

Chairman's Statement



While we have many strong utilities assets, the Group wishes to be more than a conventional utilities company offering only stable cash flow. We are determined to become a “utilities-plus” company, one that adds value for shareholders by actively seeking growth and high performance. We are now well positioned to grow and excel.

Fellow shareholders,

Subsequent to the reorganization completed in January 2003, NWS Holdings faced the turmoil of SARS. During this difficult period, the Group's tripod structure (Service, Infrastructure and Ports) proved to be a strong and effective shield as the shortfall of any one division was compensated by the other two.

FY2004 marked the first year in which our businesses made full contributions. NWS Holdings reported a FY2004 net profit of HK\$1,538.2 million, a growth of 29% over the same period in the previous year. The robust results reflect the success of the reorganization and the achievement of distinct synergies. We are now well positioned to grow and excel.

With the strong and stable cash flow from our project portfolio, we reduced Net Debt significantly by 33% to HK\$4.6 billion, taking Gearing Ratio down from 64% to 44% by the end of FY2004.

Targeting Future Growth

NWS Holdings has a stable structure and a prudent management team. However, this does not imply the Group is content with the current portfolio or that it is resistant to change. We are always seeking new opportunities. At the same time, when projects do not satisfy our investment objectives, we will not hesitate to dispose of them and reinvest in assets offering better returns. For example, we have disposed of or arranged for disposals of the Zhaoqing Roadways Network, the Tianjin Yonghe Bridge,

the Wuhan Bridges project, the Sichuan Qianwei Dali Power Plant, the Shunde Desheng Power Plant and the Suzhou Huisu container terminal project.

The Group has already enhanced its business in many ways. In Hong Kong, for example, we have acquired Sky Connection Limited, which retails tobacco and liquor at Free Duty shops at Hong Kong International Airport and key ferry terminals in Hong Kong. In addition, the Group formed Merryhill Group Limited, a 50/50 joint venture with CTF, to provide a comprehensive range of bus and ferry services in Hong Kong, Mainland China and Macau.

In Mainland China, our joint venture bus business, Kunming New World First Bus Services Limited, commenced services in Kunming,

Yunnan Province. Our water treatment operations also expanded coverage to Sanya, Hainan Province and Tianjin's Tanggu District. Hip Hing Construction (China) Company Limited and NWS Engineering Limited set up wholly owned enterprises in Beijing and were granted qualification certificates of construction enterprises by the Ministry of Construction that will open the door to huge market potential.

In addition to these new investments, the Group is also considering opportunities in power plants, toll roads and ports. We have just invested in Beijing-Zhuhai Expressway (Guangzhou-Zhuhai Northern Section). It is expected the expressway would be operational by the end of 2005. While our strong capital base and recurrent cash flow provide a springboard for expansion, all major new investments will be prudently reviewed by the Executive Committee.

Our "Utilities-Plus" Ambition

Just 18 months since the reorganization, NWS Holdings is still a young company, although our employees are all experienced professionals. While we have many strong utilities assets, the Group wishes to be more than a conventional utilities company offering only stable cash flow. We are determined to become a "utilities-plus" company, one that adds value for shareholders by actively seeking growth and high performance.

For instance, HKCEC has been operating close to capacity during peak seasons. To accommodate the ever increasing demand from exhibitors and convention organizers, the Hong Kong Trade Development Council has proposed an extension to the HKCEC Atrium link. Once completed, the new extension will bring additional business to the Facilities segment as we enhance our first-class operations in the HKCEC to accommodate the "mega shows" of

the future. As existing trade events expand and new events are added to the HKCEC's portfolio, these will all generate extra income from food and beverage and other supporting services.

Driving Forward

The revival of Hong Kong's economy and the stable economic growth in Mainland China are together underpinning a gradual improvement in the performance of all our operations.

We remain optimistic about the China economy, although competition among corporate investors remains keen. Winning new projects at reasonable rates of return has become increasingly challenging. However, our long-standing relationships with local authorities and our track record of success in many parts of Mainland China should help us in winning higher-yield new investments.

In our Ports operations, the loss of a major customer in Hong Kong and fierce competition from Shenzhen will adversely affect performance. While we have enjoyed strong growth in Mainland China and expect to see continued strength, this will not be sufficient to fully mitigate the negative impact of the customer loss and the increasingly competitive environment in which we operate. We are therefore unable to be overly optimistic about the outlook of our Ports business.

Service is Our Business

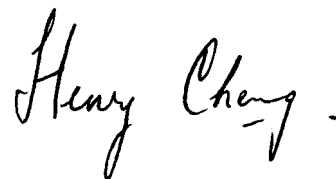
Our business is all about providing people with high quality services that are indispensable to the people in Hong Kong, Mainland China and Macau. In FY2004, for example, HKCEC hosted 1,890 events attended by 4.8 million people. In our Facilities segment, our property management team is now managing 180,000 residential units and over

20 million sq ft of commercial and industrial space. Our Roads and Bridges segment sees a daily traffic of over 350,000 vehicles. Our Energy projects sell around 10,000 GWh of electricity per year. Our Water Treatment and Waste Management operations can process up to 3.95 million cbms of water and 60,000 tonnes of waste per day. Our Ports facilities have a total handling capacity of 5.4 million TEUs per year.

Dedicated professional staff can make a real difference to our performance. Our corporate mentor system and career development programme will deliver the talent we need to take the Group forward in the years to come.

As one of the core values of the Group, our sustained commitment to the wider community in which we operate has gained full support from our staff. Their enthusiasm for community service has won wide recognition and praise for the Group. I am very proud of their selfless contribution and the care they show for society.

On behalf of all the directors, I would like to thank our staff for their hard work and dedication in an important year which – I firmly believe – has set us on a path to greater prosperity.



Dr Cheng Kar Shun, Henry
Chairman

Hong Kong, 15 October 2004