天津發展控股有限公司

TIANJIN DEVELOPMENT HOLDINGS LIMITED

(Incorporated in Hong Kong SAR with limited liability under the Companies Ordinance)

(Stock Code: 882)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2006

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately HK$1,156.9 million, representing an increase of 4% as compared to first half of 2005.
- Profit attributable to equity holders amounted to approximately HK$293.1 million, representing a decrease of 27% as compared to first half of 2005.
- Excluding the exceptional items, profit attributable to equity holders increased by 11% to HK$184.4 million as compared to first half of 2005.
- Basic earnings per share amounted to HK31.35 cents; diluted earnings per share amounted to HK30.17 cents.
- Interim dividend of HK4.6 cents per share declared.

RESULTS

The board of directors (the "Board") of Tianjin Development Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2006, together with the comparative figures for the corresponding period in 2005, as follows:

CONSOLIDATED INCOME STATEMENT
For the six months ended 30th June 2006

		Unaudited	
		Six months ended 30th June	
		2006	2005
	Note	***HK$'000***	*HK$'000*
Revenue	*2*	**1,156,911**	1,115,598
Cost of sales		**(763,840)**	(692,541)
Gross profit		**393,071**	423,057
Other income	*3*	**140,666**	14,701
Gain on deemed disposal of partial interest in subsidiaries		**109,235**	235,370
Distribution costs		**(158)**	(10,890)
General and administration expenses		**(204,239)**	(182,470)
Other operating expenses		**(6,154)**	(27,870)
Operating profit		**432,421**	451,898
Finance costs	*4*	**(74,319)**	(40,314)
Fair value loss on derivative liability of convertible bonds	*5*	**(92,745)**	–
Share of profits/(losses) of			
Associates		**81,488**	61,253
Jointly controlled entities		**(426)**	(5,076)
Profit before income tax		**346,419**	467,761
Income tax expense	*6*	**(34,674)**	(34,973)
Profit for the period		**311,745**	432,788

	Note		
Attributable to:			
Equity holders of the Company		**293,143**	401,932
Minority interests		**18,602**	30,856
		311,745	432,788
Interim dividends	*7*	**44,602**	41,881
		HK cents	*HK cents*
Earnings per share for profit attributable to the equity holders of the Company	*8*		
– Basic		**31.35**	44.15
– Diluted		**30.17**	44.14

CONSOLIDATED BALANCE SHEET
As at 30th June 2006

	Note	**Unaudited 30th June 2006 *HK$'000***	Audited 31st December 2005 *HK$'000*
ASSETS			
Non-current assets			
Goodwill		**514,715**	400,746
Property, plant and equipment		**5,491,441**	5,002,385
Investment property		**373,786**	370,192
Land use rights		**740,722**	69,787
Interest in associates		**1,041,616**	1,006,832
Jointly controlled entities		**81,825**	81,722
Deferred income tax assets		**4,835**	4,695
Available-for-sales financial assets		**109,180**	110,495
Other non-current assets		**–**	34,963
		8,358,120	7,081,817
Current assets			
Completed properties held for sale		**5,243**	6,200
Inventories		**8,471**	8,432
Amount due from ultimate holding company		**89**	200
Amounts due from associates		**58,596**	16,512
Amounts due from related companies		**82,284**	72,206
Trade receivables	*9*	**575,296**	272,719
Other receivables, deposits and prepayments		**309,154**	251,943
Financial assets at fair value through profit or loss		**120,662**	164,336
Cash and bank balances			
– Restricted		**27,945**	–
– Unrestricted		**3,601,348**	2,505,315
		4,789,088	3,297,863
Total assets		**13,147,208**	10,379,680
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**96,962**	91,066
Other reserves		**5,033,564**	4,669,529
Retained earnings			
– Proposed dividend		**44,602**	36,426
– Others		**1,297,974**	1,044,289
		6,473,102	5,841,310
Minority interests		**2,365,729**	1,277,327
Total equity		**8,838,831**	7,118,637

