Management Discussion and Analysis

In the challenging year 2002, the Group continues to expand its core businesses by way of acquisitions, spin-offs and restructurings. The Group is committed to build a sound business that can offer promising returns to its shareholders.

Turnover for the year totaled HK$1,745 million, an increase of 17% over 2001, reflecting the increased turnover in all core businesses. Profit attributable to shareholders totaled HK$186 million, an increase of 7% compared to 2001. Except for stevedoring operations where redevelopment programs have caused operational disruptions, all the other core businesses reported growth in profit over last year.

An analysis of the results of the Group by principal activities is set out as follows:

INFRASTRUCTURE OPERATIONS

Road Operation

Road operation remains to be one of the most profitable segments and contributes to be a stable return and cashflow to the Group. Net turnover and profit attributable to shareholders amounted to approximately HK$261 million and HK$81 million respectively, representing an increase of 21 % and 50 % over 2001 respectively.

As a result of economic growth, improving living standard in Tianjin and the management efforts of implementing stringent measures in monitoring the traffic leakage, average daily traffic flow is increased from 21,000 vehicles in 2001 to 25,000 vehicles in 2002, records a growth of 19%.

According to the latest report from Tianjin Construction and Administration Committee, Tianjin city has the highest expressway network density among the other cities in the PRC. Studies also showed that the development of road network provides synergy for economic expansion. As one of the important trade and industrial hubs of Northern China, foreign investors find Tianjin a strategic location for development, this create opportunities for expansions in road business.

During the year, the Group invested in minority interest in Jinbin Expressway and strategically captured the road expansion opportunities and broadened the existing toll fee networks.

Container handling operation

Benefited from the growth of foreign and domestic trade in the PRC, the Group's container handling business reported both increments in net turnover of 33% to HK$309 million and profit attributable to shareholders of 44% to approximately HK$69 million.

During the year 2002, the Container Company achieved a handling volume of 1,138,668 TEUs, representing an increase of 27% over 2001. Supported by the upgraded container berths and the ancillary equipments, together with the improved information system of Tianjin Port, the quality and efficiency of handling services have been greatly improved.

With the upgraded container terminals and modernized equipments, the expanding operating capacity and enhanced competitive capability enable the Container Company to improve operational efficiencies.

Stevedoring operation

The net turnover of the Second Stevedoring Company for the year amounted to HK$261 million, an increase of 6% over 2001. Loss attributable to shareholders for the year was about HK$19 million, compared to a profit of HK$9 million recorded in 2001. During the year, the total throughput was 10.01 million tonnes, representing an increase of 5% over last year.

The redevelopment program to transform the two existing cargo terminals into container ports was completed in October 2002. Following the transformation, certain assets and equipments with a total of about HK$24 million have been written off, resulting a decline of profit in the year. Facing the operational disruptions and trade restrictions on the imported grain, the Second Stevedoring Company strove to minimise the negative impacts by adjusting the volume mix and restructuring ports operations. In 2002, the volume mix of construction materials, chemicals and minerals in term of tonnages increased from 11% to 20% as compared to the last year.

CONSUMER PRODUCTS

Winery operation

The Group's winery operation continues to report a strong performance in 2002. The net consolidated turnover and consolidated profit attributable to the Group amounted to approximately HK$622 million and HK$69 million respectively, representing 17% and 1% increase over 2001. Sales volume increased from 28 million bottles to 33 million bottles, with an increment of 18%. Dry red wine continues to contribute over 80% of the sales mix.

As a result of the intensified market competition, Dynasty incurred over HK$100 million promotional expenses in the year to enhance the product brandnames and explore potential markets. Dynasty continues to achieve the fifth years continual awards in maintaining the highest sales volume in PRC grape wine market since 1998, certified by the State's Statistics Bureau Information Centre. To maintain its well-established position in the PRC winery sector, Dynasty continues to emphasize on the quality control and orient the customers' market.

