Container handling operation

As one of the main contributors in providing the Group with stable and substantial recurring income streams for the expansion of infrastructure portfolio, the Group's container handling business reported growth in both net turnover and profit attributable to shareholders. Turnover increased 16% to reach HK$233 million as compared to HK$200 million in 2000. Profit attributable to shareholders was approximately HK$48 million, representing an increase of 26% over last year.

Despite of the operational disruptions caused by the Phase II of redevelopment work, the efficiency of the Container Company has been improved by modernizing the loading equipments and technology. During the year, the total number of containers handled recorded a 10% growth to 900,066 TEUs.

To cope with the strategic plan of Tianjin Port to facilitate the deepwater channels, the redevelopment work of the container berths was completed in September 2001. The container terminals are upgraded and are capable of handling the sixth generation container vessels with a maximum handling capacity to 1.6 million TEUs. Synergized with China's accession to WTO on the horizon, the container handling business is prepared for an era of substantial growth.

MANAGEMENT DISCUSSION AND ANALYSIS

INFRASTRUCTURE OPERATIONS

Stevedoring operation

The net turnover and profit attributable to shareholders amounted to approximately HK$247 million and HK$9 million respectively, representing a setback in performance by about 5% and 61% respectively over 2000. During the year, the total throughput was increased by 5% to 9.58 million tonnes.

Affected by the Tianjin Port's plan of "transportation of northern coal to the south" for environmental protection, loading service of coke was gradually moved to Nanjiang port area. The plan has a significant adverse impact on the business of the Second Stevedoring Company. During the year, the volume mix of coke handled in term of tonnages decreased from 49% to 44% as compared to the last year. In order to compensate the future loss of revenue in coke handling business, a tectonic shift in handling services is carried out in early 2002. Two existing cargo terminals will be transformed into container berths which enable the Second Stevedoring Company to have the capability of handling containers in the future. The Second Stevedoring Company has decided to build more grain storage tanks to complement the future development of Tianjin Port.

Road operation

The significant and steady contribution from road operation continues to be one of the major profit generators of the Group. Net turnover and profit attributable to shareholders amounted to approximately HK$216 million and HK$54 million respectively, representing an increase of 7% and a decrease of 22% over 2000 respectively.

Average daily traffic flow is steadily increased from 18,000 vehicles in 2000 to 21,000 vehicles in 2001 and records a healthy growth of 16%.

Despite the growth of net turnover and average daily traffic flow in year 2001, profit contribution was suffered from increasing road maintenance costs and finance costs incurred during the year. In addition, the contribution of road operation was also affected by the transfer of approximately 6.1% equity interests to the other joint venture partner, revising the profit sharing percentage of the Company from 90% to 86.7% with retrospective effect from 1st January 2001.

In order to embark on quality investments and enhance the shareholders' value, potential projects in this segment are currently under review by the Group. One recent case under consideration is the acquisition of Jinbin Expressway so as to strategically attract more traffic and broaden the existing toll fee network.

MANAGEMENT DISCUSSION AND ANALYSIS — CONSUMER PRODUCTS

Winery operation

The Group's winery operation continues to report a strong performance, with net turnover at approximately HK$532 million and profit attributable to shareholders at approximately HK$68 million, representing 9% and 10% increase over 2000 respectively. Growth was mainly driven by sales volume (from 23.1 million bottles in 2000 to 28 million bottles in 2001), with 20% improvement, on the back of strong sales performance of dry red wine which contributes to over 76% of the sales mix.

Dynasty continues to maintain the highest sales volume in PRC grape wine market since 1998, representing four years continual achievement, certified by the State's Statistics Bureau Information Centre. It has also been awarded the second prize of the State's Science and Technological Advancement Award by The Ministry of Science and Technology, PRC for year 2001. Being the only wine producer receiving the honor, Dynasty is focusing on advanced technology to produce high quality winery products and create an international brandname on Dynasty's winery products.

With the introduction of automatic bottling line during the year, the overall productivity has been improved. The actual production volume has been increased from 18,000 tonnes in 2000 to approximately 20,000 tonnes in 2001.

To pave the way for the successful entry into the WTO, Dynasty targets to secure its market position by strengthening the grape bases. The management is well aware of the increasing reliance on the local supplies of grapes for producing red wines. To safeguard the quality of the local grapes and unfinished wine, increasing efforts will be placed to monitor and supervise the harvesting and vinification processes.

Looking forward, Dynasty plans to upgrade the product quality by building wine cellars and workshop with an area of over 10,000 square metres for developing vintage wine and the ultimate goal of which is to compete with foreign imports in the post-WTO period.

