

## | 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 2005.

### **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 19 to the financial statements. During the year, the Group discontinued its hotel operations and its tourism operations in Badaling Great Wall, a scenic area in Beijing, the People's Republic of China (the "PRC"), further details of which are included in note 52(b)(v) 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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 186.

An interim dividend of HK\$0.10 per ordinary share was paid on 9 November 2005. 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 15 June 2006. 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 187 to 188. This summary does not form part of the audited financial statements.

### **PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES**

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively. Further details of the Group's investment properties are set out on pages 189 to 190.

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### **SHARE OPTIONS AND CONVERTIBLE BONDS**

Details of movements in the Company's share options and the Group's convertible bonds during the year, together with the reasons therefor, are set out in notes 35 and 38 to the financial statements, respectively.

### **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 36(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

### **DISTRIBUTABLE RESERVES**

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$5,183,578,000, 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 for the year, respectively.

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### DIRECTORS

The directors of the Company during the year were:

#### Executive directors:

Mr. Yi Xi Qun ( <i>Chairman</i> )	
Mr. Zhang Hong Hai ( <i>Vice Chairman and Chief Executive Officer</i> )	
Mr. Li Fu Cheng ( <i>Vice Chairman</i> )	
Mr. Bai Jin Rong ( <i>Vice Chairman</i> )	(appointed on 17 June 2005)
Mr. Guo Ying Ming	
Mr. Liu Kai ( <i>Vice President</i> )	
Mr. Zheng Wan He	
Mr. Li Man	(resigned on 23 December 2005)
Mr. Guo Pu Jin	
Mr. Zhou Si	(appointed on 17 June 2005)
Mr. E Meng ( <i>Vice President</i> )	(appointed on 17 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

In accordance with articles 96 and 105(A) of the Company's articles of association and the recommendation of the board of directors, Messrs. Bai Jin Rong, Guo Ying Ming, Guo Pu Jin, Zhou Si, E Meng, 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.

The Company has received annual confirmations of independence from each of the five independent directors of the Company, and as at the date of this report still considers them to be independent.

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### **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**

Mr. Yi Xi Qun has a service contract with the Company for a term of five years commencing on 1 June 2003 with an unexpired period of approximately 29 months as at 31 December 2005. This service contract, which was entered into before 1 February 2004, is 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.

Each of Messrs. Zhang Hong Hai, Liu Kai and E Meng has a service contract with the Company for a term of three years commencing on 3 December 2003, 16 January 2004 and 17 June 2005, respectively, with respective unexpired periods of approximately 11 months, 12 months and 29 months as at 31 December 2005.

Apart from the foregoing, 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 as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on pages 31 to 35 of the annual report.

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

At 31 December 2005, the interests and short positions of the directors and the 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 underlying shares of the Company and its associated corporations:

The interests of the directors in the share options of the Company and Beijing Development (Hong Kong) Limited, an indirectly held subsidiary of the Company, are separately disclosed in note 35 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 ("Yanjing Brewery") <sup>@</sup>	30,628 <sup>#</sup>	0.0030
Mr. Zheng Wan He	Beijing Wangfujing Department Store (Group) Co., Ltd. <sup>@</sup>	45,738 <sup>#</sup>	0.0116

<sup>@</sup> All these associated corporations are indirectly held subsidiaries of the Company

<sup>#</sup> All interests are directly beneficially owned by the directors

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### **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES** *(Continued)*

Save as disclosed above, as at 31 December 2005, none of the directors or the chief executive had registered an interest or short position in the shares, underlying shares or debentures 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, a director of the Company, received 10,209 bonus shares of Yanjing Brewery based upon the 20,419 shares of Yanjing Brewery 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" above and in the share option scheme disclosures in note 35 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.

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### CONTRACT OF SIGNIFICANCE

On 6 September 2005, the Company entered into an equity transfer agreement with Canfort Investment Limited, a wholly-owned subsidiary of Beijing Holdings Limited (“BHL”), the ultimate holding company of the Company, to conditionally dispose of the Company’s 63.75% equity interest in 北京控股磁懸浮技術發展有限公司 (Beijing Enterprises Holdings Maglev Technology Development Co., Ltd.) (“Beijing Maglev”) to Canfort Investment Limited for a cash consideration of RMB38,190,000 (approximately HK\$36,721,000). Beijing Maglev is a Sino-foreign joint venture established in the PRC and principally engaged in the research and development of magnetic levitation technology and provision of related services.

On the same date, Space Express Limited, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Beijing Holdings (BVI) Limited, a wholly-owned subsidiary of BHL, to conditionally dispose of its 100% equity interest in Beijing Enterprises (Tourism) Limited (“BE Tourism”) to Beijing Holdings (BVI) Limited for a cash consideration of RMB336,835,000 (approximately HK\$323,880,000). BE Tourism is an investment holding company and the major asset of which is its 75% equity interest in 北京八達嶺旅遊股份有限公司 (Beijing Badaling Tourism Co., Ltd.), which is a Sino-foreign joint venture established in the PRC and principally engaged in the operations of tourism businesses in Badaling Great Wall, a scenic area in Beijing, the PRC, and a hotel in Yanqing County, Beijing, the PRC, and the holding of a 36.25% equity interest in Beijing Maglev.

Contract terms of the above two transactions have been reviewed by an independent board committee comprising all the independent non-executive directors of the Company, who has confirmed that the transactions were fair and reasonable as far as the shareholders of the Company are concerned. Further details of the transactions undertaken in connection with these contracts during the year are included in note 52(b)(v) to the financial statements.

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**SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

At 31 December 2005, the following interests and short positions 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			Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporations	Person having a security interest in Shares		
Modern Orient Limited		100,050,000	–	–	100,050,000	16.07
Beijing Enterprises Investments Limited	(a)	273,950,000	100,050,000	–	374,000,000	60.08
BHL	(b)	–	374,000,000	–	374,000,000	60.08
Deutsche Bank Aktiengesellschaft		82,105,500	–	12,624,700	94,730,200	15.22

**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 72.72% by BHL. Accordingly, BHL is deemed to be interested in the shares owned by Beijing Enterprises Investments Limited and Modern Orient Limited.



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## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

### Short positions:

Name	Notes	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporations	Person having a security interest in Shares		
Beijing Enterprises						
Investments Limited	(a)	60,000,000	–	–	60,000,000	9.64
BHL	(b)	–	60,000,000	–	60,000,000	9.64
Deutsche Bank						
Aktiengesellschaft		20,395,000	–	1,939,000	22,334,000	3.59

#### Notes:

- (a) Beijing Enterprises Investments Limited lent 60,000,000 shares of the Company it owned to Deutsche Bank Aktiengesellschaft on 30 November 2005.
- (b) The interest disclosed includes the shares owned by Beijing Enterprises Investments Limited. Beijing Enterprises Investments Limited is held indirectly as to 72.72% by BHL. Accordingly, BHL is deemed to be interested in the shares owned by Beijing Enterprises Investments Limited.

Save as disclosed above, as at 31 December 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.

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### **CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS**

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in note 52 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions undertaken by the Group were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (iii) in accordance with the relevant 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 (iv) 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 53 to the financial statements.

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

In accordance with the disclosure requirements of Rule 13.21 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.

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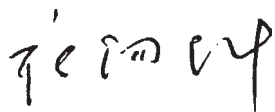
### SUFFICIENCY OF PUBLIC FLOAT

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.

### 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  
11 April 2006