

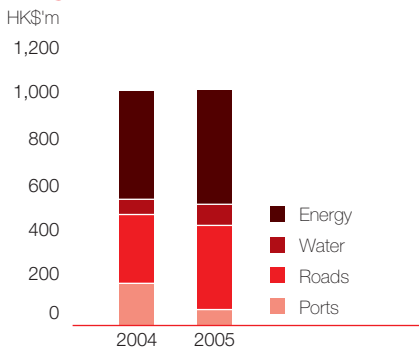
Management Discussion and Analysis

Infrastructure

Operational Review

The strong economic growth in Mainland China and Macau stimulated all businesses relating to energy, water, roads and ports. The Group is well positioned to tap business opportunities in these areas in order to sustain long-term growth.

AOP Contribution by Segment



The overall performance of the Infrastructure division was satisfactory for FY2005 with AOP amounted to HK\$1.010 billion, a slight increase of HK\$4.0 million over last year. The significant decline in the contribution from Ports segment was mainly due to the decline in earnings from Hong Kong port operation caused by the tough operating environment in Hong Kong and partly due to the disposal of CT3 in February 2005.

Energy

AOP of the Energy segment increased by HK\$26.8 million to HK\$489.9 million, up 6% from FY2004.

The combined electricity sales of Zhujiang Power Phase I and II ("Zhujiang Power") increased by only 2% due to a 50-day major overhaul of one of the power generating units. Although electricity demand in Guangdong Province is still surging, soaring coal price hindered profitability. To maintain the profitability of the Energy segment, the Group, through Zhujiang Power, acquired an effective 35% interest in a joint venture in October 2004, which produces and supplies aerated concrete to the Pearl River Delta

AOP Contribution by Segment

For the year ended 30 June

	2005 HK\$m	2004 HK\$m	Change % Fav./Unfav.)
Energy	489.9	463.1	6
Water	80.6	66.3	22
Roads	372.3	291.0	28
Ports	67.4	185.8	(64)
Total	1,010.2	1,006.2	-



Macau Power

The performance of Macau Power was satisfactory with an 11% increase in electricity sales.

region. On 28 October 2004, the Group issued a letter of acknowledgement to the Mainland joint venture partner of Zhujiang Power confirming that the Mainland joint venture partner would be fully responsible for the daily operations of Zhujiang Power and would govern the financial and operating policies of Zhujiang Power. Accordingly, the carrying value of the Group's share of net assets in Zhujiang Power has been reclassified from jointly controlled entities to associated companies on that date.

The performance of Macau Power was satisfactory with an 11% increase in electricity sales and AOP grew as a result of less tax provision being required after a reduction of effective income tax rate in Macau from 15.75% to 12% in FY2005. Sale and purchase agreements were entered into with the Mainland joint venture partner in respect of the disposal of the Group's 60% interest in Sichuan Qianwei Dali Power Company Limited for a consideration of RMB48 million and a loss on disposal of HK\$2.1 million was recognized.

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The increase in AOP was mainly attributable to the full year contribution from a water project in Sanya City, Hainan, a new project in Tanggu, Tianjin that commenced operation in April 2005, and the impressive performance of Zhongshan Water Plants.

Water

The AOP of the Water segment increased by 22% to HK\$80.6 million for FY2005. The increase was mainly attributable to the full year contribution from a water project in Sanya City, Hainan, a new project in Tanggu, Tianjin that commenced operation in April 2005, and the impressive performance of Zhongshan Water Plants. The average daily water sales volume of Zhongshan Quanlu and Dafeng Water Plants increased by 7% and the average water tariff increased by 8%. The Chongqing Water Plant had a remarkable increase of 18% in water sales revenue and also a substantial increase in income derived from water connection works. The average daily water sales volume of Macau Water Plant increased by 3% in FY2005 but AOP contribution dropped due to an increase in the unit price of raw water effective from January 2005. Performance of other water projects in Mainland China was satisfactory while contribution from Far East Landfill Technologies Limited grew by 17% in FY2005.



Qingdao Water Plant

Roads

The AOP of the Roads segment was HK\$372.3 million, an increase of 28% when compared to FY2004.

Performance of projects within the Pearl River Delta region was outstanding. Average daily traffic flow of Guangzhou City Northern Ring Road (“GNRR”) increased by 3% and toll income increased by HK\$46.7 million during FY2005. The opening of the new airport in Guangzhou in August 2004 had positively impacted on the traffic flow of GNRR. However, the positive effect was partly offset by the reduction of toll fare for truck vehicles since 1 June 2005. Average daily traffic flow of Sections I and II of Beijing-Zhuhai Expressway (Guangzhou-Zhuhai Section) increased by 10% and 19% respectively and the overall toll income of both sections increased by HK\$73.1 million. The combined average daily traffic flow of Shenzhen-Huizhou Roadway and Expressway increased by 20%.