Gas fuel supply operation

Wah Sang Holdings maintained its leading position in providing piped gas for small and medium sized cities in the PRC. Profit attributable to the Group amounted to approximately HK$32 million for the year 2001, representing 1.7 times increase over the last year.

Following the disposal of 50 million shares by the Group in November 2001 and the dilution of equity interests in various share placements of Wah Sang Holdings during the year, the Group recorded remarkable gains of approximately HK$50 million on the deemed disposals and partial disposal of Wah Sang Holdings.

Looking ahead, the Group is confident that Wah Sang Holdings will continue to be a high growth utility company with healthy expansion capability.

MANAGEMENT DISCUSSION AND ANALYSIS

ASSOCIATED COMPANIES

Elevator and escalator operations

The consolidated net turnover for OTIS China group in 2001 amounted to approximately HK$1,749 million, representing a 15% growth over 2000. Profit attributable to shareholders amounted to HK$19 million, representing a 280% increase over the last year.

Following the business restructuring of OTIS China in 2000 to consolidate manufacturing operations of OTIS group in China, the business of OTIS China Group is recovered. OTIS China became one of the major elevator and component sourcing factories of OTIS group in Asia Pacific. With better strategic planning and specialization among the OTIS group companies, efficiency can be further enhanced which led to better returns to the shareholders.

STRATEGIC INVESTMENTS

Property development operations

Tianjin Gang Ning is strategically positioned by the Group to pursue its property business. Net turnover recorded a 254% increase to about HK$92 million in 2001 and profit attributable to shareholders was HK$3 million compared to loss of HK$2 million in the last year.

Up to the year end, a total of 476 flats, representing approximately 36% of the total saleable areas, have been sold.

Bio-pharmaceuticals operations

The Group always strives to attain new heights by venturing into new business arenas. Our bio-pharmaceuticals initiatives, a new focus of development in recent years, are led by China Walfen Medical Limited, a joint venture with Walfen Scientific L.L.C. of the U.S., to develop a patented medicine, "M-Lexidronate", for treatment of bone cancer.

The Group believed that the bio-pharmaceutical industry is a promising and dynamic field with huge untapped potential. The Group will continue to give full support to this business by providing resources for its research and development.

Trading operations

Net turnover fell to HK$171 million in 2001, representing a 50% reduction over the last year. Loss attributable to shareholders was approximately HK$40 million, a drastic increase against the last year's loss of HK$9 million. This is mainly due to the provisions made against trade debtors' balance during the year.

LIQUIDITY AND CAPITAL RESOURCES ANALYSIS

As at 31st December 2001, the Group's cash on hand and total bank borrowings stood at about HK$1,506 million and HK$1,455 million respectively (2000: HK$1,296 million and HK$1,561 million respectively).

The gearing ratio as measured by total bank borrowings to shareholders' funds is about 43% in 2001, compared to a high gearing at about 50% in 2000. The Group continued to finance its business with liabilities appropriate to their cash flows, employing limited or non-recourse project finance when it is available.

Maturity Profile

To manage the risks associated with the everchanging market environment, the Group pursues a funding strategy of substantially matching the terms of its debt with the terms of its investment.

Interest Rate Profile

Majority of the Group's total debts in Hong Kong are on a floating rate basis, whilst fixed rate borrowings mainly related to the RMB loan facilities. With a large portion of floating rate debts, the interest outlay is set to drop in line with the falling interest rate.

Currency Profile

Since over 80% of the Group's revenue was derived from PRC operations, the Group limits its currency risk in Renminbi by financing operations locally. Major projects such as Eastern Outer Ring Road project, transformation works carried out in stevedoring project and Gang Ning property development project are mainly financed by Renminbi borrowings.

Interest Cover

The operating profit before financing/interest expenses for the year 2001 was 3.5 compared to approximately 3.7 in 2000. The decrease is mainly due to the full year's impact on debt financing amount in 2001 and offset by the decrease in market interest rates.

CONTINGENT LIABILITIES

As at 31st December 2001, the following assets have been pledged to its bankers to secure banking facilities granted to the Group:

(i) Ring road with a net book value of HK$1,829 million (2000: HK$1,873 million);

(ii) Group's interests in a listed associated company; and

(iii) Bank balances amounting to about HK$26 million (2000: HK$30 million).

EMPLOYEE AND REMUNERATION POLICIES

The Company and its subsidiary companies, together with its associated companies and jointly controlled entities, had a total of approximately 8,500 employees at the end of the year, of which about 2,600 were management and technical staff, with the balance production workers.

The Group contributes to an employee pension scheme established by the Tianjin Municipal People's Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group in the People's Republic of China. The Group also contributes to a mandatory provident fund scheme for all Hong Kong employees. The contributions are based on a fixed percentage of the members' salaries.