

Management Discussion and Analysis



Infrastructure Operations

Road operation

For the year 2004, toll road operations achieved a significant increase in profit attributable to shareholders of approximately HK\$481 million (an increase of 345% as compared with the year 2003) which included a profit after tax and minority interests of approximately HK\$442 million on disposal of Income Receiving Right of the Eastern Outer Ring Road during the year. After this one-off payment, basic operating income will no longer be received and toll revenue based on traffic flow volume becomes the principal source of revenue for the toll road operations.

The apparent drop of the turnover by 28% was due to the absence of the basic operating income following the disposal of the Income Receiving Right. The 2004 turnover represented only toll revenue of HK\$208 million, as compared to 2003 turnover which included toll revenue of HK\$149 million and basic operating income of HK\$140 million. The turnover from toll revenue increased by approximately 39% over last year 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 3% over last year in average daily traffic flow to approximately 31,557 vehicles. The increase in traffic flow is benefited from the change in toll collection mode which speeds up the traffic flow. Jinbin Expressway's average daily traffic flow for the year 2004 was approximately 12,974 vehicles, representing a 39% increase over last year. The surge in traffic flow was mainly attributable to the upgrade and expansion work at Zhangguizhuang interchange section completed in the last quarter 2004 and also the pressing traffic demand accompanied by the rapid economic development in the New Coastal Area of Tianjin.

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Port services

For the year ended 31 December 2004, the port operations achieved a container handling volume of 1,808,492 TEUs and a total throughput of bulk cargo of 21.53 million tonnes, representing an increase of 21% and 32% respectively over last year. The Group's port business reported a turnover of HK\$775 million, up 10% against last year and a profit attributable to shareholders of HK\$77 million, representing an increase of 12% over last year.

During the year, HK\$60 million was invested to build a cold food depot and a number of bulk grain depots. This will not only increase the overall bulk cargo handling capacity but also cater for the storage of more varieties of goods. With increasing container volume, 90,000 square metres of land was acquired to enhance the turnaround and storage capability and additional investment in container handling equipments is also anticipated.

Given the emphasis on port and logistics services by the Tianjin Municipality, the Group is optimistic to improve the profitability of its port operations through enhancement in operational efficiency.

Utility Operations

As part of the Group's strategy, Electricity Company and Water Company were acquired in the last quarter of 2004. The Group acquired approximately 94.4% equity interest in Electricity Company and 91.4% equity interest in Water Company for a total consideration of HK\$868 million.

Since the acquisition was completed at the end of November 2004, only one-month results was accounted for. The combined turnover of both the Electricity Company and Water Company was HK\$70 million and profit attributable to shareholders amounted to HK\$4 million.



Electricity operation

Electricity Company is principally engaged in the supply of electricity in the Tianjin Economic-Technological Development Area (TEDA). It also provides services in relation to maintenance of power supply equipment and electric power related technological consulting. Currently, the installed capacity of electricity transmission by Electricity Company was approximately 250,000 kVA. In 2004, the total quantity of electricity sold for the year was approximately 1,189,890,000 kWh, representing an increase of 24% over that of year 2003.

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Water operation

Water Company is principally engaged in the supply of tap water in the TEDA. It is also engaged in installation and maintenance of water pipes, tap water related technological consulting, and retail and wholesale of water pipes and related parts. The daily water supply capacity of the Water Company reaches approximately 180,000 tonnes. In 2004, the total quantity of water sold for the year was approximately 29,840,000 tones, up about 20% against that of year 2003.

Locating at the TEDA with a planned site areas of 33 square kilometers, Electricity Company and Water Company have been enjoying the benefits of rapid economic growth in the TEDA. Leveraging on the established production facilities, management expertise and customer base of Electricity Company and Water Company, the Group believes that the newly acquired utility businesses will broaden the earnings base and provide an excellent growth prospect for the Group's core businesses.

Consumer Products Operations



Winery operation

The fiscal year of 2004 was a remarkable year for our winery operation. We achieved significant growth in both our turnover as well as net profit attributable to shareholders. The consolidated turnover and profit attributable to shareholders amounted to approximately HK\$805 million and HK\$107 million respectively, representing 20% and 70% increase over 2003. Sales volume increased from 32.3 million bottles to 38.9 million bottles, up 21% against last year. Red wine contributed over 90% of the total sales volume. The excellent financial results in 2004 were mainly attributable to the growth of sales volume, improving gross margin and relatively stable distribution costs and general and administration expenses.

