

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 2004.

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 20 to the financial statements. During the year, the Group discontinued its dairy operations, further details of which are included in note 11 to the financial statements. There were no other 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 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 155.

An interim dividend of HK\$0.10 per ordinary share was paid on 9 November 2004. The directors recommend the payment of a final dividend of HK\$0.20 per ordinary share in respect of the year, to shareholders on the register of members on 17 June 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

Summary financial information

A summary of the published results, and assets, liabilities and total equity 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 pages 156 to 157. This summary does not form part of the audited financial statements.

Fixed assets and hotel properties, and investment properties

Details of movements in the fixed assets and hotel properties, and investment properties of the Company and the Group during the year are set out in notes 15 and 16 to the financial statements, respectively. Further details of the Group's hotel and investment properties are set out on pages 158 to 159.

Share options

Details of movements in the Company's share options during the year, together with the reasons therefor, are set out in note 34 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 35(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$642,021,000, of which HK\$124,500,000 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 (*Chairman*)

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

Mr. Li Fu Cheng (*Vice Chairman*)

Mr. Guo Ying Ming

Mr. Liu Kai (*Vice President*)

Mr. Zheng Wan He

Mr. Li Man

Mr. Guo Pu Jin

(appointed on 28 April 2004)

Mr. Wei En Hong

(resigned on 28 April 2004)

Mr. Bi Yu Xi

(resigned on 28 April 2004)

Mr. Bao Zong Ye

(resigned on 29 December 2004)

Mr. Li Zhong Gen

(resigned on 29 December 2004)

Non-executive director:

Mr. Fang Fang

(resigned on 21 April 2004)

Report of the Directors

Directors *(continued)*

Independent non-executive directors:

Mr. Lau Hon Chuen, Ambrose

Mr. Lee Tung Hai, Leo

Mr. Wang Xian Zhang

Mr. Wu Jie Si

(appointed on 2 July 2004)

Mr. Robert A. Theleen

(appointed on 2 July 2004)

In accordance with articles 96 and 105(A) of the Company's articles of association and the recommendation of the board of directors, Messrs. Li Fu Cheng, Zheng Wan He, Lau Hon Chuen, Ambrose, Wu Jie Si and Robert A. Theleen 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 19 of the annual report.

Directors' service contracts

Messrs. Yi Xi Qun and Zhang Hong Hai have service contracts with the Company for terms of five and three years, respectively, commencing on 1 June 2003 and 3 December 2003, respectively, with respective unexpired periods of approximately 41 months and 23 months as at 31 December 2004.

During the year, Mr. Liu Kai renewed his service contract with the Company for a further period of three years which commenced on 16 January 2004, with an unexpired period of approximately 24 months as at 31 December 2004, and is subject to termination by either party giving not less than six months' written notice.

These service contracts, which were entered into before 1 February 2004, are exempt from the shareholders' approval requirement under Rule 13.68 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which has taken effect since 1 February 2004.

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' remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

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 year.

Directors' interests and short positions in shares and underlying shares

At 31 December 2004, 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 Issuers of the Listing Rules (the "Model Code"), were as follows:

Long positions in underlying shares of the Company:

The interests of the directors in the share options of the Company are separately disclosed in note 34 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@	20,419#	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

Directors' interests and short positions in shares and underlying shares

(continued)

Save as disclosed above, as at 31 December 2004, 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 year, Mr. Li Fu Cheng purchased 1,699 additional ordinary shares of Beijing Yanjing Brewery Company Limited, an indirectly held subsidiary of the Company, through the conversion of 180 units of the 5-year 1.2% convertible bonds with a face value of RMB100 each of Beijing Yanjing Brewery Company Limited held by him.

Apart from the foregoing and save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 34 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 and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Contract of significance

On 3 December 2004, the Company entered into a share transfer agreement with Beijing Holdings Limited ("BHL"), the ultimate holding company, to conditionally dispose of the Company's 34.54% equity interest in Beijing Enterprises (Dairy) Limited, a wholly owned subsidiary of the Company, to BHL for a cash consideration of RMB237,392,000 (approximately HK\$223,638,200). The contract terms have been reviewed by an independent board committee comprising all the independent non-executive directors of the Company, who has confirmed that the transaction was fair and reasonable as far as the shareholders of the Company are concerned. Further details of the transaction undertaken in connection with this contract during the year are included in note 11 to the financial statements.

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

At 31 December 2004, 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)	313,949,900	100,050,000	413,999,900	66.51
Beijing Holdings Limited	(b)	271,100	413,999,900	414,271,000	66.55

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 31 December 2004, 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 and continuing connected transactions

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in notes 11, 30 and 49 to the 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.

Events after the balance sheet date

Details of the significant events after the balance sheet date of the Group are set out in note 50 to the financial statements.

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.

Corporate governance

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.

The Code was replaced by the Code on Corporate Governance Practices (the "Code on CG Practices") which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with the Code on CG Practices.

Model code of securities transactions

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the annual report.

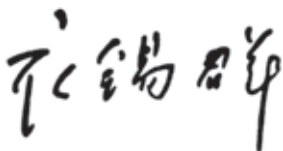
Audit committee

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company, namely, Messrs. Lee Tung Hai, Leo, Wang Xian Zhang and Wu Jie Si.

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
12 April 2005