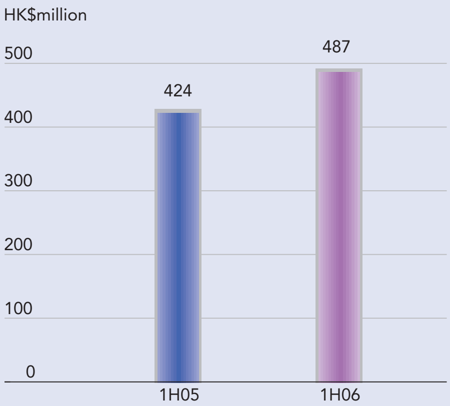
# Management Discussion and Analysis

Our revenue surged by 15% to HK$487 million and profit attributable to equity holders of the Company by 169% to HK$204 million

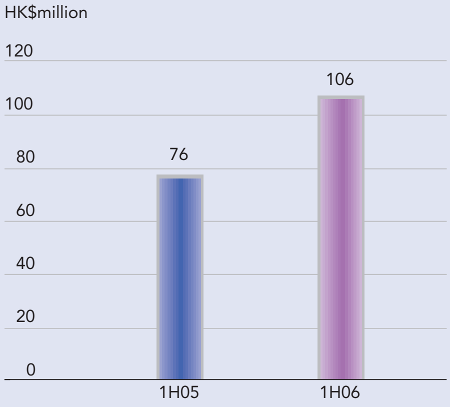
## RESULTS

The Group's unaudited consolidated revenue and profit attributable to the Company's shareholders for the six months ended 30 June 2006 amounted to approximately HK$487.0 million and HK$204.0 million respectively, representing an increase of 14.9% and 169.4% over the same period last year. Basic earnings per share of the Group, on a weighted average basis, were HK$0.16 compared to HK$0.07 in 2005, amounting to a sharp increase of 1.3 times. Excluding the one-off interest income from the subscription proceeds during our Initial Public Offer on 24 May 2006 ("IPO"), the Group's consolidated profit attributable to the Company's shareholders for the first half of 2006 was HK$106.4 million, exceeding that of the prior period by 40.5%.

Revenue




Profit attributable to equity holders of the Company excluding IPO interest income




The Company, in its IPO prospectus dated 12 May 2006 ("Prospectus"), estimated profits for the year 2006 to be HK$189 million. The Group's consolidated results in the first half of 2006 have already exceeded this estimation by approximately HK$15.0 million. This was largely attributed to the one-off interest income from the IPO, and more importantly, the Group's better than expected operational performance.

The Group's encouraging performance was the result of enhanced handling efficiency, improved product mix and effective cost controls. The synergy of these internal improvements alongside the favourable external market environment of robust GDP growth and expanding trade volumes in China, especially in the Bohai region, have greatly benefited the Company.

## INTERIM DIVIDEND

Consistent with the dividend policy stated in the Prospectus, the Board has resolved not to declare an interim dividend for the six months ended 30 June 2006 (six month ended 30 June 2005: nil). On 3 March 2006, the Group declared a special dividend of RMB25 million (equivalent to approximately HK$24 million) to Tianjin Development Holdings Limited, our controlling shareholder prior to the IPO.

## INITIAL PUBLIC OFFER

On 24 May 2006, the Company was successfully listed on the Hong Kong Stock Exchange. The IPO was very well received by both international placement and the Hong Kong public offer.

The Hong Kong public offer resulted in an over-subscription of 1,703 times, breaking the Hong Kong Stock Exchange record for the number of times over-subscription. The amount locked up by the over-subscription was over HK$187 billion. In aggregate, the Company captured about HK$1.26 billion in terms of cash from the capital market.

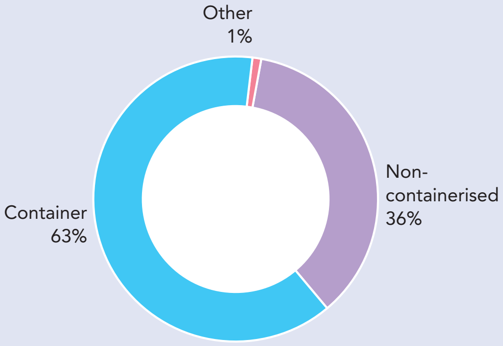
As stated in the Prospectus, the proceeds from the IPO are designated to the new terminal in Beigangchi ("Phase B") project and for the acquisition of land and berths in existing terminals (please refer to the "Significant Investments" section). In July 2006, the Company re-designated HK$88 million to pay for the land and berths, as the capital requirement of the Phase B project was reduced by the same amount. The proceeds used as at the period end date and reporting date were nil and HK$641.2 million respectively.

