

## BUSINESS OVERVIEW AND OUTLOOK

### **Management discussion and analysis**

Despite a very competitive market condition in the PRC, the Group managed to grow its market share and revenue in most business sectors in the first half of 2002. However, the profit attributable to the shareholders was dragged down significantly by the sharp downturn in the business of our major associate, Beijing International Switching System Ltd. ("BISC"). The digital switching system industry in China encountered the most severest challenge in the first half of 2002 mainly due to the restructuring of the fixed line divisions of the China Telecommunication Bureau. The Company expects the performance of BISC to be improved in the second half of the year. The consolidated turnover of the Group was HK\$3.32 billion in the first half of 2002, improved by 15.8% comparing to the corresponding period last year. Net profit attributable to shareholders was HK\$216.12 million, down by 25% comparing to the first half of 2001.

#### (1) ***Consumer products***

##### *Beer*

The regional brewery companies in Shangdong province were turning around and generated strong sales volume growth for our brewery division. Sales volume reached 936,000 tons in the first half of the year which was almost 41% more than the same period last year. Net turnover increased by 11% to HK\$1.15 billion. However, profit after tax was declined by 20% to HK\$83.63 million mainly due to higher advertising and marketing expenses in a very competitive market.

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Beijing Yanjing Brewery Company Limited, our A share listed subsidiary, is in the process of applying for issue of convertible bond in the PRC securities market. The proceeds from the proposed issue will be used to upgrade the existing facilities and acquire more regional breweries.

### *Dairy products and fast food*

The sales volume of Beijing Sanyuan Foods Co., Ltd. ("Sanyuan Foods") grew healthily in the first half of the year. Net turnover of Sanyuan Foods increased by 8.3% to HK\$472 million. Profit after tax jumped 103.4% to HK\$52.11 million when compared to the same period of 2001. Profit after tax was mainly enhanced by significant contribution from Beijing McDonald's and Guangdong McDonald's and amortisation of negative goodwill arising from acquisition of Beijing Kraft Company Limited.

The total number of outlets operated under the franchises of Beijing McDonald's and Guangdong McDonald's increased to 84 and 58, respectively, at the end of June 2002. Optimal economy of scale is being achieved through expanding the number of outlets at different locations.

## (2) **Infrastructure**

### *Capital Airport Expressway*

Traffic volume increased by 11% to 15.53 million vehicles during the period under review mainly driven by prosperous air traffic volume in Beijing Capital Airport. The net turnover and profit after tax of Beijing Capital Expressway Development Co., Ltd. amounted to HK\$164 million and HK\$86.9 million respectively, representing 11.4% and 3.9% growth respectively. The new toll scheme has become effective from 1st September, 2002. Revenue derived from small vehicles will be negatively affected. However, the increase in

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traffic volume will be further stimulated under the new toll charge and reduction in revenue will be moderated by stronger traffic volume growth in next year.

### *Water Treatment Concession*

Profit after amortisation on cost of the Concession right and tax remained at HK\$63.7 million for the six months ended 30th June, 2002. This project continued to provide steady cash flows to the Group.

### (3) **Services**

#### *Tourism services*

The combined net turnover and profit after tax of Beijing Badaling Tourism Development Co., Ltd. amounted to approximately HK\$73.7 million and HK\$4.4 million respectively, representing 13.4% and 42.8% increase respectively over the corresponding period last year.

The net turnover of Beijing Longqingxia Tourism Development Co., Ltd. was HK\$18.3 million which was increased by 13.5% and turnaround to a profit compared to the corresponding period in last year.

#### *Hotel services*

The average occupancy rate of Jianguo Hotel was improved by 7% to 78% in the first half of 2002. Net turnover and profit after tax increased by 8.2% and 227.9% respectively to HK\$51.5 million and HK\$3.5 million, respectively. Room rates were still under pressure due to oversupply of up market hotels in Beijing.

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### *Retail services*

The net turnover of Wangfujing Department Store Group Co., Ltd. ("Wangfujing Group") grew moderately by 4.6% to HK\$1.03 billion. Chengdu store managed to capitalise on the rapid economic growth of Sichun province and recorded the highest sales volume growth in Wangfujing. However, Wangfujing Group recorded a small profit in the first half of 2002 mainly due to the lack of investment income and lower contribution from the property division.

### (4) **Technology business**

#### *Information technology*

Beijing Development (Hong Kong) Limited, the information technology flagship of the Group, has separately announced their interim results on 12th September, 2002. It had turnaround to make a small profit in the first half of 2002.

#### *BISC (an associate)*

During the period under review, BISC suffered a 70% decline in sales orders and turnover. Profit after tax declined by 66% to HK\$75.6 million. The industrial downturn was mainly caused by restructuring of fixed line division of China Telecommunication Bureau. Upon completion of the restructuring exercise in June this year, the various fixed line operators in China are expected to pick up their capital investments which in turn will benefit the switching system manufacturers in the PRC.

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### CAPITALISATION AND FINANCIAL POSITION

Shareholders' equity increased to approximately HK\$7.1 billion while minority interests amounted to approximately HK\$3.28 billion as at 30th June, 2002. Net bank borrowings (total bank borrowings minus cash on hand) was HK\$1.267 billion at period end date representing 17.57% net debt to equity ratio. Bank borrowings were predominately in Renminbi with remaining 30% in US Dollar.

### SIGNIFICANT SUBSEQUENT EVENTS

The Group entered into a shareholder agreement on 10th July, 2002 with the respective subsidiaries of Beijing Capital Tourism Group Limited and Hutchison Whampoa (China) Limited to form a joint venture company engaging in hotel services and tourism services in the PRC and the U.S.A. The Group holds approximately 40% equity interest in the joint venture company.

Effective from 1st September, 2002, the toll charges for all kinds of vehicles using the Tinzhu toll station of the Capital Airport Expressway have been reduced by RMB5. On average, the revenue is expected to decrease by 30% based on similar traffic volume flow. However, the substantial traffic volume growth after the toll reduction will moderate the decrease in revenue.

### OUTLOOK

Despite temporary setback in certain business sector, the outlook for the Group remains prosperous after Beijing city successfully bided the host right for the 2008 summer Olympic Games. Certain business sectors including consumer products, infrastructure, tourism as well as information technology applications are benefiting directly from this development. We will also capitalise on any opportunities arising from this Olympic Games event, in particular, infrastructure and utilities investment opportunities in Beijing area. In the meantime, the Company will strike to complete

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the spin off exercise of Sanyuan Foods in the second half of the year. The proceeds derived from the initial public offering of Sanyuan Foods will accelerate the growth and expansion of Sanyuan Foods and strengthen its leading position in the dairy industry in the PRC.

### **APPRECIATION**

On behalf of the Board of Directors of the Company, I would also like to take this opportunity to express my sincere thanks to all the Group's employees for their continuous support and dedicated services.

By order of the Board

**Hu Zhao Guang**

*Chairman*

Hong Kong, 17th September, 2002