

Management Discussion and Analysis

operational review

Ports

- ● ● The earnings from Hong Kong ports businesses were shrunken due to the tough operation environment in Hong Kong and increasing pressures from Shenzhen. This was partly mitigated by the growth in throughput of ports in Mainland China arising from solid expansion in trade flows.



Xiamen Xiang Yu Quay
was bestowed Xiamen
Excellent

Container Terminal in
Comprehensive Services



Management Discussion and Analysis

NWSP saw a decline in AOP for FY2004 from the previous year. This was primarily due to lower earnings from Hong Kong port operations caused by the tough operation environment in Hong Kong. The negative impact was partly mitigated by increased container handling activity registered in Mainland China port operations.



Container Terminal No. 3 in Hong Kong

During FY2004, the disposal of a plot of land in Tianjin with an area of approximately 120,000 sq.m. resulted in a loss of around HK\$26.7 million. Due to the loss of a major customer and the current difficult business environment, NWSP incurred impairment loss on goodwill of around HK\$310.0 million for CSXWTHK. Besides, an impairment loss on fixed assets of around HK\$36.0 million for Xiamen New World Xiangyu Warehouse & Processing Zone Limited was recorded.

NWSP reported a total AOP of HK\$369.9 million, compared to HK\$396.9 million in FY2003. The NWSP AOP contribution to NWS Holdings for FY2004 can be classified into the following activities:

Container Handling

Hong Kong

Hong Kong remained the most important AOP contributor to NWSP. CSXWTHK and ATL Logistics Centre Hong Kong Limited ("ATL") reported a combined AOP of HK\$314.0 million, a decrease of 9% from FY2003.

CSXWTHK recorded a decline in AOP attributable to the decrease in throughput handled in FY2004. During the year, CSXWTHK handled approximately 1.11 million TEUs, a decrease of 17% from 1.34 million TEUs recorded in FY2003. The change was mainly due to the loss of a major customer. CSXWTHK is now undertaking aggressive marketing measures to seek replacement customers and implementing cost-saving measures to protect margins.

| AOP Contribution by Segment | | | |
|-----------------------------|---------------|------------------------------|--------------------------|
| For the year ended 30 June | 2004 HK\$m | As restated 2003 HK\$m | Change % Fav./Unfav.) |
| Container Handling | 186.5 | 240.4 | (22) |
| Logistics and Warehousing | 183.4 | 156.5 | 17 |
| Total | 369.9 | 396.9 | (7) |

ACT holds an interest in two berths at Container Terminal No.9 (“CT9”). The exchange of these two CT9 berths for Modern Terminals Limited’s two berths at Container Terminal No.8 West (“CT8W”) was completed during FY2004. By the end of the year under review, all equipment and system commissioning works at CT8W were nearly complete and the terminal is expected to be fully operational by the fourth quarter of 2004. The additional handling capacity from CT8W will deliver an important long-term benefit to NWSP by achieving key synergies with CT3.

Mainland China

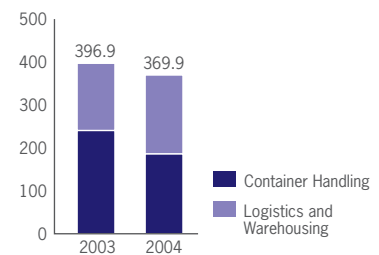
The ports of Tianjin and Xiamen continue to lead the way in the Mainland China port sector on the back of solid expansion in trade flows.

Tianjin

CSX Orient (Tianjin) Container Terminals Co., Limited, the operator of four container berths and one coal berth in Tianjin Xingang, contributed AOP that was 6% below FY2003. In FY2004, the throughput grew to 1.14 million TEUs, a rise of 11% from 1.03 million TEUs in the previous year. However, the AOP was partially eroded by rapidly increasing fuel prices and maintenance costs.

AOP Contribution by Segment

HK\$m



Xiamen

Xiamen Xiang Yu Quay Co., Ltd. (“Xiangyu”) reported a significant increase of 85% in AOP from FY2003. The increase in AOP was mainly due to the 25% increase in throughput from



ATL Logistics Centre

Management Discussion and Analysis



Xiamen Xiang Yu Quay

482,000 TEUs in FY2003 to 603,000 TEUs in FY2004. The throughput increase was primarily attributable to the volume increase of existing major customers. However, the volume-driven increase in AOP was partially offset by higher interest expenses following the replacement of shareholders' loans by bank loans after the merger.

To enhance competitiveness against other terminal operators within the region, Xiangyu has procured additional container handling equipment and is undertaking dredging works to accommodate larger container vessels.

Logistics and Warehousing

AOP in Logistics and Warehousing segment comprised contributions

from ATL and other projects in Mainland China.

ATL contributed an increase in AOP in FY2004 following an unfavourable adjustment recognized in FY2003. The average occupancy rate decreased slightly to 91% from 95% in the previous year. In order to maintain its premier position and increase competitiveness, ATL Logistics Centre is now upgrading both hardware and software to enhance the quality of customer service.

Business Outlook

The Hong Kong economic recovery, coupled with surging import and export trade in South China, contributed to the container throughput growth in Hong Kong in the first half of 2004. The Hong Kong Port

Development Council reported total throughput handled by Hong Kong in the first six months of 2004 at 10.6 million TEUs, an increase of 8.4% over the same period last year.

While these trends are welcome, the challenges facing the Group's port operations must not be overlooked. Hong Kong ports are facing fierce competition from Shenzhen ports and a recent McKinsey report sees an urgent need for the HKSAR Government to reduce cross-border trucking costs and local terminal handling charges before Hong Kong can compete effectively. The competitive pressure from Shenzhen, and the loss of a major customer at CT3, will have an adverse impact in future earnings. CSXWTHK is now implementing aggressive marketing measures to seek new customers. Potential customers include major and medium-size international shipping lines. In addition, CSXWTHK also implemented stringent cost-saving measures to retain its profit margin and maintain its competitiveness in the market.



Container Terminal No. 8 West in Hong Kong



CSX Orient (Tianjin) Container Terminals

Mainland China is the key to the success of the ports operation. As the nation continues to expand exports and accession to the World Trade Organization opens a dormant import market, Mainland China's ports are enjoying robust growth. Despite recent attempts by the Central Government to cool down Mainland China's overheated economy, the trade volume has maintained its growth rate. However, competition will certainly increase as major coastal container ports such as Dalian, Qingdao, Tianjin, Xiamen and Shanghai position themselves as regional hubs to eventually replace Busan and Kaohsiung.

Xiamen port, the shipment hub for Fujian Province in Southeast China, has continued its strong growth trend and has seen a year-on-year growth of 26% in container throughput in the first half of 2004. Both the Xiamen Municipal Government and the Fujian Provincial Government are committed to the future development of Xiamen port. NWSP's joint venture in Xiamen, with a quay length of nearly 1 km, is well positioned to accommodate and benefit from the long-term trade growth in this region.

There are also attractive prospects in Tianjin port. The increase in

throughput target for the calendar year 2004 from 3.6 million TEUs to 3.8 million TEUs bodes well for the future. Tianjin remains a key gateway to the north. The Group believes it is the port most likely to benefit from economic stimulus prior to the 2008 Olympics.

On balance, despite challenges ahead, NWSP will continue to explore new investment opportunities in the port and logistics sectors of Mainland China with a view to widening the earnings base and improving shareholder value.