EVENTS AFTER THE BALANCE SHEET DATE

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

- On 19th July, 2005, the Group disposed of all its 95% equity interest in Beijing Western-Style Food Company Limited, a subsidiary of the Company, at a cash consideration of RMB6 million (approximately HK\$5.65 million) pursuant to a conditional sale and purchase agreement entered into between the Company and 北京富源嘉業投資有限公司 (Beijing Fu Yuan Jia Ye Investment Company Limited) on 9th June, 2005. The effect of this transaction on the Group's operating results is not significant.
- On 30th August, 2005, Beijing Enterprises Holdings High-Tech Development Company Limited ("High-Tech"), a subsidiary of the Company, entered into a sale and purchase agreement to transfer its entire equity interests in Beijing Qinchang Glass Company Limited (a jointly-controlled entity, which High-Tech holds 30% equity interest) to an independent third party at a cash consideration of RMB34.11 million (approximately HK\$32.8 million). The effect of this transaction on the Group's operating results was not significant.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. EVENTS AFTER THE BALANCE SHEET DATE (continued)

- 3) On 6th September, 2005, the Company and BHL's wholly-owned subsidiaries, Beijing Holdings (BVI) Limited and Canfort, reached the following sale and purchase agreements:
- i) Dispose of its 75% of the equity interests in Beijing Badaling Tourism Company Limited ("Badaling Tourism") to Beijing Holdings (BVI) Limited at a cash consideration of RMB336.84 million (approximately HK\$323.88 million). An exceptional accounting gain is expected to arise from this transaction; and
 - ii) Dispose of its 63.75% of the equity interests in Beijing Maglev Technology Development Company Limited ("Maglev Technology") to Canfort at a cash consideration of RMB38.19 million (approximately HK\$36.72 million). The effect of this transaction on the Group's profit was not significant.

As the remaining 36.25% equity interests in Maglev Technology is held by Badaling Tourism, the Company will no longer, directly or indirectly, hold any equity interest in Maglev Technology after the completion of the two aforementioned transactions.

19. RELATED PARTY TRANSACTIONS

Name of company	Nature of transaction	Notes	Six months ended	
			2005	2004
			Unaudited	Unaudited
			HK\$'000	HK\$'000
<i>Ultimate holding company:</i>				
BHL and its associates	Sale of 34.54% equity interests in BE Dairy	(a)	223,646	–
	Rental income	(b)	–	1,337
	Rental and related expenses	(b)	825	1,705
<i>Joint venture partners of subsidiaries and their associates:</i>				
Beijing Yanjing Beer Group	Purchase of bottle labels	(c)	26,567	21,144
Company ("Yanjing Beer	Purchase of bottle caps	(c)	28,260	22,758
Group") and its associates	Canning service fees paid	(d)	9,764	9,041
	Comprehensive support service fees paid	(e)	7,323	7,323
	Land rent expenses	(f)	871	822
	Trademark licensing fees paid	(g)	8,193	10,202
	Less: 20% refund for advertising subsidies	(g)	(1,804)	(2,040)
王府井東安集團有限公司 (Wangfujing Dongan Group Company Limited)	Rental expenses	(b)	20,027	–

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS (continued)

Name of company	Nature of transaction	Notes	Six months ended 30th June,	
			2005 Unaudited HK\$'000	2004 Unaudited HK\$'000
San Yuan Group and its associates	Sale of 65.46% equity interests in BE Dairy	(a)	304,852	–
	Purchase of raw milk	(h)	–	81,148
	Land use fee	(i)	–	1,512
	Establishment of a subsidiary	(j)	–	4,616
	Disposal of equity interest in a subsidiary	(k)	–	4,720
Beijing Jia Ming Investment Limited Company ("Jia Ming Investment")	Disposal of equity interest in a subsidiary	(l)	–	16,104
<i>Jointly-controlled entities:</i>				
Beijing McDonald's Food Co., Ltd.	Sale of dairy products	(h)	–	15,032
Shanghai Sanyuan Onlly Alimentation Foods Co., Ltd.	Sale of dairy products	(h)	–	1,736
Yanjing Beer (Qu Fu Sankong) Co., Ltd.	Sale of malt and barley	(h)	–	450
北京王府井洋華堂商業有限公司 (Beijing Wangfujing Yokado Commercial Company Limited)	Rental income	(b)	848	–