	Note	**Unaudited 30th June 2006 *HK$'000***	Audited 31st December 2005 *HK$'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**1,754,446**	2,044,687
Deferred income tax liabilities		**90,325**	80,006
		1,844,771	2,124,693
Current liabilities			
Trade payables	*10*	**187,936**	15,235
Other payables and accruals		**601,338**	363,533
Amounts due to related companies		**955,015**	293,438
Borrowings		**549,722**	370,402
Derivative liability of convertible bonds		**73,507**	–
Current income tax liabilities		**96,088**	93,742
		2,463,606	1,136,350
Total liabilities		**4,308,377**	3,261,043
Total equity and liabilities		**13,147,208**	10,379,680
Net current assets		**2,325,482**	2,161,513
Total assets less current liabilities		**10,683,602**	9,243,330

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements have been prepared under the historical convention, as modified by the revaluation of certain investment property, available-for-sale financial assets and financial assets at fair value through profit or loss, and are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the 2005 audited consolidated annual financial statements.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2005, except that the Group adopted HKAS 19 (Amendment) – Employee Benefits, HKAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions, HKAS 39 (Amendment) – The Fair Value Option, HKAS 39 & HKFRS 4 (Amendment) – Financial Guarantee Contracts and HKFRS – Int 4 – Determining whether an Arrangement contains a Lease, which are effective 1st January 2006. The adoption of these interpretations and amendments to standards does not have a significant impact on the Group's results and financial position.

2 Segment information

The Group is principally engaged in provision of container handling and non-containerised goods stevedoring services, operation of toll roads, supply of utilities and property development. The associates of the Group are principally engaged in the manufacturing and sales of winery products, escalators and elevators.

Primary reporting format – business segments

	Port services (Note (i)) HK$'000	Operation of toll roads HK$'000	Supply of utilities (Note (ii)) HK$'000	Property development HK$'000	Winery HK$'000	Elevator and escalator HK$'000	Others HK$'000	Group HK$'000
	Unaudited For the six months ended 30th June 2006							
Revenue	**472,218**	**87,671**	**594,311**	**2,711**	**–**	**–**	**–**	**1,156,911**
Segment results	**123,935**	**40,693**	**60,060**	**(7)**	**–**	**–**	**–**	**224,681**
Gain on deemed disposal of partial interest in subsidiaries	**109,235**							**109,235**
Interest income								**113,232**
Net corporate expenses								**(14,727)**
Operating profit								**432,421**
Finance costs								**(74,319)**
Fair value loss on derivative liability of convertible bonds								**(92,745)**
Share of profits/(losses) of								
Associates	**551**	**–**	**–**	**–**	**38,009**	**45,434**	**(2,506)**	**81,488**
Jointly controlled entities	**–**	**–**	**–**	**–**	**201**	**–**	**(627)**	**(426)**
Profit before income tax								**346,419**
Income tax expense								**(34,674)**
Profit for the period								**311,745**
Capital expenditure	**985,017**	**1,729**	**3,769**	**2**	**–**	**–**	**1,081**	**991,598**
Depreciation and amortisation	**43,621**	**20,744**	**33,364**	**57**	**–**	**–**	**1,983**	**99,769**

	Port services HK$'000	Operation of toll roads HK$'000	Supply of utilities HK$'000	Property development HK$'000	Winery HK$'000	Elevator and escalator HK$'000	Others HK$'000	Group HK$'000
	Unaudited For the six months ended 30th June 2005							
Revenue	410,941	91,306	451,321	12,359	149,671	–	–	1,115,598
Segment results	91,021	31,342	60,106	3,680	63,220	–	–	249,369
Gain on deemed disposal of partial interest in subsidiaries					235,370			235,370
Interest income								9,604
Net corporate expenses								(42,445)
Operating profit								451,898
Finance costs								(40,314)
Share of profits/(losses) of								
Associates	440	–	–	–	30,823	30,378	(388)	61,253
Jointly controlled entities	–	–	–	–	772	–	(5,848)	(5,076)
Profit before income tax								467,761
Income tax expense								(34,973)
Profit for the period								432,788
Capital expenditure	69,703	–	1,876	10	–	–	1,290	72,879
Depreciation and amortisation	37,757	18,884	18,800	54	1,769	–	1,888	79,152

Notes:

(i) The port services business previously held through wholly owned subsidiaries were spun off as a separate listed company on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") effective 24th May 2006 and the Group's interest was diluted to 62.8% thereafter.