## REVIEW OF OPERATIONS

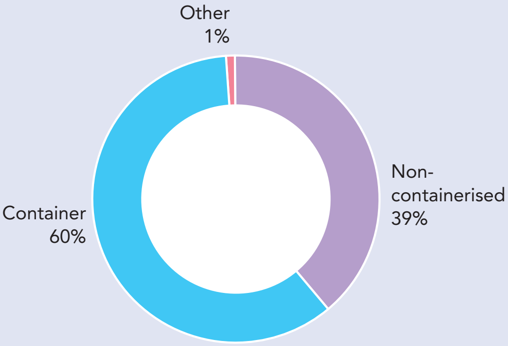
Located in the locus of the Bohai rim, the port of Tianjin has undergone tremendous growth in recent decades, owing in part to the favourable market environment. Total throughput growth is reflected in the compound annual growth rate of trade values for the period from 2000 to 2004 which grew at 25.0%. In 2005, the container throughput volume for the port of Tianjin recorded year on year growth of nearly 26.0%, making it the fastest growing port in the Bohai rim. In the first half of 2006, the container throughput of Tianjin port grew at the rate of 22.2%, reaching 2.78 million TEUs and continues to be the fastest growing port in the Bohai Rim.

The Group's primary business activities are divided between two separate but cohesive segments: the handling of containerised and non-containerised cargo. The Group achieved consolidated gross profit margin of 51.6% compared to 49.9% of the prior period. The main reason contributing the improvement was the change in product mix in which the proportion of the high margin products rose. In the period the percentage of container handling revenue to total revenue has reached 63.1%, while the prior period was only 59.8%. In addition, the proportion of grains revenue to total non-containerised handling revenue of the period has increased to 19.2% (2005: 13.9%).

Revenue for 1H06



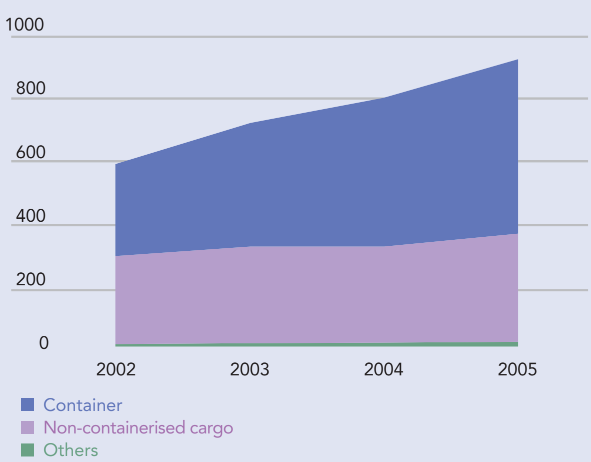

Revenue for 1H05

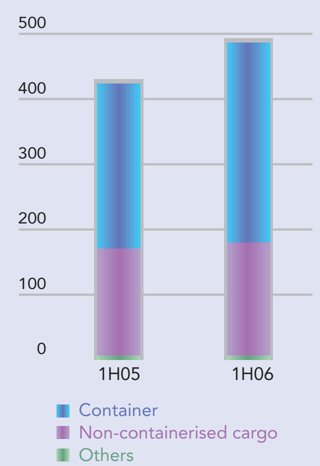


During the Period, the Group's operating margin (excluding one-off interest income in the IPO) was 26.6% and that of the prior period was 21.6%, representing a substantial improvement. Besides, the effect on change of product mix, the improvement in overall profitability of the Group was also resulted from better economies of scale, improvement in operational efficiency and effective cost control measures. The management of the Group is dedicated to continually improving the operating margin of the Group. The percentage of administrative expenses to sales has dropped comparing to the same period last year. A summary of the revenue and throughput by segments are as follows:

| | 2002 | 2003 | 2004 | 2005 | 6/2005 | 6/2006 |
|---|---|---|---|---|---|---|
| **Throughput** | | | | | | |
| Container | | | | | | |
| (thousand TEUs) | 1,139 | 1,491 | 1,808 | 2,050 | 997 | 1,173 |
| Non-container | | | | | | |
| (million tonnes) | 10.0 | 15.2 | 18.7 | 18.3 | 9.3 | 8.1 |