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

Notes:

- (a) The considerations were arrived at after arm's length negotiations between the contracting parties with reference to BE Dairy's attributable 55% equity interests in San Yuan Foods's unaudited net assets value as at 31st July, 2004 according to PRC Accounting Standard for Business Enterprises and Accounting System for Business Enterprises.
- (b) The rentals were determined by reference to the prevailing open market rentals at the time when the lease agreements were entered into.
- (c) The purchase prices for bottle labels and bottle caps were determined by reference to the agreed prices for the preceding year and an annual adjustment determined by reference to the price index in Beijing for the preceding year.
- (d) Canning service fees were charged at a rate equal to the costs of the canning services incurred by Yanjing Beer Group plus a pre-agreed profit margin.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS (continued)

- (e) Comprehensive support service fees paid included the following:
- a security and canteen services fee which was determined based on the annual cost of labour, depreciation and maintenance for the preceding year and an annual adjustment by reference to the price index in Beijing; and
 - rental expenses, related to the premises occupied and used by Yanjing Brewery as its office, canteen and staff dormitories, were determined by reference to the prevailing market rentals at the time when the relevant agreements were entered into.
- (f) Land rent expenses were charged at a mutually-agreed amount of RMB1,849,000 per annum.
- (g) Trademark licensing fees paid were for the use "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.
- (h) The purchase prices for raw milk, dairy products, malt and barley were determined by reference to the prevailing market rates.
- (i) The land use fee was charged at a mutually-agreed amount of RMB3,210,000 for the year ended 31st December, 2004.
- (j) The capital contribution made by the Group to the subsidiary is in accordance with the joint venture agreement entered into between San Yuan Foods and a wholly owned subsidiary of San Yuan Group.
- (k) The consideration received was based on a mutually-agreed amount of RMB5,010,000.
- (l) The consideration received was determined by reference to the valuation report prepared by an independent PRC asset valuer.

Compensation of key management personnel of the Group

	For the six months ended 30th June,	
	2005 Unaudited HK\$'000	2004 Unaudited HK\$'000
Short term employee benefits	4,629	4,886
Post-employment benefits	197	177
Termination benefits	-	-
Share-based payments	-	-
Total compensation paid to key management personnel	<u>4,826</u>	<u>5,063</u>

DISCLOSEABLE INFORMATION

DIRECTORS

The directors of the Company during the period were:

Executive directors:

Mr. Yi Xi Qun (*Chairman*)

Mr. Zhang Hong Hai (*Vice Chairman and CEO*)

Mr. Li Fu Cheng (*Vice Chairman*)

Mr. Bai Jin Rong (*Vice Chairman*) (appointed on 17th June, 2005)

Mr. Guo Ying Ming

Mr. Liu Kai (*Vice President*)

Mr. Zheng Wan He

Mr. Li Man

Mr. Guo Pu Jin

Mr. Zhou Si (appointed on 17th June, 2005)

Mr. E Meng (*Vice President*) (appointed on 17th June, 2005)

Independent non-executive directors:

Mr. Lau Hon Chuen, Ambrose

Dr. Lee Tung Hai, Leo

Mr. Wang Xian Zhang

Mr. Wu Jiesi

Mr. Robert A. Theleen

DIRECTORS' SERVICE CONTRACTS

Mr. Yi Xi Qun has a service contract with the Company for a term of five years commencing on 1st June, 2003 with an unexpired period of approximately 35 months as at 30th June, 2005. This service contract, which was entered into before 1st February, 2004, is exempt from the shareholders' approval requirement under Rule 13.68 of the Listing Rules.

Messrs. Zhang Hong Hai and Liu Kai each has a service contract with the Company for a term of three years commencing on 3rd December, 2003 and 16th January, 2004, with respective unexpired periods of approximately 17 and 18 months as at 30th June, 2005.

