

Business Overview

Despite a very difficult market condition in the PRC, the Group managed to grow its market share and revenue in most business sectors in year 2002. However, the net profit attributable to the shareholders was dragged down significantly by the sharp downturn in the business of our major associate, BISC. The telephone switching industry in China encountered the most severe challenge in 2002 mainly due to restructure of the fixed line divisions of the China Telecommunication Bureau and slow down in order as a result of over capacity in the fixed line market. The consolidated turnover of the Company was HK\$7.01 billion for the year ended 31 December 2002, increased by approximately 13% comparing to last year. Net profit attributable to shareholders was HK\$410 million, down 29% comparing to last year.

Infrastructure

Capital Airport Expressway

Traffic volume increased by 15% to 33.9 million vehicles for the year mainly driven by prosperous air traffic volume of Beijing Capital International Airport. The net turnover and profit after tax of Capital Airport Expressway amounted to HK\$331 million and HK\$172 million respectively, representing 5% and 1% growth respectively over last year. The new toll scheme has become effective from 1 September 2002. Revenue derived from small vehicles was negatively affected. However, traffic volume was further stimulated by lower toll charge and reduction in revenue has been moderated by stronger traffic volume growth in the last quarter.



Water Treatment Concession

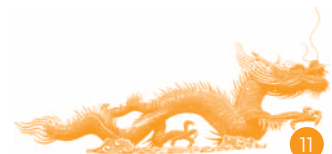
Net profit after amortisation on cost of the Concession was HK\$140 million (2001: HK\$145 million) for year 2002. This project continued to provide steady cash flow to the Group.

Consumer products



Beer

Sales volume reached 2,080,000 tons in year 2002, almost 26% higher than last year. Net turnover increased by 20% to HK\$2.42 billion mainly due to acquisition of Yanjing Brewery (Liquan) Company Limited during the year. The net profit after tax was down by 14% to HK\$163 million mainly due to higher advertisement and marketing expenses in a very competitive market as well as certain one off provisions in two brewery factories in Shangdong.



Yanjing Brewery, our A share listed subsidiary, completed the issue of RMB700 million convertible bonds in the mainland market. The proceeds from the issue are being used to upgrade existing facilities and to acquire more regional breweries like Yanjing Brewery (Liquan) Company Limited in Gui Lin and Fujian Yanjing Brewery Company Limited.

Dairy products and fast food

The sales volume of Sanyuan Food grew healthily in year 2002. Net turnover increased by 11% to HK\$1.05 billion. Net profit after tax jumped 40% to HK\$94 million when compared to 2001. The profit growth was mainly enhanced by significant margin improvement as a result of lower raw milk price and certain profit realized from disposal of investment.



The total number of outlets operated under the franchises of Beijing McDonalds' and Guangdong McDonalds' increased to 88 and 61 respectively at the end of 2002. Optimal economy of scale is being achieved through expanding the number of outlets at different locations.



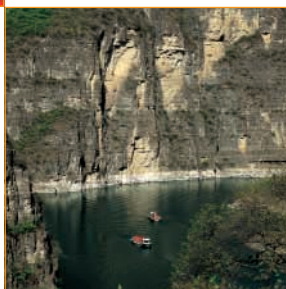
Services



Tourism services

In 2002, the number of visitors to Badaling Great Wall totalled 4.06 million, increased by 10% compared to last year. The net turnover and profit after tax of Badaling Tourism amounted to approximately HK\$91 million and HK\$16.3 million respectively. The basis of revenue recognition for Badaling Tourism was changed to

record only the 40% share of entrance fees, reducing the revenue and the associated cost correspondingly. The net profit for year 2002 was affected by the change in income tax rate to 33%.



In 2002, the number of visitors to Longqingxia tourism site increased by 15% to 746,000, the net turnover increased 18% while net profit after tax jumped 156% to HK\$6.6 million when compared to last year.



Hotel services

The average occupancy rate of Jianguo Hotel improved by 4% to 79% in the year 2002. Net turnover was flat at HK\$108 million. Net profit after tax declined slightly to HK\$8.1 million. Room rates were still under pressure due to abundant supply of up market hotels in Beijing.



Retail services

The net turnover of Wangfujing Department Store Group (“Wangfujing Group”) grew moderately by 1% to HK\$2.03 billion. The net profit after tax of Wangfujing Group was HK\$4.1 million for the year ended 31 December 2002 mainly due to lower investment income and realised loss from the property development division. Wangfujing Group is actively disposing some of its non-core assets of which the proceeds are intended to use for debt reduction and expansion of its nationwide chain department stores.

Technology

BISC (an associate)

During the year, BISC suffered a 62% decline in net turnover. Net profit after tax declined by 78% to HK\$89 million. The industrial downturn was mainly caused by restructure of fixed line division of China Telecommunication Bureau. The slow down in order was also attributed to the over capacity in the fixed line markets in mainland China. Despite the slowing down of the business, the accounts receivable of BISC was reduced by almost 50%, relieving its capital pressure and exposure of bad and doubtful debt.



Other technology businesses

Beijing Development (Hong Kong) Limited (“Beijing Development”), the information technology flagship of the Group, recorded a substantial growth in revenue in 2002, especially in the segment of information technology business. It has built a strong market position in the educational information technology sector in Beijing and will continue to focus on the provision of information technology systems to primary and secondary schools in Beijing and the provision of internet and communication services to enterprises in Beijing.



北京發展(香港)有限公司
Beijing Development (Hong Kong) Limited



The Group has increased its investments in Beijing Ever Source Technology Development Limited, a joint venture company with unique patent technology to utilise geothermal energy as a source of energy for domestic consumption purpose. Many buildings in Beijing have now equipped with this geothermal energy system for maintaining a steady room temperature within the buildings.

Capitalisation and Financial Position

Shareholders' equity increased to approximately HK\$7.3 billion while minority interests amounted to approximately HK\$3.15 billion as at 31 December 2002. Net borrowings (total borrowings minus cash and bank balances) was HK\$1,235 million at year end date representing 17% net debt to equity ratio. Bank borrowings were predominately in Renminbi with remaining 35% in US Dollar.

