北京控股有限公司

# BEIJING ENTERPRISES HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

Interim Report 1998

## 1998 INTERIM RESULTS

The Board of Directors of Beijing Enterprises Holdings Limited (the "Company") is pleased to announce that the unaudited consolidated results for the six months period ended 30th June, 1998 of the Company and its subsidiaries (the "Group") are as follows:

| | | Unaudited | | |
|---|---|---|---|---|
| | | Six months ended 30th June | | For the period from 26th Februray, 1997 – 30th June, 1997 |
| | | 1998 | 1997 | |
| | | | Pro forma | |
| | | **Consolidated** | **Combined** | **Consolidated** |
| | *Notes* | | *(Note 1)* | *(Note 1)* |
| | | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | | 1,716,252 | 1,637,368 | 673,122 |
| Operating profit | | 304,162 | 228,416 | 137,026 |
| Exceptional item | 2 | — | 145,924 | 145,924 |
| | | 304,162 | 374,340 | 282,950 |
| Share of profits less losses of associated companies | | 78,091 | 61,484 | 25,610 |
| Profit before taxation | | 382,253 | 435,824 | 308,560 |
| Taxation | 3 | (59,297) | (36,547) | (20,631) |
| Profit after taxation | | 322,956 | 399,277 | 287,929 |
| Minority interests | | (73,914) | (52,971) | (30,737) |
| Profit attributable to shareholders | | 249,042 | 346,306 | 257,192 |
| Earnings per share | 4 | HK$0.40 | HK$0.76 | HK$1.54 |

*Notes:*

**1. Basis of Presentation**

The Company was incorporated in Hong Kong on 26th February, 1997 and remained inactive until 6th May, 1997 when the reorganisation of the Group prior to the listing on The Stock Exchange of Hong Kong Limited was completed. As such, the results under the consolidated basis only reflect the actual results for the period from 6th May, 1997 to 30th June, 1997. The pro forma combined results for the six months ended 30th June, 1997, which are provided for information purpose only, have been prepared on a basis as if the current group structure had been in existence since 1st January, 1997.

**2. Exceptional item**

Exceptional item represented interest earned on the subscription funds received in relation to the flotation of the Company.

**3. Taxation**

Hong Kong Profits Tax has been provided at the rate of 16% (1997: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on assessable profits for elsewhere in the People's Republic of China (the "PRC") have been calculated at the rates of taxation prevailing in the PRC.

| | **Unaudited** | | |
|---|---|---|---|
| | **Six months ended 30th June** | | **For the period from** |
| | **1998** | **1997** | **26th February, 1997 –** |
| | | **Pro forma** | **30th June, 1997** |
| | **Consolidated** | **Combined** | **Consolidated** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Group: | | | |
| The PRC — Hong Kong | 9,222 | 2,396 | 2,354 |
| — elsewhere | 36,824 | 26,600 | 15,339 |
| | 46,046 | 28,996 | 17,693 |
| Share of associated companies' taxation | 13,251 | 7,551 | 2,938 |
| Taxation charge for the period | 59,297 | 36,547 | 20,631 |

**4. Earnings per Share**

The calculation of basic earnings per share is based on the profit attributable to shareholders for the period of HK$249,042,000 (1997: HK$257,192,000) and the weighted average of 622,500,000 shares (1997: 167,254,172 shares) in issue during the period.

The calculation of pro forma earnings per share is based on the profit, on pro forma combined basis, attributable to shareholders of HK$346,306,000 and the weighted average of 453,165,746 shares in issue during the six months ended 30th June, 1997.

The exercise of the outstanding share options of the Company would not have a diluting effect to the earnings per share. No comparative diluted earnings per share has been presented as there were no share options granted in 1997.

## INTERIM DIVIDEND

The directors are pleased to declare an interim dividend of HK$0.10 per share, to be paid on 8th October, 1998 to shareholders whose names are on the Register of Members on 30th September, 1998.