As a stepping stone for future expansion in the western zone of the PRC market, Dynasty invested in a high-class unprocessed wine production plant in Ningxia in August 2002. In addition, the plan to develop vintage wine by building wine cellars and workshop will be started in year 2003.

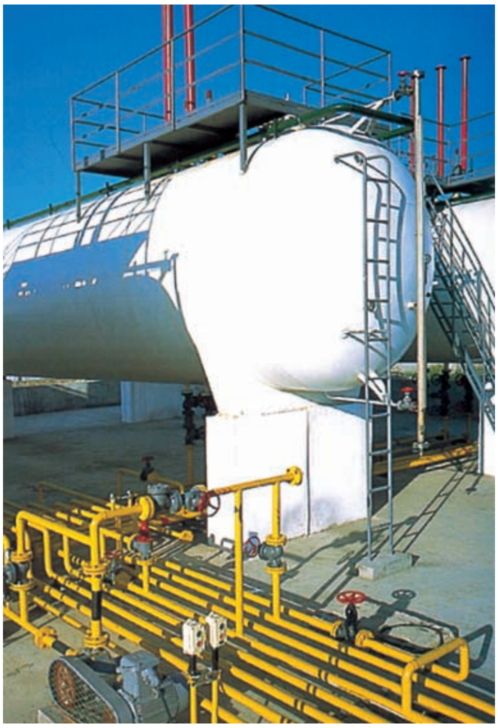
STRATEGIC INVESTMENTS

Gas fuel supply operation

With unique patented technology, solid industry experience and a visionary management team, Wah Sang Holdings is well equipped to become a high growth utility company with healthy expansion capability and stable future income. Profit attributable to the Group amounted to approximately HK$49 million for the year 2002, representing a 53% increase over last year.

As a consequence of the disposal of 40 million shares in May and the dilution of equity interests in the year, the Group recorded a gain of approximately HK$25 million.

Looking ahead, the Group is confident that Wah Sang Holdings will continue to post strong growth in the future and bring highest yields to its shareholders.



Elevator and escalator operations

The consolidated net turnover for OTIS China group in 2002 amounted to approximately HK$1,934 million, representing a 11% growth over 2001. Profit attributable to shareholders amounted to HK$39 million, representing a 105% increase over last year.

OTIS China will continue to strengthen its business, increase its market share and plan to be the largest elevator and escalator manufacturer in the PRC. With better strategic planning and specialization among the OTIS group companies, efficiency can be further enhanced which led to better returns to the shareholders.

Property development operations

Tianjin Gang Ning is strategically positioned by the Group to pursue its property business. Net turnover recorded a 48% increase to about HK$136 million in 2002 and profit attributable to shareholders was HK$2 million, representing a decrease of 33% over last year.

Up to the year end, a total of 851 flats, representing approximately 47% of the total saleable areas, have been sold.

Bio-pharmaceuticals operations

During the year, "M-Lexidronate", the patented medicine of Walfen is still in the clinical trial. The Group believes 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 in 2002 amounted to HK$156 million, representing a decrease of 8% over last year. Loss attributable to shareholders was approximately HK$55 million, a 38% increase compared to HK$40 million loss incurred last year. This is mainly due to the provisions made against trade debtors' balance during the year.

LIQUIDITY AND CAPITAL RESOURCES ANALYSIS

As at 31st December 2002, the Group's cash on hand and total bank borrowings stood at about HK$1,079 million and HK$1,694 million respectively (2001: HK$1,506 million and HK$1,455 million respectively) of which HK$493 million bank borrowings will be matured in 2003.

The gearing ratio as measured by total bank borrowings to shareholders' funds is about 48% in 2002, compared to a gearing at about 43% in 2001. 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 90% 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 2002 was 3.6 compared to approximately 3.5 in 2001. The slight increase is mainly due to the decrease in market interest rates.

CONTINGENT LIABILITIES

As at 31st December 2002, 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$1,781 million (2001: HK$1,829 million); and

(ii) Bank balances amounting to about HK$17 million (2001: HK$26 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 7,700 employees at the end of the year, of which about 2,500 were management and technical staff, with the balance were 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.