(ii) The utilities supply business is carried out by Tianjin TEDA Tsinlien Electric Power Company Limited ("Electricity Company"), Tianjin TEDA Tsinlien Water Supply Company Limited ("Water Company") and Tianjin TEDA Tsinlien Heat & Power Co., Ltd. ("Heat & Power Company"). The Group completed its acquisition of Heat & Power Company on 18th April 2006.

The Finance Bureau of Tianjin Economic and Technological Development Area ("TEDA") has confirmed to grant to Electricity Company and Water Company government supplemental income calculated at RMB0.02 per kWh of electricity supplied and RMB2 per tonne of water supplied respectively, for a period of five years up to 31st December 2007.

Also, the Finance Bureau of TEDA has confirmed to grant to Heat & Power Company government supplemental income calculated at RMB50 per tonne of steam supplied for a period of five years up to 31st December 2008. In addition, Heat & Power Company is entitled to additional government supplemental income calculated at the difference between the purchase price per tonne of steam purchased from Tianjin Binhai Energy & Development Co., Ltd., the major supplier of steam, and the selling price per tonne of steam sold to the customers.

Revenue generated from the supply of utilities includes approximately HK$15.1 million (2005: HK$12.4 million), HK$35.2 million (2005: HK$29.0 million) and HK$12.9 million (2005: Nil) of such government supplemental income granted to the Electricity Company, Water Company and Heat & Power Company respectively.

The unaudited segment assets and liabilities at 30th June 2006 are as follows:

	Port services *HK$'000*	**Operation of toll roads** *HK$'000*	**Supply of utilities** *HK$'000*	**Property development** *HK$'000*	**Winery** *HK$'000*	**Elevator and escalator** *HK$'000*	**Others** *HK$'000*	**Group** *HK$'000*
Assets	**3,819,385**	**3,512,233**	**1,553,320**	**397,944**	**–**	**39,931**	**2,782,779**	**12,105,592**
Associates	**20,586**	**–**	**–**	**–**	**614,638**	**367,629**	**38,763**	**1,041,616**
Total assets	**3,839,971**	**3,512,233**	**1,553,320**	**397,944**	**614,638**	**407,560**	**2,821,542**	**13,147,208**
Liabilities	**972,412**	**63,238**	**426,880**	**21,920**	**–**	**8,610**	**2,815,317**	**4,308,377**

The audited segment assets and liabilities at 31st December 2005 are as follows:

	Port services *HK$'000*	Operation of toll roads *HK$'000*	Supply of utilities *HK$'000*	Property development *HK$'000*	Winery *HK$'000*	Elevator and escalator *HK$'000*	Others *HK$'000*	Group *HK$'000*
Assets	1,497,673	3,451,010	932,792	380,602	–	47,801	3,062,970	9,372,848
Associates	27,928	–	–	–	580,288	356,105	42,511	1,006,832
Total assets	1,525,601	3,451,010	932,792	380,602	580,288	403,906	3,105,481	10,379,680
Liabilities	90,659	58,659	152,496	26,088	–	11,350	2,921,791	3,261,043

Secondary reporting format – geographical segments

	Unaudited Revenue Six months ended 30th June		**Unaudited Operating results Six months ended 30th June**	
	2006 *HK$'000*	2005 *HK$'000*	**2006** *HK$'000*	2005 *HK$'000*
PRC mainland	**1,156,911**	1,115,598	**224,681**	249,369

	Unaudited 30th June 2006 *HK$'000*	Audited 31st December 2005 *HK$'000*
Total assets		
PRC mainland	**11,840,170**	8,854,939
Hong Kong	**265,422**	517,909
	12,105,592	9,372,848
Associates	**1,041,616**	1,006,832
	13,147,208	10,379,680

	Unaudited Six months ended 30th June	
	2006 *HK$'000*	2005 *HK$'000*
Capital expenditures		
PRC mainland	**991,101**	72,615
Hong Kong	**497**	264
	991,598	72,879

3 Other income

	Unaudited Six months ended 30th June	
	2006	2005
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss		
– fair value gains	**7,898**	707
Interest income		
– from initial public offer deposits of a subsidiary	**97,574**	–
– from bank deposits	**15,658**	9,604
Dividend income from available-for-sale financial assets – unlisted	**10,634**	42
Sundries	**8,902**	4,348
	140,666	14,701