Revenue (HK$ million)



## Container Handling Business

The Group currently operates five wholly-owned container handling berths with a total quay length of 1,590 meters and a designed annual container throughput capacity of roughly 1.92 million TEUs. With advanced equipment such as the Super-Panama class portainers, we are capable of handling the largest container vessels with capacity of up to 10,000 TEUs. During the period under review, the Group also purchased four transtainers and made fully operational a 90,000 square metre container stacking facility previously purchased. Taken together, these expansions have played instrumental roles in enhancing the overall container handling efficiency of the Group.

In line with the compelling throughput growth at the port of Tianjin in the first six months of the year, our container-handling business continued to maintain double-digit growth at 17.7% in terms of throughput volume, achieving a total throughput volume of 1,173,000 TEUs. The increase throughput resulted in a 21.3% increase in revenue to HK$307.3 million and a 25.3% increase in gross profit of the container handling business. Our market share was 42.0% of the Tianjin port in the first half of the year, we are confident that our market share will increase by further streamlining the efficiency at existing terminals and continued investments in new terminals in the long term. The improved profitability was mainly due to better economies of scale and a conscious effort to continually enhance operational efficiency. According to our estimation, currently our portainers are capable of handling an average of 36 containers per hour, compared to 34.4 containers per hour in 2004. This competitive rate ranks us among the most efficient port operators in the country.

## Non-containerised Cargo Handling Business

The Group began its non-containerised operation at the port of Tianjin in 1968. Currently, the Group operates seven wholly-owned deep-water berths with a total quay length of 1,459 metres. The largest berths can dock vessels of over 70,000 deadweight tonnes, making us the largest stevedoring company (in terms of berthing capacity) at the port of Tianjin. The designed capacity of the berths is in aggregate approximately 18 million tonnes. The principal types of non-containerised cargo we handle are grains, steel, coal and other general cargo. Currently, we handle essentially all of the grains imported at the port of Tianjin. In July this year, we spent HK$3.6 million for the addition of two more transtainers in order to improve our handling capacity and efficiency. In August 2006, we established a 39% stake in a steel distribution centre to further penetrate the steel market while increasing total throughput and overall profitability.

During the Period, the Group achieved a throughput volume of 8.1 million tonnes, representing a 13.5% decrease compared to same period last year. However, the revenue for the period under review reached HK$173.5 million, 5.8% above that of the same period last year.

As stated in the Prospectus, owing to environmental reasons, we will completely divest from our coal handling business by end of this year. The significant drop in throughput in the period under review represents the gradual relocation process. Our strategy to cope with the coming cessation of our coal handling business is to improve our product mix, continue the push toward higher unit prices, accelerate the introduction of potential products, and maintain our leading position in the steel and grain sectors.

During the Period, the average unit price per tonne was HK$21.5, compared to HK$17.6 in the same period last year. Owing to the drop in percentage weighting of our coal business, which has the lowest per unit tonnes handling charge, the overall average unit price increased by HK$3.9 or 22.2%. On average the unit price of grains and steel is approximately 3 times and 2 times of that of coal respectively. One of the Group's goals is to further enlarge our market share of the steel cargo sector at the port of Tianjin. We expect prominent progress in the second half of the year after the establishment of our steel distribution centre in August this year. Our grain handling business also realised encouraging results in the first half of the year with 1.1 million tonnes, compare to 0.8 million tonnes in same period last year, representing a growth of 37.0%. As the exclusive grain cargo handling terminal at the port of Tianjin, we will continue to utilise our marketing strength to attract new grain imports. Our strategy to date has been effective in improving the overall profitability of our non-containerised cargo handling business.

