

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

Looking back at the first half of the year, the Group continuously devoted more resources to the information technology segment and established three main information technology business sectors, namely Beijing Municipal Administration & Communications Card Co., Ltd., B E Information Technology Group Limited ("B E Info") and Xteam Software International Limited ("Xteam").

The Smart Cards (一卡通) has successfully transitioned from the construction stage to the operational stage. Since 10 May 2006, Smart Cards has fully substituted for the monthly pass of buses and Metro Lines in Beijing and implemented in all buses, Metro Lines and almost half of the taxis. The total Smart Cards issued amounted to over 4,300,000 so far with an average daily transaction volume of approximately 6,000,000. The overall operation of the system was steady and normal. With continual development of its applications in transportation and non-transportation areas, it is expected that the circulation of the Smart Cards will reach 5,000,000, which included the issuance of 900,000 student IC cards.

B E Info has expanded into railway business and formally entered into the Contract of Automated Fare Collection Clearing Centre System ("ACC") of Beijing Mass Transit Network Management & Support Project in March. It is anticipated that ACC will commence operation before 2008 Beijing Olympics. The coordination of certain railway routes and multi-operating units and the unification of automated fare collection clearing centre system can provide unimpeded journey for all passengers using Smart Cards. B E Info has also signed the Procurement Contract of Automated Fare Collection ("AFC") System for Beijing Metro Lines 1 & 2 and Batong Line in May. AFC system is an important part of the public transportation in the capital and acts as the infrastructural transportation operating system for 2008 Beijing Olympics.

Xteam has completed the establishment of Childbirth Insurance System and Data Exchange Platform System for the Beijing Labour and Society Security Department. In addition to this, it also completed the construction and maintenance services of the Centralized Four Insurances System for the Beijing Labour and Society Security Department and commenced the research and development of Labour Supervision System and Internet Application System for Socialised Medical Scheme. Through actively involved in the management of temporary urban residents and establishment of service information platform, Xteam made great contributions in the information technology of labour market and street level e-government administration businesses.

## STRATEGIES AND PROSPECTS

Given the stable and continual economic development of the PRC, various large and medium-sized cities continue to devote more resources to infrastructure, particularly the transportation sector, and prioritise the development of railway. Based on our extensive experiences in railway sector and electronic settlement and clearing system with Smart Cards as the core, and the market development trend in the future, the Company has set the development goal as becoming the constructor and operator of electronic settlement and clearing platform in infrastructure and utilities sectors.

The Group's development projects of railway sector in Beijing, including the ACC, AFC, Building Automation System ("BAS") and Full Height Safety Doors System, so far amounted to almost one billion. The Group fully commits itself to expand into the railway business and proactively seeks for opportunities of international cooperation, with an aim to accumulate extensive experience in terms of technologies, human resources reserve, management models and cooperation mechanism. The railway management in Beijing will enter into a new phase upon the completion of ACC. ACC also has significant implication for improving the railway management standards in Beijing, enhancing the image of Beijing as an international city as well as establishing digital Beijing and digital Olympics. Following the completion of ACC, it will become an important component of Smart Card system, which will contribute to more extensive applications of Smart Cards. This also signifies that the Group has added a new node to support itself for the development of the largest settlement and clearing system platform for Beijing.

## FINANCIAL REVIEW

The consolidated revenue of the Group for the six months ended 30 June 2006 was HK\$176.8 million, representing a decline of 11.9% as compared with the corresponding period last year of HK\$200.5 million. Revenue from information technology business segment decreased by 35% from HK\$66.9 million in the corresponding period last year to HK\$43.5 million. On the other hand, revenue from restaurant business segment increased by 1.8% from HK\$129.9 million in the corresponding period last year to HK\$132.3 million.

The loss attributable to shareholders of the Company for the six months ended 30 June 2006 was HK\$18 million, increased by HK\$9.5 million as compared with the corresponding period last year of HK\$8.5 million. The board of directors does not recommend the payment of an interim dividend for the period.

## FINANCIAL POSITION

For the six months ended 30 June 2006, the Group had net cash inflow from operating activities of HK\$30.8 million, as compared with the net cash outflow in the corresponding period last year of HK\$4.2 million. At 30 June 2006, the Group had total assets and total liabilities of HK\$855.7 million and HK\$363.6 million, respectively. Equity attributable to equity holders of the parent and minority interests amounted to HK\$418 million and HK\$74.1 million, respectively.

	<b>30 June 2006 HK\$ million</b>	31 December 2005 HK\$ million
Cash and bank balances	<b>160.8</b>	146.8
Bank loans	<b>113.1</b>	112.3
Loan from an intermediate holding company	<b>50.0</b>	50.0
Net debt	<b>2.3</b>	15.5
Gearing ratio (net debt/total equity)	<b>0.5%</b>	3.0%
Current ratio (current assets/current liabilities)	<b>136.1%</b>	140.7%

At balance sheet date, over 95% of the Group's cash and bank balances were denominated in Renminbi. The Group's bank loans were wholly repayable within one year, except for HK\$3.7 million which was repayable by instalment up to the year 2012. Approximately 85% of the Group's bank loans were denominated in Renminbi, unsecured and have fixed interest rates of approximately 5% per annum. Approximately 15% of the Group's bank loans were secured by certain of the Group's leasehold land and buildings which had an aggregate net book value of HK\$44 million as at 30 June 2006.

The Group incurred capital expenditures of HK\$10.2 million during the period under review and have share of a jointly-controlled entity's own capital commitments of HK\$23.2 million as at 30 June 2006. The Company has guarantees given to banks in connection with facilities granted to subsidiaries of HK\$150.3 million, which were utilised to the extent of HK\$100.4 million as at 30 June 2006.

## EMPLOYEES

At 30 June 2006, 1,910 full-time employees (31 December 2005: 1,940) were employed by the Group. Salaries of our employees are maintained at competitive levels with share options and bonuses granted based on individual and business performance.

## **APPRECIATION**

On behalf of the Board, I would like to express my sincere thanks to all shareholders and business partners of the Group for their continuous support, and to all employees of the Group for their valuable contribution.

By Order of the Board  
**ZHANG HONGHAI**  
*Chairman*

Hong Kong  
13 September 2006