## BUSINESS OVERVIEW

The operating profit attributable to shareholders for the first half of 1998 was HK$249 million (HK$ 0.40 per share), representing an increase of 24% over the corresponding period in 1997. The healthy growth was mainly due to remarkable performance of certain businesses of the Group namely Yanjing Brewery and Beijing International Switching Co., Limited ("BISC"). Both Yanjing Brewery and BISC achieved significant volume growth and substantial profit improvement. In addition, interest income from unused IPO proceeds also increased significantly. Although certain businesses of the Group were affected by the Asia financial turmoil, the adverse effect was fully covered by the growth factor and therefore giving rise to substantial growth in operating results in the first half of 1998.

## Operations

### 1. Consumer Products

*Beer*

Net sales revenues of Yanjing Brewery increased to HK$534 million representing 15% increase over the corresponding period in 1997. Profit after tax for the first half of 1998 increased substantially to approximately HK$124 million representing 80% increase over the corresponding period in 1997. The remarkable performance was mainly due to the decline of major raw material costs and improved product-mix with higher average margin. In addition, interest expenses were substantially reduced as a result of repayment of bank loans with proceeds raised through Yanjing's A shares offering.

*Dairy products and food*

Net sales revenues of Sanyuan Food for the first half of 1998 reached HK$198 million, representing a healthy increase of 16% over the corresponding period in 1997. Profit after tax, however, declined to approximately HK$10 million which is 18% lower compared to the corresponding period in 1997. The reduction in operating margin was owing to increased expenses in relation to inventory provision and brand promotion efforts.

Net revenues of Beijing McDonald's increased slightly compared to the corresponding period in 1997 while operating profit remained flat due to lack of profit contributions from a number of newly-opened restaurants.

### 2. Infrastructure

*Capital Airport Expressway*

Traffic volume increased healthily by 11% to 11,365,000 vehicles in the first half of 1998 compared to the corresponding period in 1997. Net toll revenues increased by 4% to HK$77 million compared to the corresponding period in 1997. Revenue growth was impacted by the implementation of a new policy effective in second half of 1997 exempting military vehicles using the Expressway and passenger-free taxi using Erzha Station from toll fees. Net profit for the first half of 1998 increased by 2% to approximately HK$26 million.

## 3. Services

*Tourism services*

The overall number of visitors to the Badaling Great Wall site declined by 26% to approximately 1,326,000 in the first half of 1998 compared to the corresponding period in 1997. This has been owing to a decline in visitor arrivals from other Asian countries to Beijing as a result of the financial turmoil since the second half of 1997. In addition, the situation was further aggravated by the slow down in domestic tourism sector and the competition from other Great Wall sites. Entrance fees income declined by approximately 12% in the first half of 1998.

The Badaling Hot Spring Resort commenced soft opening in January of 1998 and contributed approximately HK$9 million to the turnover of Badaling Tourism Development Company Limited ("BTDC") for the first half of 1998. With its unique location and recreation facilities, the resort has been well patronised and therefore was able to achieve marginal break even for the first half of 1998.

For the first half of 1998, due to the negative operating environment and the seasonality factor in general, BTDC registered a combined turnover of HK$43 million, representing 8% increase over the corresponding period in 1997, and a net loss of approximately HK$6 million.

*Retail Services*

For the first half of 1998, net turnover of Wangfujing Department Store (Group) Co., Ltd. ("Wangfujing") declined by approximately 1% to HK$769 million, compared to the corresponding period in 1997. The additional sales contributions from property development were more than offset by the decrease in sales of the flagship store in the Wangfujing Street of Beijing. The business volume of the flagship store was adversely affected by the on-going construction and renovation work in the Wangfujing Street and, to a lesser extent, the keen competition in the Beijing retail market in general. Profit after tax for the first half of 1998 was approximately HK$22 million representing 56% decrease compared to the corresponding period in 1997, mainly owing to write-off of chain stores' deferred expenditure, higher depreciation charge and decrease in interest and investment income during the period.