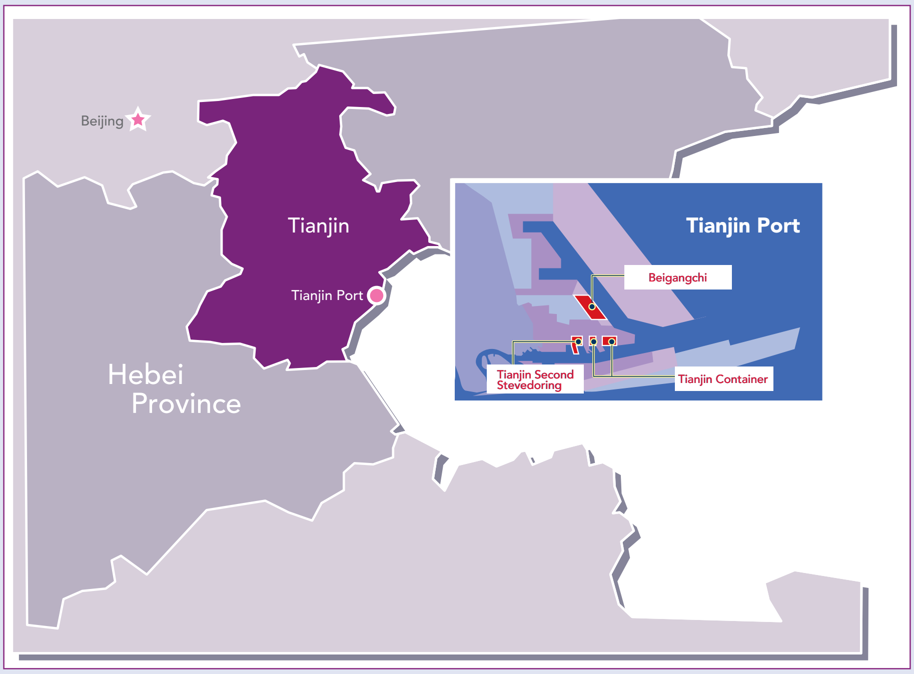
## PROSPECTS

### The Eleventh Five Year Plan

The vibrant growth of the Chinese economy in the past two decades has significantly boosted the development of major ports in the country. The favourable market conditions have largely driven the success of major ports around the Pearl River Delta, Yangtze River Delta and Bohai Bay Areas. In March 2006, the PRC government announced its Eleventh Five Year Plan (the "Plan"), under which the Binhai New District was being included in the State's development strategies and was designated as the third pole of the PRC's economic growth alongside Shenzhen and Shanghai, and the port of Tianjin to be developed into an international shipping hub and a logistics centre for the northern China.

The Plan indicates that over the next five years, a total investment of RMB36.6 billion will be spent on enhancing the infrastructure of the port. It is anticipated that by 2010, the port of Tianjin will have a navigation channel for 250,000 tonnes vessels. The container and non-containerised throughput are targeted to reach 10 million TEUs and 300 million tonnes respectively. At the same time, the Plan will also accelerate the enhancement of the transportation networks connecting Tianjin to its hinterland, which includes plans for the construction of new railroads and highways. The Plan will spark robust GDP and trade values growth in the region and subsequently spur further throughput growth in the port area.

## New Terminal in Beigangchi ("Phase B")



With increasingly attractive margins and investment return in the container handling business, together with the rising rate of containerisation in China and worldwide, the Group plans to focus future investments and development in its container handling business. In order to tap into the growth potential of the Tianjin port, in July 2006, the Company entered into an agreement with COSCO Ports and APMT (please refer to "Significant Investments" section for details) to build a new container terminal in the Beigangchi area (commonly called Phase B) with three berths and a total quay length of 1,100 metres and a design capacity of 1.8 million TEUs. The target completion date is late 2008 or early 2009. Combined with the organic growth of our existing terminals, we expect the total throughput volume to reach 4.5 million TEUs by 2011.

### Enhancement of Existing Terminals

Besides building a new terminal, the Group is committed to continually improving the operating efficiency of existing terminals. We acquired two new Super-Panama portainers in May 2006, which is expected to become fully operational in early 2007. We anticipate throughput growth of the container handling business (excluding the Phase B) to maintain double-digit growth until 2009.

