

Management Discussion and Analysis

The Group has four main areas of business including consumer goods, infrastructure investments, tourism, hotel & retail services and technology. These four main areas of business recorded mixed results in 2000.

(1) Consumer products



Beer

Beijing Yanjing Brewery Company Limited (“Yanjing Brewery”) recorded solid turnover growth for the year through organic expansion as well as acquisitions. Net turnover increased by 17% to HK\$1.513 billion. However, profit after tax was down by 6% to HK\$248 million mainly due to higher depreciation charge arising from new production facilities for raw beer and premium beer. Productivity will improve when utilisation reaches optimal level.

The brewery division of the Group has expanded its annual production capacity to 2 million tons at end of March 2001 covering eleven brewery plants in six provinces in mainland China. Going forward, the Group will focus its resources to turnaround the acquired brewery plants and further strengthen its brand name position in the domestic market. Yanjing aim to lift its production and sales volume to 3 million tons in 2005 and become the first ten brewery companies in the world.

Dairy products and food business

Net turnover of Sanyuan Food increased strongly by 43% to HK\$663 million while operating profit after tax grew 14.35% to HK\$52 million when compared to 1999. Turnover growth exceeded profit growth mainly due to HK\$15 million of property development profit recorded in year 1999. Gross margin continued to improve due to shift to premium sector products and larger economy of scale. Sanyuan Food is planning for initial public offering in the domestic A share market in early 2002 and is going through a transition period before the China Securities Regulatory Commission officially grant the listing approval.



Beijing Mcdonalds' further expanded its number of restaurants to 67 as at end of year 2000. Both its turnover and net profit improved significantly when compared to year 1999. Four new outlets are located in Shijiazhuang, Bao Ding and Tai Yuan respectively.

Winery

The combined net turnover and profit after tax of Shun Xing Winery and Feng Shou Winery for year 2000 amounted HK\$73 million and HK\$8.7 million respectively, representing 17% and 30% growth respectively when compared to year 1999. Feng Shou's brand name has become one of the fastest growing gift wine producer in the domestic market.



(2) Infrastructure

Capital Airport Expressway ("Airport Expressway")

Traffic volume increase by 14% to 26.2 million vehicles mainly due to significant air traffic growth boosted by opening of new passenger terminal in Beijing Capital Airport. The net turnover and profit after tax of Airport Expressway amounted to HK\$271 million and HK\$137 million respectively, representing 17% and 28% growth respectively when comparing to year 1999. The average utilisation rate was 68% in year 2000 and the traffic volume growth is expected to be in line with the growing economic activities and tourism business in Beijing.

Water Treatment Concession

Profit after amortisation on cost of the Concession remained at HK\$127 million for the year 2000. The Group received guaranteed cash income on a regular basis from the Beijing Water Bureau.



(3) Services

Tourism services

The total number of visitors to Badaling Great Wall increase by 10% to 3.67 million for the year 2000. Both the occupancy and room rate of Badaling Hot Spring Resort Hotel remained stagnant in year 2000.



The combined net turnover of Badaling Tourism amounted to approximately HK\$124 million, representing 8% increase when compared to year 1999. Its combined profit after tax before provision for diminution in value of property increased by 16% to HK\$10.5 million.

The number of visitors to Longqingxia increased by 7% to 582,594 in 2000. The net turnover and profit after tax for year 2000 amounted to HK\$33 million and HK\$4.5 million respectively.



Hotel services

The average occupancy rate of Jianguo Hotel picked up 8% to 76% in year 2000 whereas average room rate declined slightly by 5% to RMB587 in the same period. The occupancy improved significantly upon completion of renovation work at beginning of year 2000. Net turnover and profit after tax in year 2000 amounted HK\$120 million and HK\$15.2 million approximately, representing 4% and 143% growth when compared to year 1999.

Retail services

The net turnover of Wangfujing Department Store Group (“Wangfujing”) jumped by 71% to HK\$2.2 billion when compared to year 1999. Wangfujing Group made moderate profit at the operating level in year 2000. To comply with Hong Kong Accounting Standard, the Company shared an exceptional loss of approximately HK\$58 million arising from asset swap with Dong An Group.



We believed the asset swap is beneficial to Wangfujing Group in the long term as significant amortisation can be saved from disposals of the non performing assets.



(4) Technology business

BISC (an associated company)

During the year of 2000, Beijing International Switching System Company Limited (“BISC”) further strengthened their leading position in very competitive domestic switching market. Sales volume of fixed and mobile EWSD programmable digital switching system increased by 26% to 8.78 million ports in year 2000. Net turnover increased by 23% to HK\$3 billion. Averaged product price has stabilised as BISC managed to broaden its product range as well as exploring new products.

The profit after tax of BISC amounted to approximately HK\$363 million in the same period. This represents 11% drop when compared to year 1999. The better net profit last year was due to an one off tax and duty rebate of HK\$69 million.

Other technology businesses

During the year, the Company reaped significant investment profit when its 25% interests in Beijing Greencool was swapped for 5.3% interests in Greencool Technology which was listed in Hong Kong GEM board. Significant portion of the gain was realised subsequent to the year end date with the balance of the Greencool listed shares held for short investment purpose.

Some of the information technology projects have been progressing well up to date. Beijing Municipal Administration Communications Card Co. Ltd has obtained its business license and is in the process of setting up the system integration and plans to roll out the commercial operation in the fourth quarter of 2001. The Company has also completed capital injection of RMB65 million into Beijing Enterprises Teletron Information Technology Co. Limited which is one of the major broadband infrastructure constructor and ISP service provider in Beijing city.



CAPITALISATION AND FINANCIAL POSITION

Shareholders' equity increased to approximately to HK\$6.5 billion while minority interests increased to approximately HK\$2.8 billion as at the year end date. At 31 December 2000, the cash and borrowings of the Group amounted to approximately HK\$3.73 billion and 4.36 billion respectively. Net debt to equity ratio was 9.7%. The Group's foreign currency borrowings were fully hedged by equivalent amount of Hong Kong dollar and US dollar deposits. Net debt ratio improved moderately mainly due to strong recurring cash flow and contribution by minority shareholders of Yanjing Brewery from a right issue exercise.