

[Management Discussion & Analysis

Financial Review]



This is the second set of final financial results since the change of the year-end reporting date from 31st December to 30th June. The audited financial results for the last period covered the 18-month period from 1st January 1999 to 30th June 2000 (the “2000 period”). In addition, the unaudited results for the 12 months ended 30th June 2000 (“FY2000”) is presented for comparison purposes.

Earnings Per Share		
	Year ended 30.06.2001 HK\$'000	18-month period ended 30.06.2000 HK\$'000
Shares in issue ('000)	2,059,968	2,059,968
Weighted average ('000)	2,059,968	1,064,388
Profit attributable to shareholders (HK\$'000)	276,138	65,793
Earnings per share – Basic (HK\$)	0.0691	0.0258

The profit attributable to shareholders of the Group rose to HK\$276.1 million for the year, a significant improvement over a profit attributable to shareholders of HK\$65.8 million for the 2000 period and HK\$81.7 million for FY2000. There were two major reasons for the improvement: the significant contribution from Xiamen projects and the full-year contribution of the share of profit attributable to the port and port-related assets acquired from NWI in March 2000.

Earnings per share reached HK\$0.0691 for the year, significantly improved over the earnings per share of HK\$0.0258 for the 2000 period.

Cash Flow Analysis

Cash Flow Analysis			
	Year ended 30.06.2001 HK\$'000	18-month period ended 30.06.2000 HK\$'000	Increase/ (decrease) %
Net cash (outflow)/inflow from operating activities	(1,986)	4,697	n/a
Net cash inflow from returns on investments and servicing of finance	84,138	72,103	17
Taxation	(90)	-	n/a
Net cash outflow from investing activities	(41,391)	(92,590)	(55)
Net cash inflow/(outflow) before financing	40,671	(15,790)	n/a
Net cash outflow from financing	(10,144)	(20,770)	(51)
Increase/(decrease) in cash and cash equivalents	30,527	(36,560)	n/a

Inflow

The net cash inflow from returns on investments and servicing of finance mainly resulted from dividends received from an associated company and a jointly controlled entity.

Outflow

Net cash outflow from investing activities was primarily for purchases of fixed assets and additions to construction in progress for the Group's subsidiaries.

Net cash outflow from financing activities was mainly represented by the repayment of an equipment loan for the Xiangyu venture. This loan was fully repaid in July 2001.

Segment Analysis

Contribution By Activities			
	Year ended 30.06.2001 HK\$'000	18-month period ended 30.06.2000 HK\$'000	12 months ended 30.06.2000 HK\$'000 (Unaudited)
Turnover by activities:			
Cargo handling and storage	57,648	74,322	47,620
Container handling and storage	71,063	67,443	48,508
Road freight services	7,150	7,903	5,871
Total	135,861	149,668	101,999
Attributable operating profit/(loss) by activities:			
Cargo handling and storage	(10,604)	(18,768)	(14,369)
Container handling and storage	162,299	84,131	77,992
Road freight services	(1,169)	(1,200)	(96)
Warehousing	168,789	37,117	37,117
Total	319,315	101,280	100,644

The Group's turnover increased to HK\$135.9 million for the year, a 33% increase over FY2000.

The major contributor to the increase in turnover was Xiamen container handling operations, which reported a turnover of HK\$71.1 million for the year, a 46% increase over FY2000.

Turnover attributable to Nanjing's bulk-cargo handling operations reached HK\$57.6 million, some 21% higher than in FY2000.

Road freight operations grew satisfactorily with turnover increasing by 22% over FY2000.

The profitability of various business segments was mixed. Container handling and storage contributed around 51% of the net profit, warehousing contributed 53% while bulk-cargo handling and storage suffered a loss equivalent to 3% of the net profit. The road freight segment reported a loss, but the amount was insignificant.

Project Performance

Contribution By Region			
	Year ended 30.06.2001 HK\$'000	18-month period ended 30.06.2000 HK\$'000	12 months ended 30.06.2000 HK\$'000 (Unaudited)
Turnover by region:			
Xiamen	76,316	73,126	52,948
Nanjing	57,648	74,322	47,620
Suzhou	1,897	2,220	1,431
Total	135,861	149,668	101,999
Attributable operating profit/(loss) by region:			
Hong Kong	305,453	108,881	108,882
Xiamen	11,350	8,998	3,566
Tianjin	15,166	4,045	4,045
Nanjing	(10,604)	(18,768)	(14,369)
Suzhou	(1,594)	(1,390)	(994)
Others	(456)	(486)	(486)
Total	319,315	101,280	100,644

Hong Kong

Hong Kong remains the Group's main source of Attributable Operating Profit ("AOP"). CSXWT Hong Kong and ATL contributed a combined AOP of HK\$309.3 million, compared to an AOP of HK\$108.9 million for FY2000. The significant increase of AOP was mainly due to full-year contributions from these two projects. Growth in real terms arising from the accession of China to WTO is expected in the years to come.

