

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Infrastructure and Public Utilities

The traffic volume of Beijing Capital Airport Expressway (“Airport Expressway”) achieved a new record high of 50.96 million vehicles in 2006, average daily traffic flow of the year 2006 reached 140,000 vehicles which exceeded the designed capacity of 135,000 vehicles. If there is no expansion of Airport Expressway and increase of lanes using auto pass card (速通卡), growth of traffic volume will be constrained. The Northern Extension of the Airport Expressway (機場北線) is under trial run while its terms of operation are still pending for confirmation. In 2006, net profit attributable to the Group from Airport Expressway amounted to HK\$208 million, almost the same as 2005. It was mainly due to the offset by a major overhaul and the write-off of the related fixed assets of amount over HK\$56.80 million.

The traffic volume of Shenzhen Shiguan Road (“Shiguan Road”) decreased by 2.6% to 9.80 million vehicles in 2006 when compared with 2005, which was mainly due to the continuous extension and completion of the



road network in Baoan, Shenzhen as a result of the diversion of vehicles. In 2006, net profit attributable to the Group decreased by 8.44% to HK\$19.09 million as compared with 2005.



In 2006, net profit attributable to the Group from water treatment concession increased 2.85% to approximately HK\$132 million as compared with 2005. The cash return from this water treatment concession remained a major source of cash income of the Group.

Consumer Products

The sales volume of Beijing Yanjing Brewery Co., Ltd. (“Yanjing Brewery”) increased from 3.13 million tons from 2005 to 3.57 million tons in 2006. The revenue also increased from HK\$4.556 billion in 2005 to HK\$5.477 billion in 2006. Currently, Yanjing Brewery has a market share of about 85% in Beijing and about 12% on nationwide basis. Net profit attributable to the Group of brewery operations decreased 22.89% to HK\$103 million in 2006 when compared



with 2005, which was mainly due to the dilution of the Group’s interest in Beijing Yanjing Brewery Joint Stock Company Limited (“Beijing Yanjing”) after the share reform of Beijing Yanjing of which the amount of HK\$27 million has affected to the Group’s attributable profit. Yanjing Brewery has successfully developed the premium beer market sector, the profit margin remained steady mainly due to the measures of effective cost control and adjusted products structure to enhance the revenue.

BUSINESS REVIEW (*continued*)

In addition, the cost of share reform of both Beijing Yanjing and its subsidiary Fujian Yanjing Huiquan Brewery Joint Stock Company Limited (“Yanjing Huiquan”) offset against the gain due to investors fully conversion in shares of convertible bonds of Beijing Yanjing which generated an aggregate one-off net exceptional loss attributable to the Group of approximately HK\$258 million.

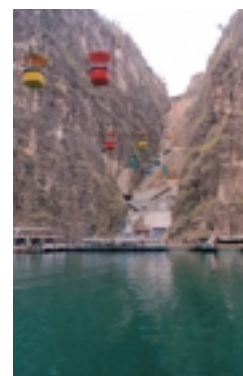
Retail and Tourism Services



In 2006, the revenue of Wangfujing Department Stores (Group) Company Limited (“Wangfujing Department Stores”) continued to increase significantly by about 33.5% to HK\$6.323 billion compared with 2005. Profit attributable to the Group before disposal was HK\$97 million.

The Group entered into a conditional sale and purchase agreement on 31 March 2006 to dispose the Group’s entire 50.13% controlling interests in Wangfujing Department Stores. The transaction was completed in December 2006, when the Group completely ceased the retail service business.

For tourism business, as operating strategies was changed in line with the Group, this sector is going to be withdrawn entirely. Longqingxia tourism is the only business remained in this sector and its profit for year 2006 was immaterial and has no substantial influence to the Group.



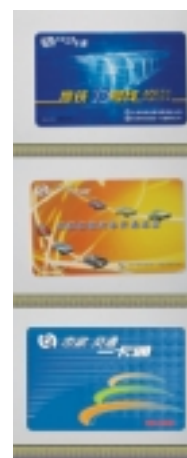
Technology Business

Beijing Development (Hong Kong) Limited is the Group’s IT flagship. In 2006, its revenue increased 10.08% to HK\$585 million compared with 2005. In 2006, net profit attributable to the Group was turnaround from loss to profit of approximately HK\$6.74 million.