*Hotel Services*

Average occupancy rate declined from 78% to 68% in the first half of 1998 while average room rate decreased by 9% to RMB783 for the same period. The worse-than-expected result was mainly owing to keen competition in the Beijing high-end hotel market and the decreasing number of foreign visitors to Beijing as a result of Asian financial turmoil. Turnover decreased by 20% to HK$70 million compared to the corresponding period in 1997. Profit after tax declined by 46% to approximately HK$12 million compared to the corresponding period in 1997.

**4. Share of Profit of Associated Company**

*BISC*

During the period under review, sales volume increased by 71% to approximately 2.5 million ports whilst turnover rose almost 32% to HK$1,045 million compared to the corresponding period in 1997. Profit after tax in the first half of 1998 was approximately HK$169 million representing an increase of 27% over the corresponding period in 1997. BISC has successfully lifted its market share through intensified marketing efforts and a competitive pricing strategy. Debtors turnover increased to over 400 days due to increasing proportion of deferred payment sales. Nevertheless, default rate of repayment was negligible as most of the receivables are guaranteed by provincial or municipal post and telecommunication bureau.

## NEW INVESTMENTS

During the period under review, the Company has entered into the following agreements in respect of certain investment projects in Beijing:

1. the Longqingxia JV Agreement between the Company and BLTC for the establishment of a Sino-foreign joint venture, Longqingxia Development, in which the Company will contribute RMB90 million (approximately HK$84 million, representing 75% of the registered capital of the joint venture). Longqingxia Development will be engaged in the operation of tourism business and related facilities in the Longqingxia scenic area in Beijing;

2. the Amendment Contracts among the Company, Beijing Nanjiao Wine Factory, Beijing Municipal Cereals, Oils and Foodstuffs Import and Export Corporation and Tung Hsin Trading Company Limited pursuant to which the Company will invest RMB45 million (approximately HK$42 million) and RMB20 million (approximately HK$19 million) respectively to acquire a 51% equity interest in the enlarged capital of Beijing Shun Xing and Beijing Legacy respectively.

3. the Greencool JV Agreement between the Company and GCT Investment for the establishment of a joint venture, Beijing Greencool, in which the Company has contributed RMB25 million (approximately HK$23 million), representing 25% of the registered capital of the joint venture. Beijing Greencool is principally engaged in the manufacture and sale of environment-friendly freon-free coolant and related equipment as well as provision of engineering services to central air-conditioning and refrigeration system with freon-free coolant.

| | |
|---|---|
| "Beijing Greencool" | Beijing Greencool Environmental Protection Engineering Co., Ltd. |
| "Beijing Legacy" | Beijing Legacy Grape Wine Co., Ltd. |
| "Beijing Shun Xing" | Beijing Shun Xing Wine Co., Ltd. |
| "BLTC" | Beijing Longqingxia Travel Corporation |
| "GCT Investment" | GCT Investment Inc., a company with limited liability incorporated in Canada specialising in freon-free technology. |

The Group is principally engaged in a diversified range of businesses mainly in Beijing including the production, distribution and sale of consumer products, investment in infrastructure, provision of retail, tourism services and hotel business and, through its associated company, the production, distribution and sale of telecommunication equipment. The directors believe that the above transactions are in line with the existing business and development strategy of the Group.

## USE OF PROCEEDS OF INITIAL PUBLIC OFFERING

During the period under review, the Company further invested HK$236 million to finance the expansion plan of the Group's existing businesses and acquisitions of certain new business. An aggregate amount of approximately HK$135 million was allocated to BTDC, Sanyuan Food, BISC and Capital Expressway as shareholder's loans to finance their business expansions. In addition, an aggregate amount of approximately HK$101 million was invested in new projects including Beijing Shun Xing, Longqingxia Development and Beijing Greencool. The capital verification procedures for Beijing Shun Xing and Beijing Greencool have been completed while that of Longqingxia Development is in progress.