Mr. E Meng has a service contract with the Company for a term of three years commencing on 17th June, 2005 with an unexpired period of approximately 35 months as at 30th June, 2005.

At 30th June, 2005, no director had a service contract with the Company which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30th June, 2005, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

Long positions in shares of associated corporations

Name of director	Name of associated corporation	Number of ordinary shares held	Percentage of the associated corporation's issued share capital
Mr. Li Fu Cheng	Beijing Yanjing Brewery Company Limited [@]	30,628 [#]	0.0030
Mr. Zheng Wan He	Beijing Wangfujing Department Store (Group) Co., Ltd. [@]	45,738 [#]	0.0116

[@] All these associated corporations are indirectly held subsidiaries of the Company

[#] All interests are directly beneficially owned by the directors

Long positions in underlying shares of the Company and an associated corporation

The interests of the directors and chief executive in the share options of the Company or its associated corporation are separately disclosed in the section "Share option schemes" below.

Save as disclosed above, as at 30th June, 2005, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR CONVERTIBLE BONDS

During the six months ended 30th June, 2005, Mr. Li Fu Cheng received 10,209 bonus shares of Yanjing Brewery based upon the 20,419 shares that he owned.

Apart from the foregoing and save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares and underlying shares" and "Share option schemes", at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Company

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The directors of the Company may, at their discretion, invite employees, including executive directors, of the Company and any of its subsidiaries, to take up options to subscribe for ordinary shares of the Company at HK\$1 per grant of options. The Scheme became effective on 16th 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 30th June, 2005, 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.

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEMES (continued)

Company (continued)

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the nominal value of an ordinary share; and (ii) 80% of the average 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.

The following share options were outstanding under the Scheme as at 30th June, 2005:

Name or category of participant	Notes	Number of share options			
		At 1st January, 2005	Granted during the period	Lapsed during the period	At 30th June, 2005
Directors					
Mr. Li Fu Cheng	(a)	200,000	-	-	200,000
	(b)	1,800,000	-	-	1,800,000
		2,000,000	-	-	2,000,000
Mr. Zheng Wan He	(a)	200,000	-	-	200,000
	(b)	1,800,000	-	-	1,800,000
		2,000,000	-	-	2,000,000
Other employees					
In aggregate	(a)	210,000	-	-	210,000
	(b)	1,840,000	-	-	1,840,000
		2,050,000	-	-	2,050,000
		6,050,000	-	-	6,050,000

Notes:

- (a) These options were granted on 3rd 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 1st September, 1998. No such options were exercised during the period.
- (b) These options were granted on 23rd 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 1st January, 1999, and one additional portion becomes exercisable on 1st January, in each of the following years. All of the options (to the extent not exercised) will become exercisable on 1st January, 2007, and if not otherwise exercised, will lapse on 1st January, 2009. No portion of these share options was exercised during the period.

SHARE OPTION SCHEMES (continued)

Beijing Development

Beijing Development operates a share option scheme (the “Beijing Development Scheme”) to give executives and key employees of Beijing Development Group an interest in preserving and maximising shareholders’ value in the longer term, to enable Beijing Development and the relevant subsidiaries to attract and retain individuals with experience and ability and to reward individuals for future performance. Eligible participants of Beijing Development Scheme include the executive directors and employees of Beijing Development or any of its subsidiaries. Beijing Development Scheme became effective on 18th June, 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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

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

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

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEMES (continued)

Beijing Development (continued)

Pursuant to Beijing Development Scheme, the following share options were outstanding during the six months ended 30th June, 2005:

Name or category of participant	Notes	Number of share options			
		At 1st January, 2005	Granted during the period	Lapsed during the period	At 30th June, 2005
Director of the Company					
Mr. E Meng	(a)	1,600,000	-	-	1,600,000
	(b)	1,200,000	-	-	1,200,000
		<u>2,800,000</u>	<u>-</u>	<u>-</u>	<u>2,800,000</u>
Other employees					
In aggregate	(a)	6,540,000	-	(180,000)	6,360,000
	(b)	18,900,000	-	-	18,900,000
	(c)	2,800,000	-	(2,800,000)	-
		<u>28,240,000</u>	<u>-</u>	<u>(2,980,000)</u>	<u>25,260,000</u>
		<u>31,040,000</u>	<u>-</u>	<u>(2,980,000)</u>	<u>28,060,000</u>

