

# Management Discussion & Analysis

Financial Review



			78,800	140,000	13,5
			48,778	89,678	13,5
			76,551	117,451	13,5
			13,737	74,637	13,5
			29,500	70,400	13,5
			43,115	84,015	13,5
			63,991	104,891	13,5
			77	61,777	13,5



**Earnings Per Share**

	2002	2001
Shares in issue ('000)	2,059,968	2,059,968
Profit attributable to Shareholders (HK\$'000)	143,945	276,138
Earnings per share – Basic (HK\$)	0.0049	0.0691

The profit attributable to shareholders of the Group reached HK\$143.9 million for the year, compared to HK\$276.1 million for FY2001. Earnings per share reached HK\$0.0049, compared to HK\$0.0691 for FY2001. The decrease in the results was primarily due to the net loss on disposal of relevant interests in subsidiaries and jointly controlled entities and the impairment losses on assets totalling HK\$193.6 million.

Before these items, the Group reported a 26% increase in net profit over last year. This improvement in the operating results was mainly a result of increases in the Xiamen operation as well as the reduction in loss for Nanjing operation due to the assignment of the operation and management right to Nanjing Port Authority by the Group.

**Cash Flow Analysis**

	2002 HK\$'000	2001 HK\$'000	Increase/ (decrease) %
Net cash inflow/(outflow) from operating activities	22,750	(1,986)	N/A
Net cash inflow from returns on investments and servicing of finance	169,766	84,138	102
Taxation	(117)	(90)	30
Net cash outflow from investing activities	(14,685)	(41,391)	(65)
Net cash inflow before financing	177,714	40,671	337
Net cash inflow/(outflow) from financing	9,648	(10,144)	N/A
Increase in cash and cash equivalents	187,362	30,527	514

**Inflow**

The net cash inflow from returns on investments and servicing of finance mainly resulted from dividends received from an associated company and jointly controlled entities. The dividend received was HK\$143.4 million more than last year.

**Outflow**

Net cash outflow from investing activities was mainly due to the acquisition of an associated company and the deconsolidation of subsidiaries. This was partially offset by a sale proceed of HK\$242.3 million received on disposal of certain subsidiary and jointly controlled entities during the year.

**Segment Analysis**
**Contribution By Activities**

	2002 HK\$'000	2001 HK\$'000
Turnover by activities:		
Cargo handling and storage	27,901	57,648
Container handling and storage	90,020	71,063
Road freight services	7,136	7,150
Total	125,057	135,861
Attributable operating profit/(loss) by activities:		
Cargo handling and storage	(4,486)	(10,604)
Container handling and storage	195,114	162,299
Road freight services	(4,941)	(1,169)
Warehousing	175,068	168,789
Total	360,755	319,315

The Group reported a turnover of HK\$125.1 million, an 8% decrease over FY2001. The decrease in turnover was mainly a result of cessation of the consolidation of the Nanjing cargo handling and storage operation since late December 2001.

Turnover of container handling operations continued to increase and reached HK\$90.0 million, a 27% increase over FY2001. The major reason for the increase was the positive result of Xiamen operation.

Turnover of road freight operations was HK\$7.1 million. This result was similar to the previous year.

The container handling and storage segment delivered an attributable operating profit ("AOP") of HK\$195.1 million, a 20% increase over FY2001. The warehousing segment reported an AOP of HK\$175.1 million, a 4% increase over FY2001. The attributable operating loss ("AOL") in the cargo handling segment was HK\$4.5 million, a 58% improvement over FY2001. The road freight segment reported an AOL of HK\$4.9 million, mainly due to one-off adjustments relating to the sole operation and management right of the Suzhou operation by the Group.

## Project Performance

Contribution by Region		
	2002 HK\$'000	2001 HK\$'000
Turnover by region:		
Xiamen	94,746	76,316
Nanjing	27,901	57,648
Suzhou	2,410	1,897
<b>Total</b>	<b>125,057</b>	<b>135,861</b>
Attributable operating profit/(loss) by region:		
Hong Kong	338,532	305,453
Xiamen	9,381	11,350
Tianjin	21,182	15,166
Nanjing	(4,486)	(10,604)
Suzhou	(4,771)	(1,594)
Others	917	(456)
<b>Total</b>	<b>360,755</b>	<b>319,315</b>

## Hong Kong

Hong Kong remains the major source of AOP. CSX World Terminals Hong Kong Limited ("CSXWTHK") and ATL Logistics Centre Hong Kong Limited ("ATL") contributed a combined AOP of HK\$340.4 million, compared to HK\$309.3 million for FY2001. Despite the fact that Hong Kong operation was affected by the global economic slow down and competition from Shenzhen, the operation managed to achieve a 10% increase in AOP through stringent cost control.

During the year, the Group entered into a share subscription agreement of Pacific Owner Limited, a wholly owned subsidiary of the Group, to rationalise the shareholdings between the Group and CSXWTHK in Asia Container Terminals Limited ("ACT"). After the transaction, CSXWTHK holds 29.5% equity interest in ACT and has become the single largest shareholder. The Group received approximately HK\$242.3 million as the consideration and recognised HK\$90.0 million as loss on partial disposal as a result of the transaction.