Ever Source Science & Technology Development Co., Limited (“Ever Source”) engages in development and implementation of surface earth thermal energy. After five years development, surface earth thermal energy is widely used in building located in different geo-logical conditions and regions for various applications. At present,

its products for surface earth thermal energy are under the protection of proprietary intellectual property rights and are standardised for production in large scale. Since 2005, Ever Source has been establishing regional energy service companies as franchised operations to promote the use of surface earth thermal energy as a top priority alternative energy resource in strategic way. Ever Source is transformed from project subcontractor to product supplier and technology service provider based on its integrated technology platform. As early stage of the adjustment of its operation model, the revenue of Ever Source was dropped. In 2005, net operating loss attributable to the Group by Ever Source amounted to approximately HK\$30 million. Given the result of implementation as the strategy of using surface earth thermal energy as alternative energy was obvious, its business is expected to improve in the near future. In order to minimise the effect to the Group during the period of business adjustment, Ever Source has subcontracted the operation in 2006 and the Group no longer consolidated its operating results.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue of the Group's continuing operations were approximately HK\$7.25 billion in 2006 which increased by 15.7% compared with HK\$6.26 billion in 2005. The growth was mainly driven by strong increase in sales recorded from the brewery operations other than Beijing in PRC and commencement of new brewery operations in Hebei and Shenyang by Yanjing Brewery.

Cost of sales

Cost of sales of the Group's continuing operations were approximately HK\$4.815 billion in 2006 which increased by 15.4% compared with HK\$4.172 billion in 2005. Increase in cost of sales of the Group was in line with the increase in revenue.

Gross profit

Gross profit of the Group's continuing operations in 2006 amounted to HK\$2.431 billion which increased by HK\$340 million compared with HK\$2.091 billion in 2005. Overall gross profit margin was 33.6%, representing a slight improve compared with 33.4% in 2005.

Selling and distribution costs

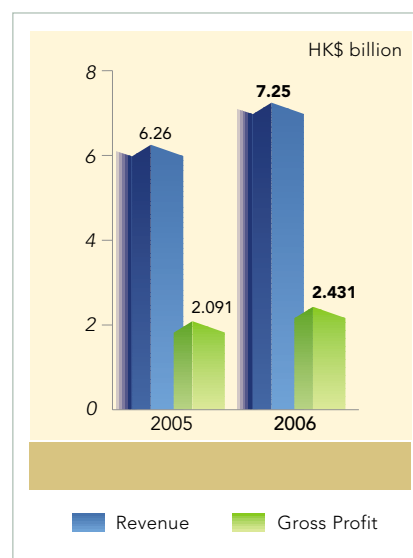
Selling and distribution costs of the Group's continuing operations in 2006 were approximately HK\$835 million which increased by HK\$182 million compared with HK\$653 million in 2005. It was mainly due to the commencement of new brewery operations in Hebei and Shenyang and the expansion of production capacity in certain brewery operations other than Beijing in PRC by Yanjing Brewery.

Administrative expenses

Administrative expenses of the Group's continuing operations in 2006 amounted to HK\$858 million, increased by HK\$146 million comparing to HK\$712 million in 2005. It was mainly due to the expansion of production capacity in certain brewery operations other than Beijing in PRC and establishment of new brewery operations in Hebei and Shenyang by Yanjing Brewery.

Finance costs

Finance costs of the Group's continuing operations for the year 2006 amounted to HK\$104 million which decreased by 20.9% compared to HK\$131 million in 2005, it was mainly due to the full repayment of the outstanding syndicated loan at the beginning of 2006.



FINANCIAL REVIEW (continued)

Share of profits and losses of jointly-controlled entities and associates

The Group's share of profit of associates significantly increased by HK\$40.55 million in 2006. It was mainly due to the exceptional gain from disposal of land by BMEI Co., Ltd. (北京機電院高技術股份有限公司). In addition, share of profit of jointly-controlled entities amounted to HK\$0.69 million in 2006 which represented a turnaround from loss to profit as compared with the last year.

