

## » Management Discussion and Analysis

### INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK4.6 cents per share in cash for the six months ended 30th June 2004 to shareholders whose names appear on the Register of Members of the Company on 15th October 2004.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 8th October 2004 to 15th October 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Registrar, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on 7th October 2004.

### REVIEW OF OPERATIONS

	Turnover		Profit Attributable to Shareholders	
	Six months ended 30th June 2004	2003	Six months ended 30th June 2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Toll road	93,707	131,546	464,623	54,234
Container handling	198,318	182,753	47,875	46,532
Cargo handling	171,703	145,230	7,019	(16,330)
Winery	401,131	306,661	71,862	53,995
Property development	202,805	61,991	1,807	483
Trading	—	67,398	—	(22,444)
Elevator and escalator	—	—	26,765	19,380
Gas fuel supply	—	—	—	19,882
Others	—	—	(286)	716
Net corporate expenses	—	—	(29,474)	(30,092)
	<b>1,067,664</b>	895,579	<b>590,191</b>	126,356

## (1) Infrastructure Operations

### a. Toll Road Operations

For the six months ended 30th June 2004, toll road operations achieved a record high profit attributable to shareholders of HK\$464,623,000, which includes a profit after tax and minority interests on the transfer of Income Receiving Right of HK\$428,216,000. Following the completion of this transfer, basic operating income would no longer be received and toll revenue became the major source of revenue for the toll road operation. As a result, the turnover dropped by 29%.

The turnover of 2004 represented toll revenue of HK\$93,707,000, as compared to 2003 turnover including toll revenue of HK\$61,465,000 and basic operating income of HK\$70,081,000. The turnover from toll revenue increased by 52% over the comparable period of 2003 mainly due to the increase in traffic flow of Eastern Outer Ring Road and the consolidation of Jinbin Expressway acquired in late 2003.

Eastern Outer Ring Road reported an increase of 7% over last comparable period in average daily traffic flow to approximately 28,300 vehicles. The surge in traffic flow benefited from the change in toll collection mode that speeded up the traffic flow in the urban areas of Tianjin. Jinbin Expressway's average daily traffic flow for the period was approximately 11,800 vehicles, representing a 9% increase over the first half of 2003 which reflects a pressing traffic demand accompanied by the rapid economic development in the New Coastal Area of Tianjin.

As part of our strategy, the Group is continuing to explore the possibility of spin-off of its toll road operations.

b. *Container Handling and Cargo Handling Operations*

Container Company's turnover and profit attributable to shareholders amounted to HK\$198,318,000 and HK\$47,875,000 respectively, representing 9% and 3% increase over the comparable period in 2003. During the period, the total number of containers handled reached 795,000 TEUs, representing a growth of 18% over the comparable period in last year.

Amid the continuous economic development of Tianjin, the container import and export business has achieved double-digit growth in 2004. With the encouragement of the Tianjin Municipality to develop logistic services, as well as the full operations of the upgraded berths and ancillary facilities, the Container Company is well-prepared to capture the expected increasing business opportunities and to actively seek for further development.

The turnover of the Second Stevedoring Company for the period amounted to HK\$171,703,000, representing an 18% increase over the comparable period in last year. Profit attributable to shareholders for the first half of 2004 was approximately HK\$7,019,000, compared to a loss attributable to shareholders of HK\$16,330,000 for the comparable period in 2003. During the period, the total throughput increased from 7.26 million tonnes in 2003 to 10.60 million tonnes in 2004.

During the period, the container handling service for the small to medium vessels introduced in 2003 recorded a throughput of 119,000 TEUs. This new line of business has enhanced the competitiveness and is expected to continue improving the profitability of the Second Stevedoring Company.

## (2) Consumer Products Operations

### *Winery Operation*

During the period under review, turnover and profit attributable to shareholders amounted to approximately HK\$401,131,000 and HK\$71,862,000 respectively, representing 31% and 33% increase over the same period in last year. Sales volume rose to 20.9 million bottles, representing an increase of approximately 30%. Dry red wine continued to contribute over 80% of the sales mix.

As the retail markets in the Chinese Mainland has recovered from the adverse effect of SARS, the sales in the first half of 2004 rebounded significantly. The Company will continue to leverage the brand strength of DYNASTY by launching new products to suit the customers' needs.

An application for the separate listing of the winery operation on the Main Board of the Stock Exchange was submitted in August 2004. The Board believes that the proposed spin-off will enable the management teams of the Group and Dynasty to become more focused on their respective business areas, thus allowing both of them to gain operational efficiency and expedite their business development. The Board also believes that the proposed spin-off will also allow Dynasty to establish a higher profile as a separate listed entity with the ability to access the debt and equity capital markets to fund the development and expansion of its business. In addition, the separate listing will allow Dynasty to achieve its valuation potential which in turn will be beneficial to the shareholders of both the Company and Dynasty as a whole.