## CAPITALISATION AND FINANCIAL POSITION

Shareholders' equity increased to approximately HK$5.8 billion while minority interests amounted to approximately HK$1.7 billion as at 30 June 1998, both representing 3% increase over the balances at 31 December 1997. At 30 June 1998, the Group had net cash position (cash minus borrowings) of approximately HK$1.3 billion. At 31 December 1997, the same figure was HK$ 1.6 billion. The Group's borrowings and current ratio stood at HK$988 million and 2 times, respectively at the end of the period under review. Long term bank loans amounted to HK$117 million while short term bank loans amounted to HK$472 million at 30 June 1998 with average interest rates ranging from 1.5% to 11.1%.

As at period end date, the Company had net cash of approximately HK$1.6 billion, substantially all of which was placed as short term Hong Kong dollar deposits with major financial institutions in Hong Kong and overseas. The Company manages the counterparty risks of its financial assets through monitoring credit ratings and limiting the aggregate risk to any individual counterparty while retaining a significant level of liquidity. The cash and borrowings of the subsidiaries were predominately denominated in Renminbi("RMB") with negligible amounts of foreign currency liabilities.

## SIGNIFICANT SUBSEQUENT EVENTS

Subsequent to the period end date on 13th July, 1998, the Company entered into three agreements with Beijing Municipal Water Company ("BMWC"):

1. the Concession Agreement under which BMWC will grant an operation concession to the Company for a Concession Fee of RMB1,500 million (about HK$1,401 million) to operate water purification business at the Concession Facilities for a term of 20 years, and BMWC will pay to the Company an amount of not less than the Minimum Income per annum, which represents a 14% annual return on investment, after deducting the state and local taxes payable by the Company in the PRC in respect of the operation of the Concession Facilities.

2. The Supply and Purchase Agreement under which BMWC will supply raw water to, and purchase purified water from, the Company for a term of 20 years commencing from the effective date of the Supply and Purchase Agreement, and

3. the Operation and Maintenance Agreement under which the Company will engage BMWC to operate the Concession Facilities and provide maintenance services to the Concession Facilities for a term of 20 years commencing from the effective date of the Operation and Maintenance Agreement.

| | |
|---|---|
| "Concession Facilities" | the Phase I of No. 9 Water Treatment Plant wholly owned by BMWC |
| "Minimum Income" | the minimum annual net cash income of RMB210 million (about HK$196.26 million) |

The water treatment business to be acquired will enlarge the earnings base of the Group and generate stable recurrent income and cash flow to the Group.

A transferable loan facility was arranged for US$165 million with final maturity falling on the end of three years from the signing date (2nd September, 1998). As part of its prudent financial management, the Group is considering adequate hedging instruments to reduce foreign exchange and interest rate risks when undertaking foreign currency loans.

## DEVELOPMENT STRATEGY AND PROSPECTS

During the period under review, the Group has steadfastly maintained its strategic direction aiming at developing itself into a well-managed conglomerate in China and Hong Kong SAR. Despite the current challenging operating environment and volatile financial markets, the Company is confident in its long-term growth potential in the Asia Pacific Region.

Operationally and financially, the Company is prepared for a prolonged slow down in Asian economy. Despite difficulty in achieving short-term earnings per share growth target, the Group is reviewing several strategic initiatives to cope with depression in the tourism and retail sectors. Steps will be taken to keep the momentum of the brewery and telephone switching system manufacturing operations and maintain a stronger cash flow situation derived from the infrastructure assets in China.

In addition to the new investment projects outlined above, the Company will take advantage of its solid financial position and continue to seek opportunities to expand earnings base by focusing on its existing business sectors with specific emphasis on technology investments. At the same time, the Company is determined to further its drive in optimising management structure of the Group in line with conservative financial and corporate governance disciplines. As the Company believes that its performance relies largely on the quality and depth of the management team, it will continue to enhance its management and corporate culture, with the ultimate goal in maximizing long-term shareholders' value.