During FY2005, the Group contracted three new expressway projects in order to capture the robust economic growth of the Pearl River Delta region. The Group acquired a 15% effective interest in Beijing-Zhuhai Expressway (Guangzhou-Zhuhai Northern Section) in September 2004 and a 25% interest in Guangzhou-Zhaoqing Expressway in April 2005. Furthermore, an agreement to acquire a 25% interest in the Pearl River Delta Ring Road (South-Western Section) was signed in March 2005.

Performance of projects within the Pearl River Delta region was outstanding. During FY2005, the Group contracted three new expressway projects in order to capture the robust economic growth of the region.



Guangzhou City Northern Ring Road



Management Discussion and Analysis

Infrastructure – Operational Review

Performance of the Guangxi Roadways Network was satisfactory with toll revenue increased 10% or HK\$11.2 million over FY2004. Average daily traffic flow maintained at the same level as last year. Although the reduction of toll rate for larger trucks in Guangxi Autonomous Region became effective on 1 January 2005, the toll revenue of the roadways in Guangxi was not seriously affected due to an increase in revenue from passenger vehicles.

Tangjin Expressway (Tianjin North Section) recorded an increase in average daily traffic flow by 13% and toll income by HK\$36.7 million, benefited by the opening of Phase III and the temporary renovation work being undertaken in a competitive highway. As repairs and maintenance works on this expressway had been finished at the end of November 2004, the expenditure incurred in FY2005 reduced substantially.

The increase in the utilization of Wuhan Tianhe Airport boosted the traffic flow of the Wuhan Airport

Expressway. The average daily traffic flow increased by 10% during FY2005. AOP increased significantly when compared to FY2004.

AOP from Tate's Cairn Tunnel decreased slightly by 2% in FY2005 as a result of a decrease in average daily traffic flow by 2% as compared to FY2004. The drop in traffic flow was mainly due to the negative impact arising from the opening of Ma On Shan Rail and the increase in toll rate of the Eastern Harbour Tunnel. The toll revenue of Tate's Cairn Tunnel is expected to increase after its toll increment became effective on 1 August 2005.

Subsequent to the signing of the agreement in principle with the Wuhan party in December 2003 in respect of the disposal of the Group's interests in Wuhan Bridge, the Group signed a formal sale and purchase agreement during the year and recognized a disposal gain of approximately HK\$190.7 million in FY2005.



Beijing-Zhuhai Expressway
(Guangzhou-Zhuhai Section)

Xiamen New World
Xiangyu Terminals



Ports

The AOP of the Ports segment was HK\$67.4 million, a decrease of 64% when compared to FY2004. The AOP of CT3 decreased by 64% as compared to FY2004. The AOP decrease was mainly due to the loss of certain major customers after their contracts expired in 2004, as well as the disposal of our interest in CT3 which was completed in February 2005.

CT8W recorded an Attributable Operating Loss ("AOL") mainly due to additional payroll, overhead and marketing expenses incurred for commencement of operation, depreciation and interest expenses charged upon its commencement of operation in FY2005.

The investments made by the Group in CT3 and CT8W were for long-term purpose. However, in view of the market conditions and business uncertainty of container handling business in Hong Kong and the unsolicited offer by PSA International Pte Ltd ("PSA"), the Group considered the offer was exceptionally attractive and therefore entered into two separate share sale agreements with PSA on 4 February

In view of the market conditions and the business uncertainty surrounding the container handling business in Hong Kong, the Group disposed of its interests in CT3 and CT8W.

2005 to sell its 33.34% interest in CT3 and 31.4% interest in CT8W to PSA at a total consideration of HK\$3.0 billion. The aforementioned disposals were completed on 21 February 2005 and 18 March 2005 respectively. A disposal gain of approximately HK\$1.777 billion was recognized in FY2005.

CSX Orient (Tianjin) Container Terminals Co., Limited ("CSXOT"), operator of four container berths and one coal berth in Tianjin Xingang, contributed an AOP of HK\$26.6 million, a decrease of 20% over FY2004 mainly due to a drop in throughput with the increase in keen competition from newly built terminal. The throughput mix of CSXOT has been gradually shifting from foreign trade to domestic trade and transshipment, which in turn drove down the revenue per TEU and resulted in a lower profitability as compared to FY2004.

Xiamen New World Xiangyu Terminals Co., Ltd. (formerly known as Xiamen Xiang Yu Quay Co., Ltd.) reported an AOP of HK\$26.3 million, an increase of 28% over FY2004. The increase in AOP was mainly due to a 5% volume growth from 603,000 TEUs in FY2004 to 635,000 TEUs in FY2005.

In order to maintain the earning capacity of the Ports segment, the Group entered into an agreement in May 2005 to invest in an 18% interest in Tianjin Five Continents project, which was approved by the relevant government authorities in September 2005. In September 2005, the Group has signed a letter of intent with China Railway Container Transport Corp. Ltd and other independent third parties to set up a sino-foreign joint venture, in which the Group will hold 22% interest, to develop, operate and manage 18 large-scale pivotal rail container terminals in 18 major cities of Mainland China.