## (3) Property Development Operation

The turnover of the Group's 51% owned subsidiary, Tianjin Gang Ning, was about HK\$202,805,000, compared to HK\$61,991,000 over the corresponding period in 2003. During the period under review, profit attributable to the Group amounted to HK\$1,807,000, compared to HK\$483,000 recorded in the same period of last year. Up to the period end, a total number of 2,102 flats, representing approximately 91% of the total saleable areas, were sold.

The Group acquired the remaining 49% equity interest in Tianjin Gang Ning in March 2004 and the transaction was completed in early July 2004. Tianjin Gang Ning became a wholly owned subsidiary of the Group through which the Group will be able to penetrate into the property market of Tianjin and possibly other locations in the Chinese Mainland.

#### **(4) Trading Operation**

The trading group was disposed to Tsinlien in June 2003.

#### **(5) Strategic Investments**

##### *a. Elevator and Escalator Operation*

With the reorganisation undergone in the last quarter of 2003 to rationalise the operation in China, OTIS China group which is accounted for as an associated company has achieved significant growth in 2004. Despite the decrease of the Group's proportionate interest in OTIS China group, the contribution to the profit attributable to shareholders by OTIS China group amounted to HK\$26,765,000, representing a 38% increase over the comparable period in 2003.

##### *b. Gas Fuel Supply Operation*

The results of Wah Sang, an associated company of the Group, were not equity accounted for in this interim accounts for the six months ended 30th June 2004.

As at the date of this interim accounts, the announcement of the third quarterly results of Wah Sang for the nine months ended 31st December 2003 and the results for the year ended 31st March 2004 were further delayed. The trading in the shares of Wah Sang remained suspended since 6th April 2004 as directed by the SFC which is continuing its enquiry. For the preparation of the Group's interim accounts for the six months ended 30th June 2004, since Wah Sang is unable to release its updated financial information and with the outcome from the enquiry by the SFC pending, it is not practicable to estimate the financial impact that may have on the

Group at this stage. However, as Wah Sang is continuing its normal operations, the directors of the Company are of the view that the impairment to the carrying value of the Group's investment in Wah Sang is unlikely to have a material negative impact on the financial position of the Group taken as a whole.

As at 30th June 2004, the Group held 22.79% equity interests in Wah Sang, with book value of approximately HK\$158 million together with goodwill of HK\$43 million previously written off against reserves.

## PROSPECTS

Looking forward to the remaining half of 2004, the austerity economic measures already implemented in the Chinese Mainland will be advantageous for a balanced and healthy development of the domestic economy. By leveraging on the favourable economic development trend of Tianjin, the Group will proactively seek for investment opportunities to strengthen the core businesses. At the same time, the Group will continue to spin off those mature and well-developed businesses in order to realise the implicit value of such businesses and to maximise the return to our shareholders. Strengthening the core businesses and maintaining steady development are the directions for our future development.

I would like to take this opportunity to express our gratitude to our directors and staff for their dedication and hard work and to the investors for their continuous support.

## LIQUIDITY AND CAPITAL RESOURCES ANALYSIS

As at 30th June 2004, the Group's total cash on hand and total bank borrowings stood at about HK\$1,965 million and HK\$1,872 million respectively (31st December 2003: HK\$1,439 million and HK\$2,646 million respectively) of which HK\$187 million bank borrowings will be matured within one year. 3% convertible bonds amounted to HK\$132.6 million (31st December 2003: HK\$140.4 million) will be matured within one year.

The gearing ratio as measured by total borrowings to shareholders' funds is about 44.0% for the period under review, compared to about 69.9% as at the end of 2003.

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Of the total HK\$1,872 million bank borrowings outstanding at 30th June 2004, HK\$959 million was fixed rate debts with annual interest rate ranging from 4.8% to 6.8%. The remaining HK\$913 million of bank loans were subject to floating rates with spread of 0.8% to 0.95% over LIBOR of relevant interest periods.

As at 30th June 2004, 51% (31st December 2003: 65%) of the Group's total bank borrowings were denominated in Renminbi while the remaining portion was denominated in US dollars. As of 30th June 2004, the Group had no material exposure to foreign exchange contracts, interest or currency swap or other financial derivatives.

### **EMPLOYEES AND REMUNERATION POLICIES**

The Company and its subsidiary companies, together with its associated companies, had a total of approximately 10,000 employees at the end of the period, of which about 5,700 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 Chinese Mainland. 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.

### **CHARGE ON ASSETS**

As at 30th June 2004, the following assets have been pledged to its bankers to secure banking facilities granted to the Group:

- (i) Bank balances amounting to about HK\$3 million (2003: HK\$15 million); and
- (ii) Equity interests in certain subsidiaries of the Group.