

BUSINESS OVERVIEW AND OUTLOOK

MANAGEMENT DISCUSSION AND ANALYSIS

Despite the impact of SARS on Beijing city in the second quarter, the Group achieved a slight growth in turnover and better than expected operating profit for the first half of 2003. The consolidated turnover increased by 8.9% to HK\$3.6 billion and the net profit attributable to shareholders of the Company declined by 16% to approximately HK\$182 million for the six months ended 30th June, 2003.

(1) Consumer products

Beer

Yanjing Brewery recorded healthy volume and turnover growth mainly through its acquired subsidiaries outside Beijing. Net turnover increased by 19% to HK\$1,300 million. Profit after tax increased by 18% to HK\$99 million. The net profit attributable to the Group increased by 12% to HK\$51 million.

The beer sales in Beijing area was hit by SARS in the second quarter. However, strong turnover growth and profit contributions from regional subsidiaries more than offset the negative impact of SARS. The SARS impact has largely faded in Beijing area and the beer operations in the second half of 2003 is poised to perform better.

Dairy products and fast food

Net turnover of Sanyuan Foods increased by 20% to HK\$565 million. Net profit attributable to the Group for the first half of 2003 was HK\$26 million. Sanyuan Foods has secured the approval to list its shares in the domestic A share market and raised RMB370 million for its expansion and development purpose. With the proceeds raised from the IPO, Sanyuan Foods will be in a better position to compete with its counterparts in China's huge dairy market.

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(1) **Consumer products** (continued)

Dairy products and fast food (continued)

Beijing McDonald's and Guangdong McDonald's were badly hit during the SARS period. Their businesses have quickly recovered in the third quarter and is largely back to normal recently.

(2) **Infrastructure**

Capital Airport Expressway

Traffic volume was badly hit by SARS in the second quarter and total volume for the first half decreased by 13% to 13.5 million vehicles. Owing to SARS and the reduction of toll rate, the net turnover and profit after tax of Capital Airport Expressway amounted to HK\$109 million and HK\$53 million, respectively, representing 34% and 37% decrease, respectively. The traffic volume growth rebounded strongly in the third quarter when business and leisure visitors return to Beijing.

Water Treatment Concession

Profit after amortisation on cost of the Concession remained at HK\$64 million for the six months ended 30th June, 2003. This project continued to provide steady cash flow to the Group.

Shenzhen Shiguan Road

The Group invested HK\$380 million for a 53.075% interest in Shiguan Road in Shenzhen area last year. This toll road contributed HK\$12.6 million net profit to the Group for the first half of 2003.

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(3) Services

Tourism services

The tourist arrival to Beijing plunged during the SARS period in the second quarter. The businesses of Badaling Great Wall and Hot Spring Resort were severely hit in the first half of 2003 and recorded a combined attributable loss to the Group of HK\$5 million. Longqingxia, a nearby tourism site, also recorded an attributable loss to the Group of HK\$4.1 million in the first half of the year. With the impact of SARS fading away, the tourist arrival to Beijing has improved significantly in the third quarter. However, it will take some time to recover to the pre-SARS visitors level.

Hotel services

Jianguo Hotel was also hit by the SARS impact in the second quarter. It scaled down its operations during the SARS period and recorded an attributable loss of HK\$1.5 million for the six months ended 30th June, 2003. Business recovered substantially in the third quarter but is still below the normal peak level seen in past years.

Retail services

The net turnover of Wangfujing Department Store Group (“Wangfujing”) was HK\$1 billion for the first half year, 2% lower compared to corresponding period in last year. Wangfujing’s business in Beijing was impacted by SARS and Wangfujing Group marginally broke even in the first half of the year. The retail business in Beijing has recovered to the normal level in the third quarter.

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(4) Technology business

BISC (an associate)

During the period under review, Beijing International Switching System Company Limited (“BISC”) made a net turnover of HK\$748 million, which was 2% lower compared to the corresponding period in last year. The net profit contributed to the Group was HK\$23 million. The lower attributable profit was mainly due to lack of tax refund in this period.

Other businesses

Certain new businesses have contributed significant profits to the Group and helped to alleviate the impact of SARS in the first half of the year. Beijing Enterprises Ever Source Limited, which is 65.88% owned by the Group, has fully made use its unique patent technology of geothermal energy accumulation, together with the well-developed pump-type energy delivery technology in the international area, to provide air-conditioning and hot water for domestic use in buildings by the environmental system of Centralised Liquid State Cold & Heat Source of Energy which has expanded swiftly in the geothermal market in Beijing. Beijing Enterprises Ever Source Limited contributed profit of HK\$11 million to the Group in the first half of the year. Effective on 1st May, 2003, the State’s regulations in relation to architectural design of Centralised Liquid State Cold & Heat Source of Energy have come into force. Beijing Enterprises Holdings High-Tech Development Company Limited, a subsidiary of the Company, also contributed profit of HK\$10 million to the Group for the period.

CAPITALISATION AND FINANCIAL POSITION

Shareholders’ equity and minority interests amounted to approximately HK\$7.3 billion and HK\$3.2 billion, respectively, as at 30th June, 2003. Net borrowings (total borrowings minus cash on hand) was HK\$1.3 billion at period end date representing 18% net debt to equity ratio. Bank borrowings were predominately in Renminbi with remaining 30% in US Dollar.

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SIGNIFICANT SUBSEQUENT EVENT

On 29th August, 2003, Sanyuan Foods offered 150,000,000 new shares with nominal value of RMB1.00 each for subscription at an issue price of RMB2.60 and shares of Sanyuan Foods will be traded on the Shanghai Stock Exchange A Share Market on 15th September, 2003.

Details of the significant subsequent event is set out in note 15 to the condensed consolidated financial statements.

STRATEGY AND PROSPECTS

Beijing City fully returned to its normal pace after the outbreak of SARS. Being the political and cultural centre of China, Beijing made a remarkable economic growth with its GDP higher than the average GDP of the nation. The Company will put more emphasis on grasping the future investment opportunities in the infrastructure and public utilities areas. Capitalising the advantages on brand name recognition of the consumer products operation, the Group will actively explore further business development nationwide. The Company will also seize every business opportunity in investing in the Olympic and environmental projects.

APPRECIATION

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

By order of the Board

Yi Xi Qun

Chairman

Hong Kong, 9th September, 2003