Tax

Tax expenditure of the Group's continuing operations rose from HK\$137 million in 2005 to HK\$170 million in 2006 which increased by 24.1%. After deducting non-taxable items of exceptional gains and losses, effective income tax rate of the Group slightly decreased from 22.4% in 2005 to 21.5% in 2006.

Net exceptional losses

During the year, the subsidiaries of the Group, Beijing Yanjing and Yanjing Huiquan, completed their share reform plans. The Group shared compensation to the A shares shareholders in the PRC of the aforementioned subsidiaries directly or indirectly resulting in a one-off exceptional loss of HK\$486 million. At the same time, a one-off exceptional gain of HK\$141 million was also recorded after investors had fully exercised the convertible bonds of Beijing Yanjing. After offset by the above two factors, the net loss attributable to the Group was approximately HK\$258 million. In addition, the Group has completed the sale of equity interests in Wangfujing Department Stores at the end of the year and derived an exceptional gain of HK\$142 million. The Group also made a one-off provision of HK\$173 million for Siemens Communication Networks Ltd., Beijing, certain goodwill and receivables. In conclusion of the above, the Group had a total net exceptional loss of HK\$289 million in 2006.

Profit for the year

As a result of the above factors, net profit for the year of the Group dropped significantly by HK\$106 million from HK\$715 million in 2005 to HK\$608 million in 2006, representing a decrease of 14.9%.

Liquidity and Capital Resources

Up till now, the Company's working capital was mainly derived from cash of the Group's brewery, toll roads and water treatment operations as well as bank borrowings.

As at 31 December 2006, net current assets of the Group was HK\$2.909 billion. Current assets mainly comprised cash, trade and bills receivables, inventories and other receivables. The Group's ratio of provision for bad debts of trade and bills receivables and inventories were extremely low in the past, which represents the strong cash-generating ability of its assets. Current liabilities mainly comprised trade and bills payables, other payables and short-term loans. The Group's trade and bills receivables, other receivables, trade and bills payables and other payables are mainly denominated in Renminbi. Due to the gradual and steady appreciation in Renminbi against Hong Kong dollars, the Group will record exchange gains when translate the net assets of subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

Cash and Cashflow

Currently, the Group's beers operation, toll roads and water treatment business generate large amount of cash flow annually. Disposal of non-core assets in 2006 also brought us a cash flow of over HK\$1.0 billion.

The Group mainly uses its cash for purchasing additional production facilities and equipment for its brewery operation, repayment of loans and general working capital expenditure. As refer to the consolidated cashflow statement, cash and cash equivalents of the Company amounted to HK\$2.77 billion as at 31 December 2006.

With solid and strong business backgrounds with stable operations, the Group is granted over HK\$500 million banking facilities from related banks for working capital to support any ad-hoc operational needs.

For the year 2006, the Group has utilised an aggregate sum of HK\$1.52 billion for investment in additional production facilities and equipments. In 2006, the Group paid back net bank and other borrowings an aggregate sum of approximately HK\$640 million.

DEBTS

As at 31 December 2006, the Group's outstanding bank and other borrowing was HK\$1.901 billion, decreased significantly by HK\$977 million compared with 2005. Outstanding amount with repayment terms less than one year amounts to HK\$1.3 billion. Renminbi denominated loans are equivalent to HK\$1.66 billion while the remaining loans are Hong Kong dollars denominated. As over 90% of the Group's income is settled by Renminbi, therefore, Renminbi denominated loans will not be exposed to exchange risk.

CAPITAL EXPENSES AND CONTINGENT LIABILITIES

As at 31 December 2006, the Group's committed capital expenditure amounted to HK\$222 million, contingent liabilities amounted to HK\$418 million.

PROSPECTS AND STRATEGIES

The Group has completed the disposal of controlling interests in Wangfujing Department Stores, the business and assets structure has become more simple and clear as compared with before. In the future, the Group will put emphasis on investing and operating of infrastructure and public utilities, with consumer products business which mainly on beer operation as side segment, aiming to become a limited conglomerate corporation focus on urban utilities and infrastructure business.