Notes:

- (a) These options were granted on 19th June, 2001 at an exercise price of HK\$1.13 per share. The options can be exercised in two or three equal portions. The first portion is exercisable at any time commencing on 1st January, 2002, and each further portion becomes exercisable on 1st January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26th June, 2006.
- (b) These options were granted on 18th January, 2002 at an exercise price of HK\$1.00 per share. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 18th January, 2002, and each further portion becomes exercisable on 1st January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17th January, 2007.
- (c) These options were granted on 2nd October, 2003 at an exercise price of HK\$1.05 per share. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 2nd October, 2003, and each further portion becomes exercisable on 1st January in each of the following years. All of the options, if not otherwise exercised, will lapse on 1st October, 2008.

No share options were exercised during the six months ended 30th June, 2005. At 30th June, 2005, Beijing Development had 28,060,000 share options outstanding under Beijing Development Scheme, which represented approximately 5.7% of Beijing Development's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of Beijing Development, result in the issue of 28,060,000 additional ordinary shares of Beijing Development and additional share capital of HK\$28,060,000 and share premium of HK\$1,035,000 (before any issue expenses).

SHARE OPTION SCHEMES (continued)

Xteam

Xteam adopted a pre-IPO share option scheme (the "Xteam Pre-IPO Scheme") on 30th May, 2001 pursuant to which the directors and employees of the Xteam Group may be granted share options to subscribe for shares of Xteam at an exercise price of HK\$0.266 each. All options have a duration of 10 years from the date of grant of the options and exercisable after three months from the date of listing of Xteam on the Growth Enterprises Market of the Stock Exchange on 11th December, 2001.

Up to 30th June, 2005, no options under the Xteam Pre-IPO Scheme have been exercised, and 30,000,000 outstanding pre-IPO share options lapsed in August 2005 due to the resignation of an employee.

Xteam also adopted a post-IPO share option scheme (the "Xteam Post-IPO Scheme") on 21st November, 2001, the principal terms of which were set out on pages 199 to 208 of the prospectus of Xteam. Under the terms of the Xteam Post-IPO Scheme, the board of directors of Xteam may, at their discretion, invite any full-time employees of the Xteam Group, including any executive and non-executive directors, and any advisers, consultants of or to any member of the Xteam Group to take up options to subscribe for shares in Xteam.

On 19th December, 2003, 63,000,000 post-IPO share options were granted and accepted at an exercise price of HK\$0.14 per share.

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEMES (continued)

Xteam (continued)

Pursuant to the Xteam Pre-IPO Scheme and the Xteam Post-IPO Scheme, the following share options were outstanding during the six months ended 30th June, 2005:

Name or category of participant	Notes	Number of share options			At 30th, June 2005
		At 1st January, 2005	Granted during the period	Lapsed during the period	
Employees					
In aggregate	(a)	80,000,000	–	–	80,000,000
	(b)	63,000,000	–	(16,500,000)	46,500,000
		<u>143,000,000</u>	<u>–</u>	<u>(16,500,000)</u>	<u>126,500,000</u>

Notes:

- (a) These options were granted on 14th November, 2001 under the Xteam Pre-IPO Scheme at an exercise price of HK\$0.266 per share. The exercise period of the options is from 11th June, 2002 to 13th November, 2011.
- (b) These options were granted on 19th December, 2003 under the Xteam Post-IPO Scheme at an exercise price of HK\$0.14 per share.

