

Management Discussion and Analysis

REVIEW OF OPERATIONS

	Turnover		Profit Attributable to Shareholders	
	Six months ended 30th June		Six months ended 30th June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision of port services	410,941	370,021	77,854	54,894
Operation of toll roads	91,306	93,707	19,694	464,623
Supply of utilities	451,321	—	46,560	—
Manufacturing and sales of winery products	149,671	401,131	297,115	71,862
Elevator and escalator	—	—	25,134	26,765
Sales of properties	12,359	202,805	2,151	1,807
Gas fuel supply	—	—	—	—
Net corporate expenses and others	—	—	(66,576)	(29,760)
	1,115,598	1,067,664	401,932	590,191

Infrastructure Operations

Port services

For the period ended 30th June 2005, the port operations achieved a container handling volume of 996,000 TEUs and a total throughput of bulk cargo of 9.2 million tonnes, representing an increase of 9% and decrease of 2% respectively over the corresponding period last year. The Group's port business reported a turnover of approximately HK\$410.9 million, an increase of 11% over the corresponding period last year.

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With enhanced turnaround and storage capability and strengthened logistics management, the profit attributable to shareholders has increased to approximately HK\$77.9 million as compared to HK\$54.9 million of the same period last year. In particular, the Container Company had upgraded their existing equipment, investing in loading equipment of advanced model and installing sophisticated operational software that resulted in an increased level of management and operational efficiency, and effectively lowering some of our costs. In addition, our bulk goods turnover improved as a result of rationalizing the types of bulk cargoes handled, from which we achieve higher unit prices per tonne and therefore higher profitability.

An application for the separate listing of the port operation on the Main Board of the Stock Exchange was submitted on 12th September 2005. The Board believes that the proposed spin-off will allow Port Company 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 Port Company to achieve its valuation potential which in turn will be beneficial to the Company and its shareholders as a whole.

Road Operation

The operating performances of the individual toll roads were mixed for the first half of 2005.

The average daily traffic flow on the Eastern Outer Ring Road has dropped by 20% to 25,287 vehicles during the period. This was mainly due to the measures on tackling the practice of overloading trucks. As a result, the toll revenue generated was reduced by 10% to approximately HK\$62.9 million.

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The Jinbin Expressway, on the other hand, recorded an average daily traffic flow of 15,279 vehicles during the period and generated toll revenue of approximately HK\$28.4 million, representing an increase of 18% and 21% respectively over the same period last year. This was attributable to the economic prosperity of New Coastal Area of Tianjin and its peripheral areas.

For the six months ended 30th June 2005, toll road operations recorded a turnover of approximately HK\$91.3 million and a profit attributable to shareholders of approximately HK\$19.7 million (excluding the gain from the transfer of Income Receiving Right in 2004), representing a decrease of 3% and 13% respectively as compared with the corresponding period last year. The drop in profit was attributable to the combined effect of decline in traffic flow and additional maintenance expenses incurred on the Eastern Outer Ring Road.

Utility Operations

The Group acquired 94.4% and 91.4% equity interest in Electricity Company and Water Company respectively at the end of November 2004. Hence Electricity Company and Water Company had no contribution to the Group in the same period last year.

Electricity Operation

For the six months ended 30th June 2005 the Group's electricity operation reported a turnover of approximately HK\$372.2 million and a profit attributable to shareholders of approximately HK\$26.6 million. The total quantity of electricity sold for the period was approximately 655,000,000 kWh, representing an increase of 20% over the same period last year.

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Water Operation

The Group's Water Operation reported a turnover of approximately HK\$79.1 million and a profit attributable to shareholders of approximately HK\$19.9 million respectively for the first half of 2005. The total quantity of water sold was approximately 15,390,000 tonnes, representing an increase of 10% over the same period last year.

As a result of the increasing activities in the Tianjin Economic-Technological Development Area (TEDA), the demand for utilities are pressing. The Group is confident that the utility businesses will increase earnings contribution and provide an excellent growth prospect for the Group's core businesses.

Consumer Products Operations

Winery Operation

On 26th January 2005, the shares of Dynasty were listed on the Main Board of the Stock Exchange and the Group's interest in Dynasty was diluted from 62% to 44.8%. Accordingly, the result of Dynasty was equity accounted for after its listing.

During the period under review, turnover and profit attributable to shareholders amounted to approximately HK\$511.6 million and HK\$116.9 million respectively, representing 15% and 16% increase over the same period in last year. Sales volume increased from approximately 20.8 million bottles in first half of 2004 to approximately 24.9 million bottles in first half of 2005. Red wine contributed over 95% of total sales volume. The satisfactory financial results in first half of 2005 were mainly attributable to the growth in sales volume and the relatively stable distribution costs and general and administrative expenses.