4 Finance costs

	Unaudited Six months ended 30th June	
	2006	2005
	HK$'000	*HK$'000*
Interest expenses		
– bank loans	**51,784**	33,617
– other loans	**5,226**	5,515
– convertible bonds (notional charge, refer to note 5)	**17,309**	1,182
	74,319	40,314

5 Fair value loss on derivative liability of convertible bonds

On 19th December 2005, the Group issued zero coupon guaranteed convertible bonds with an aggregate principal amount of HK$400 million (the "Bonds"). Each has the option to convert the Bonds into shares of the Company of HK$0.10 each at a conversion price of HK$3.90 per share from date of issue to 1st January 2007 and HK$4.06 per share thereafter through maturity. Unless previously redeemed, converted, or purchased and cancelled, the Bonds will be redeemed at 119.93% of its principal amount on 19th December 2008.

At any time prior to the maturity date, the Group may, having given not less than 30 nor more than 60 days' notice to the bondholders, the trustee and the principal agent (which notice will be irrevocable), redeem all and not some only of the Bonds at a redemption price as defined in the convertible bond agreement, on the redemption date if at least 90 percent in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.

On 12th April 2006 and 25th April 2006, Bonds with face value of HK$100,000,000 and HK$50,000,000 were converted into shares of the Company at a conversion price of HK$3.90 per share respectively.

As the functional currency of the Group is RMB, the conversion option of the Bonds denominated in HK$ will not result in settlement by the exchange of a fixed amount of cash for a fixed number of equity instrument. The embedded conversion option is therefore separated from the host contract and accounted for as a derivative liability carried at fair value through profit or loss.

Derivative liability component

The fair value of the derivative liability of the Bonds is calculated using the Binomial model with the major inputs as at 30th June 2006 as follows:

Stock price	HK$4.775
Exercise price	HK$3.90
Volatility	25%
Dividend yield	2%
Risk free rate	4.56%

Because the Binomial model requires the input of highly subjective assumptions, including the volatility of share price, change in subjective input assumptions can materially affect the fair value estimate.

During the period, the share price of the Company rose significantly, the fair value of derivative liability of the Bonds increased accordingly, resulting in a fair value loss of HK$92,745,000 which was recognised in the income statement.

Borrowing component

The initial carrying amount of the host contract, the borrowing component, is the residual amount after separating the embedded derivative and subsequently carried at amortised balance. Interest expense is calculated using the effective interest method by applying the effective interest rate of 12.08% to the adjusted borrowing component. Should the aforesaid embedded conversion option not be separated and the entire bond be considered as the borrowing component, the effective interest rate would have been 7.079%.

6 Income tax expense

	Unaudited Six months ended 30th June	
	2006	2005
	HK$'000	*HK$'000*
Current taxation		
PRC income tax	**25,163**	31,549
Deferred income tax	**9,511**	3,424
	34,674	34,973

No provision for Hong Kong profits tax has been made as there is no estimated assessable profit for the period for the Group (2005: Nil). Provision for the PRC income tax has been made at the applicable rate of taxation on the estimated assessable profit for the period for each of the Group's subsidiaries.

Share of associates' taxation for the six months ended 30th June 2006 of HK$35,562,000 (2005: HK$31,003,000) are included in the income statement as share of profits of associates.

There is no change in the tax rate for principal subsidiaries, details of which have been disclosed in the annual report of 2005. The newly acquired subsidiary during the period, Heat & Power Company, is subject to the preferential income tax rate of 15%.

7 Interim dividends

	Unaudited Six months ended 30th June	
	2006	2005
	HK$'000	*HK$'000*
2005 final, paid, of HK4.0 cents (2004: final, paid, of HK3.4 cents) per share	**38,784**	30,956
2006 interim, declared, of HK4.6 cents (2005: HK4.6 cents) per share *(Note)*	**44,602**	41,881

Note:

At a meeting held on 13th September 2006, the directors declared an interim dividend of HK4.6 cents per ordinary share. This declared dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2006.

8 Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$293,143,000 (2005: HK$401,932,000) and the weighted average number of 934,965,000 shares in issue (2005: 910,456,000 shares) during the period.