In order to expedite the business development of our winery business, Dynasty was spun off on the Main Board of The Hong Kong Stock Exchange Limited in January 2005. This would not only enable the management teams of the Group and Dynasty to become more focused on their respective business areas, but

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also lay a solid ground for the development and expansion of the winery business. The initial public offering of Dynasty was well received among institutional and public investors and in particular, the Hong Kong public offer was over-subscribed by over 600 times. The gross proceeds raised, inclusive of the exercise of the over-allotment option, amounted to approximately HK\$776 million.

With higher profile as a separate listed entity and a strong financial position, Dynasty will continue to expand its production capacity and explore suitable acquisition opportunities which in turn providing better return to the Group and our shareholders.

Strategic and Other Investments



Gas fuel supply operation

For the preparation of the Group's accounts for the year ended 31st December 2004, Wah Sang has yet to release any up-to-date financial information and the trading of its shares remains suspended. The audit of Wah Sang's accounts for each of the two years ended 31st March 2004 and 2005 is currently being carried out by their auditors together with an investigation report which are not yet finalised. Although Wah Sang is continuing its business operations and we expect it to apply for a resumption of trading of its shares as soon as practicable, the directors of the Company are taking a cautious view that this may not happen in the near term. Accordingly, the directors of the Company consider it prudent to set aside at this stage a provision of HK\$120 million for the probable impairment in value of the Group's investment in Wah Sang.



Elevator and escalator operation

With the reorganisation undergone in the last quarter of 2003 to rationalise its 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 amounted to HK\$64 million, representing a 24% increase over last year. The increase mainly reflects the growth at its operation in Hangzhou, as well as the additional contribution after the reorganisation.

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Property development operation

Tianjin Gang Ning is strategically positioned by the Group to pursue its property business. In early July 2004, the Group completed the acquisition of the remaining 49% equity interest in Tianjin Gang Ning which has become a wholly owned subsidiary of the Group. After gaining full control of Tianjin Gang Ning, the Group is considering for new property projects in Tianjin and possibly other locations in the Mainland China.



Bio-pharmaceutical operation

China Walfen, which owns the patented medicine — “M-Lexidronate”, is in the process of applying for relevant approval from the State Food and Drug Bureau (SFDB). During the year under review, China Walfen has introduced an individual shareholder who has the production capabilities and experience in drug production. The Group believes that this can get China Walfen well-equipped for commercial production upon the grant of licence from the SFDB. The bio-pharmaceutical industry is a promising and dynamic field with huge untapped potential. The Group will continue to give full support for the business development of China Walfen.

Trading operation

The trading group was disposed to Tsinlien Group Company Limited in June 2003.

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Liquidity and Capital Resources Analysis

As at 31st December 2004, the Group's cash on hand and total bank borrowings stood at about HK\$1,956 million and HK\$1,803 million respectively (2003: HK\$1,439 million and HK\$2,646 million respectively) of which HK\$331 million bank borrowings will be matured in 2005. 3% convertible bonds amounted to HK\$133 million (2003: HK\$140 million) was matured and fully repaid in April 2005. Loans from a minority shareholder of subsidiaries amounted to HK\$192 million (2003: Nil) which bore interest at the rate of 6.4% per annum and not repayable within one year.

The gearing ratio as measured by total borrowings to shareholders' funds is about 41% at the end of 2004, compared to a gearing at about 70% at the end of 2003. 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.

Of the total HK\$1,803 million bank borrowings outstanding at the end of 2004, HK\$890 million was fixed rate debts with annual interest rate ranging from 4.8% to 6.6%. 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 the end of 2004, 49% (2003: 65%) of the Group's total bank borrowings were denominated in Renminbi while the remaining portion was denominated in US dollars.

Charge on Assets

As at 31st December 2004, the following assets have been pledged to its bankers to secure banking facilities granted to the Group:

- (i) Completed properties held for sale of nil (2003:HK\$70 million); and
- (ii) Bank balances amounting to nil (2003: HK\$15 million).

Employee and Remuneration Policies

The Company and its subsidiary companies had a total of approximately 5,300 employees at the end of 2004, of which about 1,400 were management and technical staff and the balance were production workers.

The Group contributes to an employee pension scheme established by the PRC Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group in the PRC. 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.