Xiamen

Xiamen Performance			
	Year ended 30.06.2001 HK\$'000	18-month period ended 30.06.2000 HK\$'000	12 months ended 30.06.2000 HK\$'000 (Unaudited)
Attributable operating profit/(loss) of Xiamen by project:			
Xiangyu	19,576	18,388	9,801
Huijian	(4,336)	(1,296)	(883)
Xinyuan	1,283	140	(299)
WPZ	(5,173)	(8,234)	(5,053)
Total	11,350	8,998	3,566

Xiangyu reported an AOP of HK\$19.6 million for the year, an increase of 100% compared to an AOP of HK\$9.8 million for FY2000. The significant increase of AOP was mainly due to higher throughput achieved as a larger customer base was established after over three years of operations since commencement.

Huijian reported an Attributable Operating Loss ("AOL") of HK\$4.3 million, representing pre-operating expenses incurred for the year. With commercial operations to commence in the near future, the contribution to turnover of the container handling operations will become more significant.

Xinyuan reported an AOP of HK\$1.3 million for the year, a turnaround from AOL of HK\$0.3 million in FY2000. The improvement in the operating results was mainly due to the implementation of new management policy during the course of year.

WPZ reported an AOL of HK\$5.2 million for the year, compared to an AOL of HK\$5.1 million in FY2000. Similar to FY2000, the AOL was primarily due to the amortisation charge of the land use rights. While WPZ was loss making, it yielded positive cash flow.

Tianjin

SLOTT contributed an AOP to the Group of HK\$15.2 million for the year. The significant increase of AOP compared to FY2000 was mainly due to full-year contributions in this year. Given Tianjin's rank as the fourth largest container port in China, its AOP contribution is expected to rise further.

Nanjing

Huining reported an AOL of HK\$10.6 million for the year, compared to HK\$14.4 million in FY2000. The improvement in performance was mainly due to the handling of more high-yield minerals, such as copper and phosphate with high tariffs during the year.

Suzhou

The road freight business of Huisu reported an AOL of HK\$1.6 million for the year. The AOL was HK\$1.0 million for FY2000, but performance is expected to improve with the commencement of inland river transportation by first quarter 2002.

Outlook for 2002

After three years of restructuring and two years of growing profitability, the Group is in a position to expand on a solid business foundation. The smooth integration of NWI port assets into the Company fold allows the Group to increase its pace of growth and leverage off substantial Hong Kong-China synergies in the development of regional and global business.

The Company is the Greater China flagship of its main shareholders – NWI and The Asian Infrastructure Fund – in terms of port development, cargo handling and trucking. While the Group has aspirations in global markets, its focus is to capture an increasing share of Greater China trade flows. With WTO on the horizon the China port sector is prepared for an era of substantial expansion. Given the low containerisation rate of Mainland China's cargo handling market, the opportunity for world-class port operators and cargo handlers is impressive.

Nonetheless, the repercussions of the September 11 Incident in New York are yet to be fully understood on global trade flows. While a slow-down in export volumes is already noticeable as the global recession begins to take its toll, the Group takes comfort in the fact that China continues to grow on the basis of internal expansion. Overall, it is the ongoing prosperity of China and the nation's past record in weathering the Asian Crisis that bodes well for port activity. In addition, during this slower period, the Group makes an effort to modernise its operations and build its technology base in order to improve efficiency and productivity.

The container handling and storage segment is expected to remain a key AOP driver due to the growth of containerisation in the PRC. Hong Kong will remain a major AOP contributor as the gateway to China and due to the strong presence of CSXWT Hong Kong and ATL. Meanwhile, improved relations with Taiwan and the introduction of the Three Links Policy is an important factor for the growth of Xiamen Port. With better AOP performance from SLOTT and increased activity in Xiamen, the Group is prepared to meet the challenge.

Financial Resources

The total shareholders' funds of the Group at 30th June 2001 reached HK\$3.5 billion, an increase of 4% over 30th June 2000. The Group is essentially debt-free with a Debt to Equity Ratio of 0.1%, as compared to 0.4% at 30th June 2000. The cash flow surplus is expected to continue over next year.

Employees

As at 30th June 2001, the Group employed around 1,600 employees in Hong Kong and the PRC. Remuneration policies are reviewed yearly and remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective cities and business in which the Group operates. Apart from pension funds, employees are awarded annual bonuses and share options based on individual performance and market practice. Structured programs are offered for staff training and development.