The calculation of the diluted earnings per share for 2006 is based on the adjusted profit attributable to equity holders of the Company of HK$310,451,000 and 934,965,000 shares which is the weighted average number of shares in issue during the period, plus the weighted average number of 94,136,000 shares deemed to be issued at no consideration if all outstanding options had been exercised and all outstanding convertible bonds had been converted.

The calculation of the diluted earnings per share for 2005 was based on the adjusted profit attributable to equity holders of the Company of HK$401,932,000 and 910,456,000 shares which was the weighted average number of shares in issue during the six months ended 30th June 2005, plus the weighted average number of 175,000 shares deemed to be issued at no consideration if all outstanding options had been exercised.

9 Trade receivables

The aging analysis of the Group's trade receivables (net of provisions) is as follows:

	Unaudited 30th June 2006	Audited 31st December 2005
	HK$'000	*HK$'000*
Within 30 days	**332,557**	178,752
30 to 90 days	**47,089**	40,293
91 to 180 days	**34,031**	3,039
Over 180 days	**161,619**	50,635
	575,296	272,719

The various group companies have different credit policies which are dependent on the requirements of the markets and the businesses which they operate. In general, credit terms of 90 days are given to customers.

10 Trade payables

The aging analysis of the Group's trade payables is as follows:

	Unaudited 30th June 2006	Audited 31st December 2005
	HK$'000	*HK$'000*
Within 30 days	**20,474**	4,740
30 to 90 days	**40,910**	4,124
91 to 180 days	**104,334**	7
Over 180 days	**22,218**	6,364
	187,936	15,235

ANALYSIS OF PROFIT EXCLUDING EXCEPTIONAL ITEMS

Excluding the exceptional items, profit attributable to equity holders of the Company increased by 11% to HK$184.4 million as compared to first half of 2005.

	Unaudited Six months ended 30th June	
	2006	2005
	HK$'000	*HK$'000*
As reported	**293,143**	401,932
Exceptional items		
Add: Effect of adoption of HKAS 39 in relation to convertible bonds (see below)	**98,080**	–
Less: Gain on deemed disposal of partial interest in subsidiaries	**(109,235)**	(235,370)
Interest income from initial public offer deposits of a subsidiary	**(97,574)**	–
Adjusted profit attributable to equity holders of the Company	**184,414**	166,562

COMPANY'S VIEW ON ACCOUNTING TREATMENT FOR CONVERTIBLE BONDS

A convertible bond virtually contains a conversion option which constitutes a derivative in accounting term. Under the prevailing accounting standard, a convertible bond denominated in the same currency as the functional currency is regarded as an equity instrument and its conversion option is regarded as part of equity. However, if the convertible bond is denominated in a currency other than the functional currency, the conversion option is required to be stated at fair value and the resulting change in the fair value would have an impact on the income statement. The change in value of the conversion option is principally affected by the price and the volatility of the stock. For instance, if the stock performance of the Company is good and the stock price exceeds the conversion price, a loss would occur, notwithstanding the fact that the change in value of the conversion right does not affect the cashflow or adversely impact the overall financial position of the Company. Besides we have also noted cases where the issuing entity has adopted an accounting treatment to take its conversion option directly to equity even when the functional currency and the denomination of the convertible bond are not the same, thereby the change in fair value of conversion option is not reflected in the income statement. This obviously makes it even more confusing to shareholders and readers of financial statements. Whilst the directors are concerned that the accounting treatment as prescribed under HKAS39 may not fairly present the operating results of the Company and the Group for the period, its adoption has been necessary in order to fully comply with the prevailing accounting standards, thus avoiding a qualified opinion on the financial statements by the auditors.

Given the above reasons, the readers are reminded to be careful when looking at the effect of the said accounting treatment. To enable you to have a clearer understanding of the operating results of the Company, your attention is drawn to the analysis and explanation under the section headed "Analysis of Profit Excluding Exceptional Items" as set out above.

