

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

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 acquisition of the business of the construction of geothermal energy systems and the provision of related installation services, 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 2003 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 121.

An interim dividend of HK\$0.10 per ordinary share was paid on 11 November 2003. 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 18 June 2004. 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 assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, and restated and reclassified as appropriate, is set out on page 122. 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 pages 123 to 124.

Share options

Details of movements in the Company's share options during the year, together with the reasons therefor, are set out in note 39 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 40(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2003, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$433,178,000, 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. Yi Xi Qun (<i>Chairman</i>)	
Mr. Hu Zhao Guang (<i>Chairman</i>)	(resigned on 29 May 2003)
Mr. Zhang Hong Hai (<i>Vice Chairman and President</i>)	(appointed on 1 December 2003)
Mr. Xiong Da Xin (<i>Executive Vice Chairman and President</i>)	(resigned on 15 October 2003)
Mr. Li Fu Cheng (<i>Vice Chairman</i>)	
Mr. Guo Ying Ming	
Mr. Liu Kai (<i>Vice President</i>)	
Mr. Bao Zong Ye	(appointed on 29 May 2003)
Mr. Xing Chun Hua	(resigned on 29 May 2003)
Mr. Zheng Wan He	
Mr. Wei En Hong	
Mr. Bi Yu Xi	
Mr. Li Man	
Mr. Li Zhong Gen	

Directors *(continued)*

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 and the recommendation of the Board, Messrs. Zhang Hong Hai, Liu Kai, Wei En Hong, Bi Yu Xi and Li Man 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 14 to 18 of the annual report.

Directors' service contracts

During the year, Mr. Yi Xi Qun renewed his service contract with the Company for a further period of five years, resulting in an unexpired period of 53 months as of 31 December 2003. Messrs. Liu Kai and Zhang Hong Hai each entered into a service contract with the Company for a period of three years commencing on 15 January 2001 and 3 December 2003, respectively, with an unexpired period of 1 month and 35 months as of 31 December 2003, respectively.

Subsequent to the balance sheet date, Mr. Liu Kai renewed his service contract with the Company on 16 January 2004 for a further period of three years commencing on the same date.

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 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 or fellow subsidiaries was a party during the year.

Directors' interests and short positions in shares and underlying shares

At 31 December 2003, the interests and short positions of the directors 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 Companies, were as follows:

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

The interests of the directors in the share options of the Company or its associated corporation are separately disclosed in note 39 to the financial statements.

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@	18,720#	0.0028
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

Save as disclosed above, as at 31 December 2003, 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 for Securities Transactions by Directors of Listed Companies.

Directors' rights to acquire shares or debentures

Save as disclosed in the share option schemes disclosures in note 39 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 minor children, 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.

Substantial shareholders' and other persons' interests in shares and underlying shares

At 31 December 2003, 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:

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)	287,968,000	100,050,000	388,018,000	62.33
Beijing Holdings Limited	(b)	2,407,000	388,018,000	390,425,000	62.72

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, as at 31 December 2003, no person, other than the directors of the Company, whose interests are set out in the section "Directors' 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

On 30 May 2003, the Company disposed to Beijing Development (Hong Kong) Limited (“Beijing Development”), a non-wholly owned subsidiary of the Company, the entire issued share capital of Business Net Limited, a then wholly owned subsidiary of the Company, and all benefits and interest in a shareholder’s loan of RMB19,000,000 for a consideration of HK\$40,000,000 satisfied as to HK\$5,000,000 in cash and HK\$35,000,000 by the way of the issue and allotment of 35,000,000 ordinary shares of Beijing Development of HK\$1 each to the Company.

Other connected transactions undertaken by the Group during the year are set out in notes 28 and 46 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 letters in respect of connected transactions granted by the Stock Exchange to the Company.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 45 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.

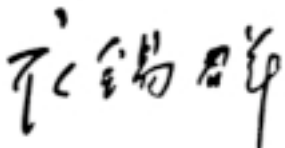
Audit committee

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



Chairman

Hong Kong
15 April 2004