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In addition to the exceptional gain of approximately HK\$235.4 million arising from the deemed disposal of partial interest in Dynasty, Dynasty contributed to the Group a profit of approximately HK\$61.7 million as compared with approximately HK\$71.9 million of the same period last year. The apparent drop was due to the reduced shareholding of Dynasty as aforementioned.

Strategic and Other Investments

Elevator and Escalator Operation

For the six months ended 30th June 2005, the contribution of OTIS China Group to the profit attributable to shareholders amounted to HK\$25.1 million, more or less the same as the corresponding period last year. The Group believes that the investment in OTIS China Group will continue to bring in sustainable earnings in the future.

Property Development Operation

Up to the period end, approximately 98% of total saleable areas were sold. The Group is considering for new property projects in Tianjin and possibly other locations in the Mainland China.

Wah Sang

Wah Sang had yet to release any up-to-date financial information and the trading of its shares remained suspended. Wah Sang is continuing its business operations and in the process of applying for a resumption of trading of its shares. The directors of the Company took a cautious view that the resumption of trading in Wah Sang's shares might not happen in the near term, and considered the provision of HK\$120 million for the probable impairment in value of the Group's investment in Wah Sang as at 31st December 2004 should be retained in the preparation of the Group's interim accounts for the six months ended 30th June 2005.

PROSPECTS

According to the latest central government plan, the development of Tianjin New Coastal Area (TJNCA) is a very important step of the overall national development strategy. As such, TJNCA becomes the hub of the future economic development of Tianjin.

Being a key area in TJNCA, TEDA has huge development potential. As it is anticipated that TEDA will accommodate more production plants and residential apartments, the Group will increase investment in the Electricity Company & Water Company in order to meet increasing demand for electricity and water supply. On the other hand, the Group will strengthen its core businesses. The Group is actively seeking investment opportunities in TJNCA including infrastructure and utility businesses and projects.

As part of our strategic development, an application for the separate listing of the port operation on the Main Board of the Stock Exchange has just been submitted. The Board believes that the proposed spin-off will accelerate the development and expansion of the port business and accordingly strengthen the future earnings.

Given the strategic focus on Tianjin by the central government, the Group will leverage on its advantage and is posed to benefit from the accelerating business activities.

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.

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LIQUIDITY AND CAPITAL RESOURCES ANALYSIS

As at 30th June 2005, the Group's total cash on hand and total bank borrowings stood at about HK\$1,967 million and HK\$1,759 million respectively (31st December 2004: HK\$1,956 million and HK\$1,803 million respectively) of which HK\$98 million bank borrowings will be matured within one year. The 3% convertible bonds amounted to HK\$133 million (31st December 2004: HK\$133 million) was matured and fully repaid during the period. Loans from minority shareholders of subsidiaries amounted to HK\$358 million (31st December 2004: HK\$192 million) of which HK\$192 million bore interest at the rate of 6.4% per annum and remaining balance was interest free.

The gearing ratio as measured by total borrowings to shareholders' funds is about 38% as at 30th June 2005, compared to about 41% as at 31st December 2004.

Of the total HK\$1,759 million bank borrowings outstanding at 30th June 2005, HK\$706 million was fixed rate debts with annual interest rate ranging from 4.8% to 6.6%. The remaining HK\$1,053 million of bank loans were subject to floating rates with spread of 0.56% to 0.8% over LIBOR of relevant interest periods.

The Group mainly operates in Mainland China and its assets, liabilities, revenue and payments are primarily denominated in Renminbi. As at 30th June 2005, 40% (31st December 2004: 49%) of the Group's total bank borrowings were denominated in Renminbi with the remaining portion in US dollars; whereas the Group's bank balances and cash were substantially denominated in Renminbi.

On 21st July 2005, the People's Bank of China adjusted the exchange rate of Renminbi to US dollars from 8.2765 to 8.1100. The appreciation of Renminbi had a positive financial effect on the Group in terms of the reporting currency which is Hong Kong dollars. There is, however, no significant impact on the Group's businesses as a whole.

For the period under review, the Group has not entered into any derivative contracts or hedging transactions.

EMPLOYEES AND REMUNERATION POLICIES

The Company and its subsidiary companies had a total of approximately 3,700 employees at the end of the period, of which about 690 were management and technical staff, with the balance 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.

CHARGE ON ASSETS

None of the Group's assets are charged or subject to any encumbrance.