REVIEW OF OPERATIONS

	Unaudited Six months ended 30th June			
	Revenue		Segment results	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Provision of port services	**472,218**	410,941	**123,935**	91,021
Operation of toll roads	**87,671**	91,306	**40,693**	31,342
Supply of utilities	**594,311**	451,321	**60,060**	60,106
Sales of properties	**2,711**	12,359	**(7)**	3,680
Manufacturing and sales of winery products	–	149,671	**–**	63,220
	1,156,911	1,115,598	**224,681**	249,369
Gain on deemed disposal of partial interest in subsidiaries			**109,235**	235,370
Interest income			**113,232**	9,604
Net corporate expenses			**(14,727)**	(42,445)
Operating profit			**432,421**	451,898
Finance costs			**(74,319)**	(40,314)
Fair value loss on derivative liability of convertible bonds			**(92,745)**	–
Share of profits/(losses) of				
Associates *(Note)*			**81,488**	61,253
Jointly controlled entities			**(426)**	(5,076)
Profit before income tax			**346,419**	467,761
Income tax expense			**(34,674)**	(34,973)
Profit for the period			**311,745**	432,788

Note:

Share of profits/(losses) of associates		
Manufacturing and sales of winery products	**38,009**	30,823
Elevator and escalator	**45,434**	30,378
Others	**(1,955)**	52
	81,488	61,253

Infrastructure Operations

Port Services

On 24th May 2006, the shares of Tianjin Port Development Holdings Limited ("TPD") (stock code: 3382) were listed on the Main Board of the Stock Exchange and the Group's interest in TPD was diluted from 100% to 62.8%. The result of the initial public offer of TPD was overwhelming and an interest income of HK$97.6 million was generated from the initial public offer deposits. An exceptional gain of HK$109.2 million was realised from the deemed disposal of partial interest in TPD.

The revenue of port operations increased by 15% from approximately HK$410.9 million in the first half of 2005 to approximately HK$472.2 million in the corresponding period of 2006. The growth in revenue was driven up by an 18% increase in our container throughput from 997,000 TEUs in 2005 to 1,173,000 TEUs in 2006. For the same period, the total throughput of bulk cargo decreased by 13% from 9.3 million tonnes to 8.1 million tonnes.

The segment profit was increased by 36% from approximately HK$91.0 million for 2005 to approximately HK$123.9 million for 2006. The increase was primarily caused by the increase in our revenue as well as the improvement of gross profit margin during the period.

Road Operation

During the period ended 30th June 2006, road operation achieved a toll revenue of approximately HK$87.7 million and realised a segment profit of approximately HK$40.7 million, representing a decrease of 4% and an increase of 30% over the corresponding period last year.

The Jinbin Expressway operated with satisfactory performance during the period under review, as evidenced by an average daily traffic flow of 17,982 vehicles and toll revenue of approximately HK$32.9 million, representing an increase of 18% and 16% over the same period last year. This was attributable to the sustained economic growth in the Binhai New Area of Tianjin.

Due to the entrance control stipulated in middle and inner ring road in early 2006, the Eastern Outer Ring Road's average daily traffic flow of small vehicles such as motorcycles and motor tricycles, whose toll fees were low, increased in the first half of 2006. At the same time, the traffic diversions still existed since the opening of city expressway and the traffic flow of large vehicles, whose toll fees were high, declined during the period. A change of traffic flow mix was resulted and despite the average daily traffic flow on the Eastern Outer Ring Road has rebounded by 4% to 26,340 vehicles during the period, the toll revenue decreased by 13% to approximately HK$54.7 million over the corresponding period last year.

Utility Operations

The Group's utility businesses are mainly operating in the Tianjin Economic-Technological Development Area ("TEDA"), supplying electricity, water, heat and thermal power to industrial, commercial and residential sectors.

On 13th January 2006, the Group announced that it had entered into an agreement to acquire approximately 90.9421% interest in Tianjin TEDA Tsinlien Heat & Power Co., Ltd. ("Heat & Power Company") at a consideration of HK$380 million. The acquisition was completed in April 2006. Together with the Electricity Company and the Water Company which were acquired in 2004, the Heat & Power Company form part of the Company's utility operations in the TEDA which are the growth generator of the Group.

Electricity Operation

Electricity Company is principally engaged in the supply of electricity in the 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 470,000 kVA.

