

Management Discussion and Analysis

Group Overview

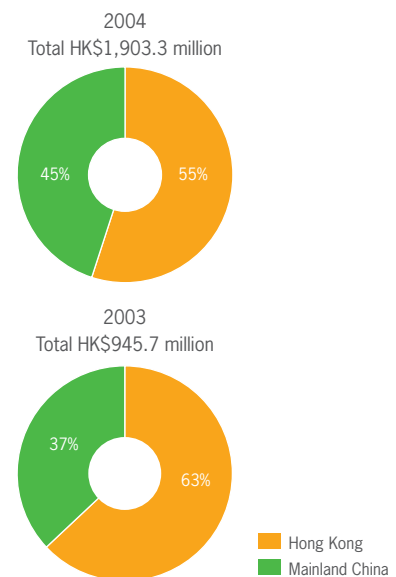
The Group reported a profit attributable to shareholders of HK\$1.538 billion for FY2004, an increase of HK\$345.0 million or 29%, as compared to HK\$1.193 billion for FY2003. AOP rose to HK\$1.903 billion, an increase of 101%, as compared to HK\$945.7 million in FY2003. As this is the first year with full year contributions from the service businesses and infrastructure assets acquired in the reorganization completed in January 2003 (the "Reorganization"), NWSS and NWSI contributed AOP of HK\$727.2 million and HK\$806.2 million respectively, as compared to the five-month contributions of HK\$241.0 million and HK\$307.8 million respectively in FY2003. NWSP reported an AOP of HK\$369.9 million, representing a

decrease of 7% from FY2003. In addition, an annual amortization of net negative goodwill amounted to HK\$70.8 million in FY2004 as compared to HK\$69.0 million in FY2003, while a one-off negative goodwill of HK\$474.0 million was also recognized in FY2003.

Hong Kong and Mainland China continued to be the two dominant sources of AOP, contributing 55% and 45% respectively. As compared to FY2003, the Group achieved a more balanced investment portfolio by region.

A detailed analysis on the operating performance of the businesses is prepared under the section headed "operational review". As the service businesses and infrastructure assets

AOP by Region



Contribution by Division

For the year ended 30 June	2004 HK\$m	As restated 2003 HK\$m
Service	727.2	241.0
Infrastructure	806.2	307.8
Ports	369.9	396.9
Attributable operating profit	1,903.3	945.7
<i>Head office and non-recurring items</i>		
Net profit on disposal of subsidiary companies	392.3	27.1
Profit on disposal of a jointly controlled entity	13.1	–
Impairment loss on investment in a jointly controlled entity	(29.0)	–
Impairment loss on goodwill of an associated company	(310.0)	–
Impairment loss on fixed assets	(36.4)	(74.8)
Loss on disposal of fixed assets	(26.7)	–
Recognition of one-off negative goodwill	–	474.0
Annual amortization of net negative goodwill	70.8	69.0
Fair value adjustment arising from the Reorganization	(46.8)	(20.9)
Other interest income	4.4	6.5
Other finance costs	(170.8)	(131.5)
Other operating expenses	(226.0)	(77.9)
Expenses arising from the Reorganization	–	(24.0)
Profit attributable to shareholders	1,538.2	1,193.2

were acquired in January 2003 pursuant to the Reorganization, for easier comparison, the performances of NWSS and NWSI are analyzed on full-year basis with the unaudited pro forma results for FY2003 as comparatives. In addition, we have restated certain comparative figures to conform to this year's presentation.

Earnings per Share

Basic earnings per share were HK\$0.86 for FY2004, a decrease from HK\$1.36 in FY2003 due to the expansion of the number of shares arising from the Reorganization. Diluted earnings per share for FY2004 were HK\$0.86 after accounting for share options and the convertible bonds. There was no dilutive effect in FY2003.

Liquidity and Financial Resources

Following the treasury policy to maintain a balanced debt profile, the Group continued to reduce debt. As at 30 June 2004, total cash and bank balances increased to HK\$3.502 billion, as compared to HK\$2.548 billion as at 30 June 2003. Net Debt dropped significantly by 33% from HK\$6.893 billion as at 30 June 2003 to HK\$4.618 billion as at 30 June

2004. The Gearing Ratio decreased significantly from 64% as at 30 June 2003 to 44% as at 30 June 2004. As at 30 June 2004, the capital structure was 46% debt and 54% equity, as compared to 53% and 47% respectively as at 30 June 2003.

As at 30 June 2004, Total Debt decreased to HK\$8.120 billion from HK\$9.441 billion as at 30 June 2003. Long term bank loans and borrowings decreased to HK\$5.564 billion, compared to HK\$7.755 billion as at 30 June 2003. Among these, an unsecured HK\$6.0 billion 5-year syndicated term loan was drawn on 24 November 2003 to refinance the remaining balance of the previous secured bridging loan and the balance was reduced to HK\$4.917 billion as at 30 June 2004. Secured bank loans and overdrafts amounted to HK\$42.9 million, of which HK\$42.1 million was secured by the toll collection right of a toll road in Mainland China. Bank loans of HK\$46.3 million were denominated in RMB; all other bank loans were denominated in Hong Kong dollars. In April 2004, the Group issued zero coupon guaranteed convertible bonds due 2009 in the aggregate principal amount of HK\$1.350 billion to optimize the capital structure. Except for the secured bank loan and the

convertible bonds, all other debts were at floating rate. The Group did not have any material exposure in exchange risk other than RMB during the year. The aggregate net book value of pledged fixed assets and the amount of deposits pledged as securities for certain banking facilities as at 30 June 2004 were HK\$9.4 million and HK\$15.5 million respectively as compared to HK\$14.1 million and HK\$113.8 million as at 30 June 2003.

Total Group commitments for capital expenditure were HK\$69.4 million, and the share of commitments for capital expenditure committed by jointly controlled entities was HK\$473.5 million. Sources of funding for commitments for capital expenditure are from internally generated resources and banking facilities.

Contingent liabilities of the Group were HK\$2.150 billion as at 30 June 2004 as compared to HK\$2.211 billion as at 30 June 2003. These were composed of guarantees for credit facilities granted to associated companies and jointly controlled entities of HK\$82.4 million and HK\$2.068 billion as at 30 June 2004 as compared to HK\$1.280 billion and HK\$931.2 million respectively as at 30 June 2003. These guarantees included a corporate guarantee given by the Group for banking facilities granted to Asia Container Terminals Limited ("ACT") of approximately HK\$858.0 million as at 30 June 2004 and 30 June 2003, in proportion to the Group's interest in ACT. The proportionate amount utilized against such facilities and secured by the guarantee amounted to approximately HK\$351.4 million as at 30 June 2004 as compared to HK\$267.3 million as at 30 June 2003. CSX World Terminals Hong Kong Limited ("CSXWTHK") has agreed to counter-indemnify the guarantee of approximately HK\$507.0 million as at 30 June 2004 and 30 June 2003.

Debt Profile

Total Debt
HK\$' billion