On the non-containerised cargo business side, we are dedicated to continually improving our product structure to achieve higher per tonne unit price and larger profit margins. The steel distribution centre became operational in late 2006, and will steadily increase our market share of the steel business in the port as a whole. Given our competitive edge on import grains, we will continue our marketing and sales activities to boost throughput volume.

### Cost Control

We are committed to maintaining costs and expenses, particularly salaries and wages, at a reasonable level. We will proceed cautiously in head count changes and no increase in head count is expected in the near future aside those required for the Phase B project. We are actively exploring the possibility of transferring experienced staff members to the Phase B project, or other new investments in the future. This will benefit the Group in two-fold by reducing the number of new recruits and expediting the ramp up process of the new terminal. Moreover, we are re-engineering our human resource policies by increasing the portion of outsourced labor to replace retired staff.

## FINANCIAL REVIEW

### Cash Flow

The net cash inflow from operations during the period amounted to HK$139.0 million which was 21.7 % higher than the prior period. The significant increase was brought about by the improved revenue and operating margins.

The proceeds from the IPO, netting underwriting commission and professional fees, were approximately HK$1.16 billion. The Company also received a special interest income from the funds lock-up in the public offer amounting to nearly HK$97.6 million. The net cash inflow to the Group in the IPO amounted to approximately HK$1.26 billion.

Non-operation spending amounted to HK$255.6 million, largely attributed to capital expenditure. This was mainly used for payments for the acquisition costs of land and berths of approximately HK$173.6 million. The remaining amount was mostly used for the purchase of equipment to enhance efficiency.

During the Period, the net cash inflow of the Group was HK$1,117.1 million (2005: HK$49.1 million).

### Liquidity and Financial Resources

As at period end, the Group's cash on hand was HK$1,377.1 million, representing a significant increase of HK$1,120.5 million compared to the end of last year. The Group's total borrowings, all from banks, at the period end was HK$205.4 million, which represents a gearing ratio (interest-bearing debts divided by net assets) of 7.2 %. All borrowings are denominated in RMB with a fixed interest rate and repayable within two year. In addition, the current ratio (ratio of current assets to current liabilities) was 1.53 compared to 1.07 at the end of last year. The significant improvement was mainly due to the IPO proceeds. At period end date, all assets of the Group are free of any charges.

The Group has no other committed borrowing facilities. For day-to-day liquidity management, the Group maintains flexibility in funding by obtaining sufficient uncommitted short-term facilities from banks.

## Financial Management and Policy

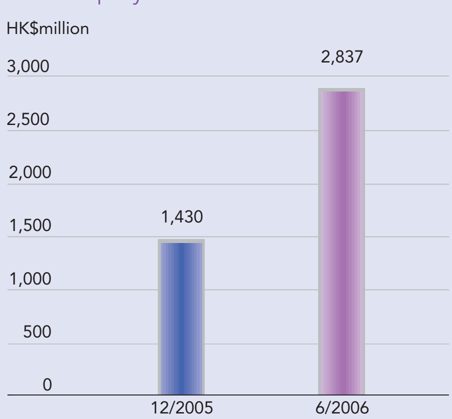
The financial risk management of the Group is the responsibility of the Group's treasury function at the head office in Hong Kong. One of the major objectives of the Group's treasury policies is to manage its exposure to fluctuations in foreign currency exchange rates. It is the Group's policy not to engage in speculative activities.

As at the end of the period under review, most of the Group's assets and liabilities were denominated in RMB (except for the cash received in the IPO, which are denominated in HK$). In order to mitigate the exchange rate risk of potential RMB appreciation, the Group remitted HK$ 646.3 million to repay the first and second installments of the land and berths in July of this year. This arrangement has significantly reduced the potential exchange loss resulting from the appreciation of RMB. According to the unaudited management accounts, the balance of Hong Kong dollar cash in hand was approximately HK$0.6 billion at the end of August 2006 which is mainly designated for the capital requirements of the Phase B project. As at the period end date and the reporting date, the Group assessed its foreign exchange rate risk exposure and has not entered into any forex hedging arrangements. During the period under review, RMB appreciation had no significant impact to the Group's net asset, cash and profit and loss position.

## Capital Structure

At the end of the period under review, the shareholders' fund of the Group was HK$2,837.1 million, representing an increase of HK$1,407.2 million or 98.4% compared at the end of last year. During the period, a special dividend of HK$24 million was paid to Tianjin Development Holdings Limited before the IPO.