DISCLOSEABLE INFORMATION

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

At 30th June, 2005, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company

Name	Notes	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporations	Total	
Modern Orient Limited		100,050,000	–	100,050,000	16.07
Beijing Enterprises Investments Limited	(a)	313,949,900	100,050,000	413,999,900	66.51
Beijing Holdings Limited	(b)	2,390,100	413,999,900	416,390,000	66.89

Notes:

- (a) The interest disclosed includes the shares owned by Modern Orient Limited. Modern Orient Limited is held directly as to 100% by Beijing Enterprises Investments Limited. Accordingly, Beijing Enterprises Investments Limited is deemed to be interested in the shares owned by Modern Orient Limited.
- (b) The interest disclosed includes the shares owned by Beijing Enterprises Investments Limited and Modern Orient Limited. Beijing Enterprises Investments Limited, the holding company of Modern Orient Limited, is held indirectly as to 66.48% by BHL. Accordingly, BHL is deemed to be interested in the shares owned by Beijing Enterprises Investments Limited and Modern Orient Limited.

Save as disclosed above, as at 30th June, 2005, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions and continuing connected transactions undertaken by the Group during the period are set out in note 19 to the condensed consolidated interim financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions entered into by the Group were (i) in the ordinary course of the Group's business either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (ii) in accordance with the terms of the agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iii) within the prescribed limits as set out in the waiver letters in respect of connected transactions granted by the Stock Exchange to the Company.

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

In accordance with the disclosure requirements of Rule 13.22 of the Listing Rules, the following disclosures are included in respect of the Company's syndicated loan facility, which contains covenants requiring performance obligations of the Company's holding companies.

In 2001, the Company obtained a five-year US\$180 million syndicated loan facility. The loan agreement includes certain conditions imposing specific performance obligations on the Company's holding companies, among which are the following events which would constitute an event of default on the loan facility:

1. If the beneficial interest 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; or
2. 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.

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2005.

CORPORATE GOVERNANCE

The Company is committed to ensuring high standard of corporate governance and transparency as the Directors believe it would increase efficiencies in the overall operations of the Group such that the Group could become more competitive in markets, enhancing shareholders' value in consequence. During the period under review, the Group has adopted various corporate governance practices to ensure an effective internal control system and the proper delegation of authority.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely, Dr. Lee Tung Hai, Leo (Chairman of Audit Committee), Mr. Wang Xian Zhang and Mr. Wu Jiesi. The main duties of the committee include reviewing and providing supervision over the Company's financial reporting process and internal controls. The Audit Committee of the Company has already reviewed the unaudited interim results for the six months ended 30th June, 2005 and considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

REMUNERATION COMMITTEE

According to the Code on Corporate Governance Practices, the Company established its remuneration committee (the "Remuneration Committee") in 2005 with a majority of members thereof being independent non-executive directors. The existing Remuneration Committee comprises an executive director and vice president of the Company, Mr. Liu Kai, and two independent non-executive directors, namely, Dr. Lee Tung Hai, Leo and Mr. Wu Jiesi (Chairman of the Remuneration Committee).

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure in relation to the remuneration of Directors and senior management and reviewing the specific remuneration packages of all executive directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

COMPLIANCE WITH THE "CODE ON CORPORATE GOVERNANCE PRACTICES"

The directors believe that the Company complied with the code provisions (the "Code Provisions") as set out in Appendix 14 "Code on Corporate Governance Practices" to the Listing Rules for the half year ended 30th June, 2005, except Code Provision A.4.1:

Code Provision A.4.1

The non-executive directors of the Company are not appointed for specific terms, which deviates from the requirement of Code Provision A.4.1. However, in view of the fact that non-executive directors are subject to retirement by rotation in accordance with the Company's Articles of Association, the Company considers that there are sufficient measures to ensure that the corporate governance of the Company are no less exacting than the Code Provisions.

COMPLIANCE WITH THE "MODEL CODE"

The Company has adopted Appendix X "Model code" to govern securities transactions by the directors. After having made specific enquiry to all directors, all directors confirmed that they complied with the "Model Code" during the half year ended 30th June, 2005.

PUBLICATION OF THE INTERIM REPORT ON THE WEBSITE

The 2005 interim report will be sent to all shareholders and will be published on the Company's website (www.behl.com.hk) and the website of the Stock Exchange (www.hkex.com.hk) in due course.