

Management Discussion & Analysis





Infrastructure Operations

Port Services

The turnover of port operations increased by 12% from HK\$775.6 million in 2004 to HK\$870.9 million in 2005. The growth in turnover was driven by a 13% increase in our TEU throughput from 1,808,491 TEUs in 2004 to 2,050,052 TEUs in 2005. For the same period, the total throughput of non-containerised cargo slightly decreased by 2% from 18.7 million tonnes to 18.3 million tonnes. The profit attributable to equity holders of the Company increased by 93% from HK\$76.7 million for 2004 to HK\$147.7 million for 2005. Such increase was primarily caused by the increase in the turnover during the same period and improvement of gross profit margin from 43% to 47%.

The Container Company had upgraded their existing equipment, invested in loading equipment of advanced model and installed sophisticated operational software that resulted in an increased level of management and operational efficiency, effectively lowering some of our costs. In addition, our non-containerised goods turnover improved as a result of rationalising the types of cargoes handled, from which we achieved higher unit prices per tonne and therefore better profitability.

An application for the separate listing of the port operations on the Main Board of The Stock Exchange of Hong Kong Limited ("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 in 2005.

The average daily traffic flow on the Eastern Outer Ring Road has dropped by 4% to 30,441 vehicles in 2005. This was mainly due to the measures on tackling the practice of overloading trucks in the first half of 2005 and the diversion of traffic to the city expressway opened in the second half of the year. As a result, the toll revenue generated was reduced by 6.1% to approximately HK\$147.5 million.

The Jinbin Expressway, on the other hand, recorded an average daily traffic flow of 15,974 vehicles in 2005 and generated toll revenue of approximately HK\$62.8 million, representing an increase of 23% and 19% respectively over last year. This was attributable to the economic prosperity of the Binhai New Area of Tianjin and its peripheral areas.

For the year 2005, toll road operations recorded a turnover of approximately HK\$210.3 million, representing an 1% increase over last year. The profit attributable to equity holders of the Company amounted to approximately HK\$47.2 million.



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Utility Operations

As part of the Group's strategy, approximately 94.4% and approximately 91.4% equity interest in Electricity Company and Water Company respectively were acquired at the end of November 2004 and hence only one-month results of Electricity Company and Water Company were accounted for last year.

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 of Electricity Company is approximately 250,000 kVA.

In 2005, the Group's electricity operation reported a turnover of approximately HK\$811.9 million and a profit attributable to equity holders of the Company of approximately HK\$43.0 million respectively. The total quantity of electricity sold for the year was approximately 1,452,480,000 kWh, representing an increase of 22% over the comparable period last year.

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 2005, the Group's water operation reported a turnover of approximately HK\$176.9 million and a profit attributable to equity holders of the Company of approximately HK\$37.0 million respectively. The total quantity of water sold was approximately 34,462,000 tonnes, representing an increase of 15% over the comparable period last year.

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



Strategic Investments

Winery Operation

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

During 2005, sales volume increased from approximately 38.9 million bottles in 2004 to approximately 44.8 million bottles in 2005. Red wine contributed over 95% of total sales volume. The turnover and profit attributable to equity holders of DFWGL amounted to approximately HK\$947.5 million and HK\$179.0 million respectively, representing 18% and 8% increase over the same period in last year. The increase in the profit was mainly attributable to the growth in sales volume which was partially offset by the increase in purchase cost of grape juice, distribution costs and general and administrative expenses.

In addition to the exceptional gain of approximately HK\$235.4 million arising from the deemed disposal of DFWGL, DFWGL contributed to the Group a profit of approximately HK\$87.4 million as compared with approximately HK\$107.4 million last year. The apparent drop was due to the reduced shareholding of DFWGL as aforementioned.

Elevator and Escalator Operation

OTIS China, the associate of the Group, has achieved satisfactory growth in the year. For the year ended 31st December 2005, the contribution of OTIS China to the profit attributable to equity holders of the Company amounted to HK\$72.8 million, representing a 14% increase over 2004.



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The turnover of OTIS China amounted to HK\$5,858.9 million, achieving a 15% increase over 2004. Its profit after tax increased by 13% from HK\$460.9 million in 2004 to HK\$519.7 million in 2005. The growth was attributable to the Mainland China and oversea markets. The Group believes that the investment in OTIS China will continue to bring in sustainable earnings in the future.

Gas Fuel Supply Operation

Wah Sang Gas Holdings Limited ("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.

Bio-Pharmaceutical Operation

China Walfen Medical Limited is a 27% associate of the Group which is positioned as the Group's investment arm in the bio-pharmaceutical industry. The bio-pharmaceutical industry is a promising and dynamic field with huge untapped potential. The Group will continue to give full support to the business development of Walfen.



Prospects

With the approval of the 11th Five-Year Plan of the PRC, the blueprint of national economic and social development for 2006-2010 was endorsed. There will be immense opportunities for the development of Tianjin as the Bohai Rim Region is being regarded as the third power engine for the economic development of the country, following its successful strategy of developing regional economy in the Pearl River Delta in the south and the Yangtze River Delta in the east.

The Bohai Rim Region strategically links up Tianjin, Beijing, Hebei, Shandong, Shanxi, Liaoning and the central part of Neimenggu. As a traditional economic centre in the country's north and a major sea access for the northern provinces, the development of Tianjin will not only boost the growth of the Bohai Rim Region but also that of the northern region. The Group will continue to leverage on its strong position in Tianjin and grasp any valuable investment opportunities in order to provide better return to shareholders.

According to the latest central government plan, the development of Tianjin Binhai New Area is a very important part of the Bohai Rim Region development strategy. As such, Binhai New Area becomes the hub of the future economic development of Tianjin.

Being a key area in Binhai New Area, TEDA has huge development potential. As it is anticipated that TEDA will accommodate more production plants and residential apartments, in order to meet the surging demand for utilities, the Group will increase investment in the existing Electricity Company & Water Company and expand the thermal power operation following its acquisition. On the other hand, the Group will continue strengthening its core businesses. The Group is actively seeking investment opportunities in Bohai Rim Region 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 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.

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 31st December 2005, the Group's total cash on hand and total bank borrowings stood at approximately HK\$2,505 million and approximately HK\$1,826 million respectively (2004: HK\$1,956 million and HK\$1,791 million respectively) of which approximately HK\$169 million bank borrowings will mature within one year. Convertible bonds amounted to approximately HK\$388 million (2004: HK\$133 million) is redeemable at 119.93% of its principal amount of HK\$400 million in 2008. Loans from minority shareholders of subsidiaries amounted to approximately HK\$201 million (2004: HK\$192 million) which bore interest at the rate of 6.4% per annum and have no fixed terms of repayment.

The gearing ratio as measured by total borrowings to shareholders' funds is about 41% at the end of 2005, compared to about 40% at the end of 2004.

Of the total HK\$1,826 million bank borrowings outstanding at the end of 2005, HK\$720 million was fixed rate debts with annual interest rate ranging from 5.0% to 7.7%. The remaining HK\$1,106 million of bank loans were subject to floating rates with spread of 0.52% to 0.8% over LIBOR of relevant interest periods.

As at the end of 2005, 39% (2004: 49%) of the Group's total bank borrowings was denominated in Renminbi, 59% (2004: 51%) was denominated in US dollars and 2% (2004: Nil) was denominated in HK dollars.

Charge on Assets

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

Employees and Remuneration Policies

The Company and its subsidiary companies had a total of approximately 3,800 employees at the end of the period, of which about 810 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.