

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. Other than the transfer of substantially all of the Group's hotel and tourism operations to a jointly-controlled entity, further details of which are included in note 45(w) to the financial statements, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 111.

An interim dividend of HK\$0.10 per ordinary share was paid on 21 October 2002. The directors recommend the payment of a final dividend of HK\$0.18 per ordinary share in respect of the year, to shareholders on the register of members on 20 June 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the Company's annual report and the audited financial statements, is set out on page 112. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT AND HOTEL PROPERTIES

Details of movements in the fixed assets and investment and hotel properties of the Company and the Group during the year are set out in note 14 to the financial statements. Further details of the Group's investment and hotel properties are set out on page 113.

SHARE OPTIONS

Details of movements in the Company's share options during the year, together with the reasons therefor, are set out in note 38 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 39(b) to the financial statements and in the consolidated statement of changes in equity, respectively.



DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$557,369,000, of which HK\$112,050,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$4,839,497,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for less than 30% of the Group's turnover and total purchases, respectively.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Hu Zhao Guang (*Chairman*)

Mr. Yi Xi Qun (*Vice Chairman*)

Mr. Xiong Da Xin (*Executive Vice Chairman and President*)

Mr. Bai Jin Rong (*Executive Vice President*) (resigned on 23 December 2002)

Mr. Guo Ying Ming (appointed on 23 December 2002)

Mr. Liu Kai (*Vice President*)

Mr. Xing Chun Hua

Mr. Zheng Wan He

Mr. Wei En Hong

Mr. Li Fu Cheng

Mr. Bi Yu Xi

Mr. Li Man

Mr. Li Zhong Gen

Non-executive director:

Mr. Fang Fang

Independent non-executive directors:

Mr. Lau Hon Chuen, Ambrose

Mr. Lee Tung Hai, Leo

Mr. Wang Xian Zhang

In accordance with articles 96 and 105(A) of the Company's articles of association, Messrs. Yi Xi Qun, Xiong Da Xin, Guo Ying Ming, Lau Hon Chuen, Ambrose, Lee Tung Hai, Leo and Wang Xian Zhang will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.



DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 15 to 19 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Except for Messrs. Liu Kai and Guo Ying Ming, all the remaining executive directors proposed for re-election at the forthcoming annual general meeting have service contracts with the Company, each with an unexpired period of 5 months as of 31 December 2002. Mr. Liu Kai has entered into a service contract with the Company for a period of three years commencing on 15 January 2001 while no service contract has been entered into between Mr. Guo Ying Ming and the Company in respect of his office as a director of the Company.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest in any material contract to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors and their associates in the issued share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Name of associated corporation	Nature of interest	Number of shares held
Zheng Wan He	Beijing Wangfujing Department Store (Group) Co., Ltd.	Personal	45,738
Li Fu Cheng	Beijing Yanjing Brewery Company Limited	Personal	18,720

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations, as defined in the SDI Ordinance, as recorded in the register required to be kept under Section 29 of the SDI Ordinance 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 Companies.



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 38 to the financial statements, at no time during the year 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 children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Owing to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been moved to note 38 to the financial statements.

Concerning the share options of Beijing Development (Hong Kong) Limited, a subsidiary of the Company, granted during the year to the directors of the Company as detailed in note 38 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of the Company's issued capital
Modern Orient Limited	90,050,000	14.47
Beijing Enterprises Investments Limited (<i>Note a</i>)	384,000,000	61.69
Beijing Holdings Limited (<i>Note b</i>)	391,577,000	62.90

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 50.37% by Beijing Holdings Limited. Accordingly, Beijing Holdings Limited is deemed to be interested in the shares owned by Beijing Enterprises Investments Limited and Modern Orient Limited.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.



CONNECTED TRANSACTIONS

In 2001, the Company and Beijing Enterprises (Dairy) Limited together made various advances of RMB215,946,000 in aggregate to Beijing San Yuan Foods Co., Ltd. (“San Yuan”), a non-wholly owned subsidiary of the Company, as San Yuan’s general working capital. The advances bore interest at 5.85% per annum and were fully repaid during the year. Total interest received by the Group from San Yuan in relation to such advances for the year amounted to RMB5,868,000 (2001: RMB10,204,000).

Other connected transactions undertaken by the Group during the year are set out in notes 34, 41 and 45 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that these 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 that are fair and reasonable so far as the Company’s shareholders are concerned; (ii) in accordance with the terms of the agreements governing the transactions; and (iii) within the prescribed limits as set out in the waiver letter in respect of connected transactions granted by the Stock Exchange.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 44 to the financial statements.

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

In accordance with the disclosure requirements of Paragraph 3.7.1 of Practice Note 19 of The Rules Governing the Listing of Securities on the Stock Exchange (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 its debts as they fall due, or is declared or becomes bankrupt or insolvent.



CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report except that the independent non-executive directors of the Company are not appointed for specific terms as required by Paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company’s articles of association.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

胡昭廣

Chairman

Hong Kong
15 April 2003