For this period of 2006, the Group's electricity operation reported a revenue of approximately HK$454.4 million and a segment profit of approximately HK$28.2 million, representing an increase of 22% and a decrease of 11% over the comparable period last year respectively. The decrease in segment profit was mainly attributable to the continuous hike of cost of electricity sold and the cost for increased capacity. The total quantity of electricity sold for the period was approximately 782,235,000 kWh, representing an increase of 19% 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.

For this period of 2006, the Group's water operation reported a revenue of approximately HK$104.2 million and a segment profit of approximately HK$37.1 million, resulted in the respective increase of 32% and 30% over the corresponding period last year. The total quantity of water sold for the period was approximately 18,216,000 tonnes, representing an increase of 18% over the comparable period last year.

Heat and Thermal Operation

Heat & Power Company is principally engaged in the distribution of steam for industrial users and heating for commercial and residential purposes within the TEDA. The Heat & Power Company has currently made a connection to a total of approximately 300 kilometers steam transmission pipelines and more than 60 processing stations in the TEDA, with a daily distribution capacity reaching 17,280 tonnes of steam.

Since the acquisition of Heat & Power Company was completed in late April 2006, the Heat & Power Company only contributed 2 months' results in 2006 and did not have any contribution to the Group in the same period last year. For this period of 2006, the Group's heat and thermal operation reported a revenue of approximately HK$35.7 million and a segment loss of approximately HK$5.3 million. The loss was mainly attributable to the seasonality of the industry. The total quantity of steam sold for the first half of 2006 was approximately 1,381,000 tonnes, representing an increase of 11% over the comparable period last year.

Locating at the TEDA with a planned site area of 33 square kilometers, Electricity Company, Water Company and Heat & Power Company have been benefiting from double-digit growth in consumption in TEDA. Leveraging on their well-established supply network, management expertise and customer base, the Group believes that the utility operations will broaden the earnings base and provide an excellent growth prospect for the Group's core businesses.

Strategic Investments

Winery Operation

During the period under review, sales volume of Dynasty Fine Wines Group Limited ("DFWGL") (stock code: 828) increased from approximately 24.9 million bottles in 2005 to approximately 26.2 million bottles in 2006. Red wine contributed over 94% of total sales volume. The revenue and profit attributable to shareholders of DFWGL amounted to approximately HK$575.5 million and HK$82.3 million respectively, representing 13% increase and 30% decrease over the same period in last year. The decrease in the profit was attributable to the significant surge in distribution costs which overtook the growth in sales volume. Increase in distribution costs was primarily due to the increase in advertising and promotion fees incurred to boost market demand, to expand the market shares outside the existing markets in the Eastern region of the PRC and also to facilitate the launch of new products.

DFWGL contributed to the Group a profit of approximately HK$38.0 million in the first half of 2006. In the comparable period in 2005, the winery operation contributed a segment profit of HK$63.2 million as a subsidiary before the listing of DFWGL, together with a profit of HK$30.8 million as an associate to the Group after the aforesaid listing. An exceptional gain of HK$235.4 million was also resulted from the deemed disposal of partial interest in DFWGL upon its listing. The drop of total contribution by DFWGL to the Group was due to the reduced shareholding of DFWGL as well as the decline in the results of DFWGL.

Elevator and Escalator Operation

OTIS China, the associate of the Group, has recorded continuous satisfactory growth during the period under review. The revenue of OTIS China for the first half of 2006 amounted to approximately HK$3,162.1 million, achieving a 27% increase over the same period in 2005.

For the six months ended 30th June 2006, the contribution of OTIS China to the profit of the Company amounted to approximately HK$45.4 million, representing a 50% increase over the same period of last year. 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. 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 financial statements for the period ended 30th June 2006.

PROSPECTS

On 24th May 2006, the shares of TPD were listed on the Main Board of the Stock Exchange and the IPO was very well received by both international and Hong Kong investors. The Hong Kong public offer resulted in an over-subscription of 1,703 times, breaking the Hong Kong stock exchange record for number of times of over-subscription. The amount locked up by the over-subscription was over HK$187 billion. TPD raised about HK$1.2 billion from the capital market and this can fuel its expansion in order to capture the flourishing market in Tianjin. The implicit value of the Company's investment in TPD was fully realised and the Company's strategy of leveraging its competitive advantage in Tianjin and strengthening its core businesses is proved well received by the investors, in terms of the tremendous success of the spin off of TPD and the hike of share price of the Company in the first half of 2006.

