

# Management Discussion and Analysis

## Business Overview

Most of the Group's businesses recorded remarkable growth in 2004. For the year ended 31 December 2004, the Company's consolidated turnover and profit attributable to equity holders of the parent were approximately HK\$9.67 billion and HK\$503 million respectively, representing 21.3% and 11.8% increase comparing to 2003, respectively. The business growth was mainly attributable to the significant increase in the traffic flow of Beijing Capital Expressway Development Co., Ltd. ("Capital Expressway"), the success of the nationwide acquisitions of Yanjing Brewery and the active expansion of Beijing Wangfujing Department Store (Group) Co., Ltd. ("Wangfujing Department Store"). The growth in profit was mainly attributable to the increase in the revenue from Capital Expressway, the increase in the sales of Yanjing Brewery and the exceptional gains from the sales of assets.

## Infrastructure and public utilities

### **Toll roads**

The annual traffic flow of Capital Expressway increased by 24% to 42.69 million vehicles, reaching a historical new height. The utilisation rate has exceeded 90% of the original designed load. Turnover and profit attributable to equity holders of the parent increased by 26.6% and 35.3% to HK\$352 million and HK\$180 million respectively.



The revenue of Shenzhen Shiguan Highway amounted to HK\$83.24 million, which was basically the same as the previous year. Profit attributable to equity holders of the parent was HK\$23.59 million, representing an increase of 3% from last year.



### **Water treatment concession**

The operating profit contribution to the Group after amortisation derived from the Beijing No. 9 water treatment concession amounted to approximately HK\$128 million. This project is one of the most important sources of cashflow for the Group and will continue to provide steady cashflow to the Group in the future.

## Consumer Products

### Beer

The business of Yanjing Brewery continued to grow in 2004. Sales volume of Yanjing Brewery's beer reached a new high of 2.88 million tons. The nationwide turnover amounted to approximately HK\$3.5 billion, representing a growth of approximately 21% over last year. During the period, the rise in the price of raw materials resulted in an increase of cost by approximately HK\$151 million. However, Yanjing Brewery's successful exploration into the premium beer sector offset the additional cost brought about by the rise in the price of raw materials and contributed to the steady business growth. Operating profit contribution to the Group increased by approximately 13.3% to HK\$128 million. In addition, the Group's shareholding in Beijing Yanjing Brewery Company Limited decreased due to the exercise of the convertible bonds of Beijing Yanjing Brewery Company Limited by its holders, and in accounting treatment, the exercise was deemed as the Group's disposal of equity interests which generate gain. Together with the gain generated from the negative goodwill arising from the merging and acquisition of enterprises, the Group shared an exceptional gain of total HK\$37.66 million. In 2004, the share of Yanjing Brewery in the national market rose to 11%. It is expected that the sales volume will exceed 3 million tons in this year, making Yanjing Brewery to be one of the top ten beer breweries in the world.



### Dairy

The business of Beijing Sanyuan Foods Co. Ltd. ("Sanyuan Foods") was hard hit by a series of unfavourable factors. Accordingly, its turnover dropped 23% when compared with 2003. Loss attributable to the Group amounted to HK\$66.20 million. Since the Group is adjusting its asset

portfolio and business strategies, it entered into an agreement at the end of 2004 to sell the controlling interests of Sanyuan Foods at book value (including goodwill) after thorough considerations. The completion of this transaction will be subject to the approvals of the PRC supervisory authorities.

## Retail and Tourism Services

### Retail

The expansion of Wangfujing Department Store in second-tier cities in the inland regions has begun to bear fruit. Turnover amounted to HK\$3.259 billion, representing an increase of 47% when compared with last year. The number of department stores throughout the country increased to 14. Sales in most of the stores increased when compared with last year. Profit contribution from the department stores continued to grow. However, loss incurred from the disposal of a real estate project in Chengdu offset the growth in profit. The management believes that Wangfujing Department Stores have come out of the doldrums and will resume its growth momentum in future.



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## **Hotel and tourism**

This business segment has completely recovered from the impact of SARS. The number of tourists traveling to Badaling and Longqingxia increased significantly, driving profit back to its normal level.



During the year, the occupancy rate of Jian Guo Hotel Joint Venture of Beijing ("Jian Guo Hotel") continued to rise. The relatively out-dated facilities of Jian Guo Hotel make it difficult to raise the room rates. Beijing Tourism Group, the second largest shareholder of Jian Guo Hotel intends to re-develop the project. On the basis that it takes a long time for the investment in the new project to yield returns, the Group sold its 50.5% equity interest in Jian Guo Hotel at book value (including goodwill) in August 2004.

## **Technology**

### **Information technology**

Beijing Development (Hong Kong) Limited ("Beijing Development") is the Group's flagship in information technology business. All its business segments made progress during the year. With business volume not yet reaching economies of scale, Beijing Development cannot achieve any breakthrough in profit.



### **Others**

The progress of its newly-developed geothermal energy system business was satisfactory with the sales of Beijing Ever Source Scientific Technology Development Co., Ltd. steadily surpassing those of last year. Most of the investment in other technology business generated profit and contributed to the overall results.





## Exceptional Profit and Loss

Since the beginning of this year, the Group has begun to enter into agreements to sell various non-core assets with low yields, including the sale of 20% equity interest in Beijing International Switching System Company Limited (now known as SCNB); 50.5% controlling interests in Jian Guo Hotel; and 55% controlling interests in Sanyuan Foods. These businesses and assets are either experiencing industry downturn or having problems regarding its market competitiveness. In order to centralise its management resources and reorganise its asset structure, the Group sold the above assets at our book value or above. According to the new accounting principles, the Group recorded an exceptional profit of HK\$133 million in 2004 as a result of the sales of 20% equity interest in SCNB and the sales of 50.5% controlling interest in Jian Guo Hotel. The sales of these two assets brought in a cash amount of approximately HK\$340 million for the Company, which will be used to fund new investment projects.

With a view to laying a solid foundation for its future development, the Company evaluated certain investment projects and assets and made appropriate provisions of approximately HK\$71.93 million, in order to better reflect the actual value of those assets.

## Capitalisation and Financial Position

Equity attributable to equity holders of the parent increased to approximately HK\$7.88 billion while minority interests amounted to approximately HK\$3.72 billion as at 31 December 2004. Total borrowings were HK\$4.39 billion. Net debt (total borrowings minus cash and bank balances) was HK\$197 million at year end date, representing 2.5% net debt to equity ratio. Bank borrowings were predominately in Renminbi with remaining 32% in US Dollars.