## Xiamen

Xiamen Performance		
	2002 HK\$'000	2001 HK\$'000
Attributable operating profit/(loss) of Xiamen by project:		
Xiangyu	21,418	19,576
Huijian	(5,842)	(4,336)
Xinyuan	705	1,283
WPZ	(5,232)	(5,173)
Xiangyu Free Port	(1,668)	-
<b>Total</b>	<b>9,381</b>	<b>11,350</b>

Xiamen Xiang Yu Quay Co., Ltd. ("Xiangyu") reported an AOP of HK\$21.4 million, an increase of 9% compared to HK\$19.6 million for FY2001. The share of Xiangyu's results was reduced from 92% to around 61% on 30 June 2002. The share will eventually be reduced to 50% in accordance with the merger agreement entered into between Xiangyu, Xiamen Xiangyu Free Trade Zone Huijian Quay Co., Ltd. ("Huijian") and Xiamen Xiangyu Free Port Developing Co., Ltd. ("Xiangyu Free Port"). Meanwhile, the increase of AOP was mainly due to higher throughput achieved through existing and new customers.

Huijian and Xiangyu Free Port reported AOL of HK\$5.8 million and HK\$1.7 million respectively, representing pre-operating expenses incurred. They will be absorbed by Xiangyu and dissolved after completion of the merger.

Xiamen Xinyuan Container Terminal Co., Ltd. ("Xinyuan") reported an AOP of HK\$0.7 million, compared to HK\$1.3 million for FY2001. Phase II development is now under review.

Xiamen New World Xiangyu Warehouse & Processing Zone Limited ("WPZ") reported a HK\$5.2 million AOL, similar to the previous year. The AOL was primarily due to the amortisation charge of the land use rights, also similar to FY2001. Due to the delay in the implementation of this project, an impairment loss of HK\$117.0 million was made on its fixed assets. While WPZ was loss making, it yielded positive operating cash flow.

## Tianjin

CSX Orient (Tianjin) Container Terminals Co., Limited contributed an AOP of HK\$21.2 million, a 40% increase compared to HK\$15.2 million in FY2001. The significant AOP increase was mainly a result of an increase in the volume of activity generated by existing and new customers.

### Nanjing

Nanjing Huining Wharfs Co., Ltd. ("Huining") reported an AOL of HK\$4.5 million, compared to HK\$10.6 million for FY2001. Effective 24 December 2001, the Group assigned the sole operation and management right of Huining to Nanjing Port Authority and ceased to consolidate the results of Huining since then.

### Suzhou

The road freight business of Suzhou Huisu International Container Freight Wharfs Co., Ltd. reported an AOL of HK\$4.8 million, compared to HK\$1.6 million for FY2001. The AOL increase was primarily attributable to one-off adjustments relating to the sole operation and management right by the Group. Without such adjustments, the AOL was slightly below last year.

### Outlook for 2003

Year 2002 was characterised by global economic slowdown and equity market turmoil and there are still uncertainties faced by the global economy in the near term. However, China is expected to maintain its growth momentum due to its accession to the World Trade Organization ("WTO") and Beijing's successful bid to host the 2008 Olympic Games.

After Hong Kong terminals experienced year-on-year decline in monthly throughput for 11 months, throughput has rebounded in April 2002 due to the export trade growth and capacity constraint of Shenzhen terminals. In 2003, Hong Kong is expected to enjoy a moderate growth with overflow volume from Shenzhen ports.

Throughput of major container ports in China reported double-digit growth rates in 2001 and this trend will be maintained. In the past, the growth was mainly fuelled by the economic development and increase in containerisation. China's accession to the WTO creates a new impetus for further increase between China and the rest of the world. In 2003, given China's need to modernise its port facilities and container handling capacity and to transform major ports into regional hubs, this trend will provide the Group with opportunities for expansion.

To capture the growth, the Group continues to look for new investment opportunities in China. This overall strategic initiative combined with the factors described above should position the Group for improved profitability and increased shareholder value.

### Financial Resources

The Group has sufficient financial resources for future investments. Bank balances and cash on hand reached HK\$349.3 million at the year end. The cash flow surplus is expected to continue over next year.

The total shareholders' funds of the Group at 30 June 2002 reached HK\$3.7 billion, an increase of 7% over 30 June 2001. The Group was debt-free as compared to a debt to equity ratio of 0.1% at 30 June 2001.

### Contingent Liabilities

A corporate guarantee has been given by New World Infrastructure Limited ("NWI"), the Company's intermediate holding company, in favour of certain banks for banking facilities granted to ACT to the extent of approximately HK\$891 million as at 30 June 2002 (2001: HK\$990 million), in proportion to the Group's interest in ACT. The proportionate amount utilised against such facilities at 30 June 2002 which was secured by the guarantee amounted to approximately HK\$193 million (2001: HK\$89 million).

CSXWTHK has agreed to counter-indemnify NWI the corporate guarantee of approximately HK\$527 million, as included above, given in relation to ACT.

### Employees

As at 30 June 2002, the Group employed around 140 employees in Hong Kong and the PRC after deconsolidation of certain subsidiaries. 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 provident 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.