The Company will continue strive to grasp every chance to maximise the return to our shareholders. As the State Council has approved the "11th Five Year Plan (2006-2010)", which positions Tianjin as the economic centre in northern China, there are definitely immense opportunities for investment and development. Among all, Tianjin Binhai New Area ("TBNA") will be the focus. The government will devote efforts to transform the TBNA into a modern manufacturing and R&D base, international shipping hub and international logistics centre in northern China.

Being a key area in TBNA and having double digit annual growth from 1998 onwards and in the foreseeable future, TEDA has huge development potential. The Group will increase investment in our core utilities operations to capture the robust economic growth of TEDA. On the other hand, the Group is actively seeking investment opportunities in Bohai Rim Region including infrastructure and utility businesses and projects. Being the sole listed flagship of the Tianjin municipal government in Hong Kong, we are best positioned to acquire good quality utility and infrastructure assets in the TBNA.

I would like to take this opportunity to express our gratitude to our past and current directors and our staff for their dedication and hard work and to the investors for their continuous support.

LIQUIDITY AND CAPITAL RESOURCES ANALYSIS

As at 30th June 2006, the Group's total cash on hand and total bank borrowings stood at approximately HK$3,629 million and approximately HK$1,855 million respectively (31st December 2005: HK$2,505 million and HK$1,826 million respectively) of which approximately HK$322 million bank borrowings will be matured within one year. Convertible bonds amounted to approximately HK$222 million (31st December 2005: HK$388 million) is redeemable at 119.93% of its respective principal amount of HK$250 million in 2008. Loans from minority shareholders of subsidiaries amounted to approximately HK$227 million (31st December 2005: HK$201 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 approximately 36% as at 30th June 2006, compared to approximately 41% as at 31st December 2005.

Of the total HK$1,855 million bank borrowings outstanding at 30th June 2006, HK$806 million was fixed rate debts with annual interest rate ranging from 4.3% to 7.7%. The remaining HK$1,049 million of bank loans were subject to floating rates with spread of 0.52% to 0.8% over HIBOR or LIBOR of relevant interest periods.

As at 30th June 2006, 43% (31st December 2005: 39%) of the Group's total bank borrowings was denominated in Renminbi, 54% (31st December 2005: 59%) was denominated in US dollars and 3% (31st December 2005: 2%) was denominated in HK dollars.

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 3,900 employees at the end of the period, of which approximately 820 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code Provision") except that:

1. The non-executive Directors have not been appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

2. The Directors have not been required by the Company's Articles of Association to retire by rotation at least once every three years. However, in accordance with the Company's Articles of Association, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation at each annual general meeting; it is therefore considered that the Code Provision under A.4.2 was followed with in practice.

AUDIT COMMITTEE

An audit committee currently comprising three independent non-executive directors, namely Mr. Kwong Che Keung, Gordon, Mr. Lau Wai Kit and Dr. Cheng Hon Kwan was established in 1998.

At the request of the Audit Committee of the Company, the Group's auditors have carried out a review of the unaudited financial statements in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules in respect of directors' securities transactions throughout the period under review. All directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the period.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK4.6 cents per share in cash for the six months ended 30th June 2006 to shareholders whose names appear on the Register of Members of the Company on 13th October 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 9th October 2006 to 13th October 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Registrar, Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 6th October 2006.

By Order of the Board
Wang Guanghao
Chairman

Hong Kong SAR, 13th September 2006

As at the date of this announcement, the directors of the Company consist of Mr. Wang Guanghao, Dr. Ren Xuefeng, Mr. Yu Rumin, Mr. Nie Jiansheng, Mr. Dai Yan, Mr. Hu Chengli, Dr. Wang Jiandong, Mr. Bai Zhisheng, Mr. Zhang Wenli, Mr. Sun Zengyin and Dr. Zong Guoying as executive directors, Mr. Cheung Wing Yui as non-executive director and Mr. Kwong Che Keung, Gordon, Mr. Lau Wai Kit and Dr. Cheng Hon Kwan as independent non-executive directors.

Please also refer to the published version of this announcement in The Standard.