## YEAR 2000 COMPLIANCE

The Group's Year 2000 compliance programme involves the testing and upgrading of all production, operational and the related systems including computer hardware, system software and application software. The Company is aiming at completing its programme by June 1999. The overall progress of the programme is closely monitored by the Company's executive committee and specific funding requirement has been arranged. The Group's Year 2000 compliance programme includes the following procedures:

(i) Inventory taking of all potentially-date-dependent information technology and facilities assets.

(ii) Evaluation of significant outside dependencies which are vulnerable to Year 2000 disruption.

(iii) Contingency plan to deal with possible business interruptions caused by key vendors, suppliers or customers.

(iv) Developing a test strategy for Year 2000 modifications.

(v) Contingency business recovery plan in the event of critical system failure.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30th June, 1998, the interests of the directors or their respective associates in the equity securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) which are required to be notified to the Company or the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules or which are required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein were as follows:

**(i) Interests in shares**

| Name | Nature of interest | Name of associated corporation | Number of shares held |
|---|---|---|---|
| Zheng Wan He | Personal | Beijing Wangfujing Department Store (Group) Co., Ltd. | 34,650 |
| Li Fu Cheng | Personal | Beijing Yanjing Brewery Company Limited | 12,000 |

### (ii) Interests in share options

Under the Company's share option scheme, options to subscribe for Shares in the Company have been granted to certain directors of the Company:

| Name of Director | Number of Shares comprising the options granted *Note (a)* | *Note (b)* |
|---|---|---|
| Mr. Hu Zhao Guang | 400,000 | 3,600,000 |
| Mr. Guo Ying Ming | 300,000 | 2,700,000 |
| Mr. Bai Jin Rong | 240,000 | 2,160,000 |
| Mr. Xing Chun Hua | 240,000 | 2,160,000 |
| Mr. Zheng Wan He | 200,000 | 1,800,000 |
| Mr. Wei En Hong | 200,000 | 1,800,000 |
| Mr. Li Fu Cheng | 200,000 | 1,800,000 |
| Mr. Cong Shi Jie | 200,000 | 1,800,000 |
| Mr. Qiao Yu | 200,000 | 1,800,000 |
| Mr. Li Zhong Gen | 200,000 | 1,800,000 |

*Notes:*

(a) The options were granted on 3rd March, 1998 at an exercise price per Share of HK$17.03. The options can be exercised at any time in the next ten years commencing on 1st September, 1998. Accordingly, no part of the share options was, or could have been, exercised since the date of grant.

(b) The options were granted on 23rd June, 1998 at an exercise price per Share of HK$17.03. The options can be exercised in 9 equal portions. The first portion will be exercisable commencing on 1st January, 1999, and one additional portion will become exercisable on 1st January in each of the following years. Accordingly, all of the options (to the extent not being exercised) will be exercisable on 1st January, 2007 and will lapse on and after 31st December, 2008 and no part of the share options was, or could have been, exercised since the date of the grant.

Save as disclosed above, none of the Directors of the Company or their associates has any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June, 1998, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register of interests required to be maintained by the Company pursuant to section 16(1) of the SDI Ordinance:

| **Name** | **Number of shares** | **%** |
|---|---|---|
| Beijing Enterprises Investments Limited | 414,000,000 | 66.51 |
| Beijing Holdings Limited *(Note 1)* | 423,861,000 | 68.09 |

*Note:*

(1) Beijing Enterprises Investments Limited is held indirectly as to 50.37% by Beijing Holdings Limited. Accordingly, Beijing Holdings Limited is deemed to be interested in Shares owned by Beijing Enterprises Investments Limited.

Save as disclosed above, the Directors are not aware of any other persons who, as at 30th June, 1998, were directly or indirectly interested in 10% or more of the nominal value of the issued share capital of the Company.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

## CODE OF BEST PRACTICE

None of the directors is aware of any information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out in Appendix 14 to Rules Governing the Listing of Securities on The Stock Exchange during the period under review.

By order of the Board
**Hu Zhao Guang**
*Chairman*

Hong Kong, 7th September, 1998