### Total equity



## SIGNIFICANT INVESTMENTS

During the Period, the Group has the following significant investments:

1. Land and Berths

   On 8 May 2006, the Group entered into agreements with Tianjin Port (Group) Co., Ltd and the Tianjin Land Bureau to acquire the land, berths and railways of our existing two terminals. The total consideration was approximately RMB894 million (HK$860 million) and payable in three installments by 31 May 2007. The first installment was settled in May 2006 and the second installment was settled in July 2006. The third installment is expected to be settled on or before 31 May 2007. The payments made were funded using IPO proceeds.

2. Acquisition of Super-Panama Portainers

   On 10 May 2006, the Group entered into an agreement with 上海振華港口機械(集團)股份有限公司 to purchase two Super-Panama portainers. The total consideration was approximately RMB88 million. The acquisition will optimise the operational efficiency when handling large containerships. We expect the new Super-Panama portainers to become fully operational in early next year.

3. New Terminal in Beigangchi ("Phase B")

   The Group aims to maintain and further develop its position as a leading terminal operator at the port of Tianjin. The Group places strong emphasis on capturing the new opportunities arising from the anticipated ongoing growth in container throughput. On 26 July 2006, Tianjin Port Development International Limited (a wholly owned subsidiary of the Company) entered into a joint venture agreement with APMT (a wholly owned subsidiary of A.P. Møller-Mærsk A/S) and COSCO Ports (a wholly owned subsidiary of the COSCO Pacific Limited) to establish Tianjin Port Euroasia International Container Terminal Co., Ltd ("Euroasia") in Tianjin, the PRC, to develop a new container terminal in the Beigangchi area at the port of Tianjin.

We will take a 40% of equity interest in the Phase B project, with APMT and COSCO each taking a 30% equity stake. The new facility is proposed to have a total quay length of approximately 1,100 meters with three container handling berths and a container stacking yard in excess of 700,000 square meters with a design capacity of 1.8 million TEUs. The total investment in this new facility will be RMB3.6 billion, of which RMB1.26 billion will be in the form of registered capital. The balance of the total investment is expected to be financed by the joint venture through commercial bank loans. We will contribute RMB504 million (equivalent to HK$489 million) to the registered capital of Euroasia for the 40% equity stake using funds from the IPO proceeds. Formal approval is expected to be obtained before the end of the year. The project is expected to be completed in late 2008 or early 2009.

4. Steel Distribution Centre

To facilitate and improve the product mix in the non-containerised cargo business, the Group entered into an agreement with various parties in June 2006 to invest in a steel distribution centre. This expansion is expected to establish the Group as one of the premiere steel-handling operators at the port of Tianjin. The total investment in the steel distribution centre was RMB6.63 million of which the Group owns a 39% equity stake. The steel distribution centre is expected to become fully operational in late 2006.

## INVESTOR RELATIONS

The Company supports a broad base of institutional and retail investors. The Company firmly believes shareholder value can be enhanced by clearly communicating the Company's corporate strategies, business development, and future outlook with existing and potential investors through a continuous and active dialogue.

The Company is committed to clear and full disclosure and transparent reporting. The Company actively promotes investor relations and communication with the investment community when interim and year-end financial results are announced as well as during the course of the year. Moreover, the Company has participated in 53 meetings and site visits with investors since its IPO where senior management of the Company was available to communicate with research analysts and the investors.

## GOING CONCERN

On the basis of current financial projections and facilities available, the Group has adequate financial resources to continue its operation in the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing financial statements.

## CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 June 2006.

## EMPLOYEES

As at 30 June 2006, the Group, excluding its associated companies, had a staff size of approximately 3,200. Remuneration packages are assessed in accordance to the nature of job duties, individual performance and market trends with incentives paid in the form of cash bonuses. In addition, the Group has adopted a share option scheme as part of the management's remuneration package after the IPO.

## APPRECIATION

On behalf of the Board of Directors, I would like to express my heartfelt gratitude to a team of dedicated staff for their unfailing service and to our shareholders for their support to the Company.

By order of the Board
**ZHANG Jinming**
*Managing Director*
Hong Kong, 12 September 2006