

Management Discussion and Analysis

Group Overview

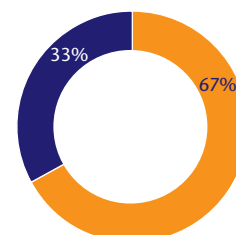
The Group reported a profit attributable to shareholders of HK\$2.918 billion for FY2005, an increase of HK\$1.380 billion or 90%, as compared to HK\$1.538 billion for FY2004. Attributable Operating Profit ("AOP") dropped by 26% from HK\$1.903 billion in FY2004 to HK\$1.415 billion in FY2005. After disposal of our attributable interests in Container Terminal No. 3 ("CT3") and Container Terminal No. 8 West ("CT8W") in Hong Kong, management decided to streamline the Group's major businesses into two divisions,

namely "Infrastructure" and "Service & Rental". Infrastructure division achieved a stable AOP of HK\$1.010 billion, a slight increase as compared to HK\$1.006 billion in FY2004. Service & Rental division reported an AOP of HK\$404.8 million, a decrease of 55% from HK\$897.1 million in FY2004. Apart from the operating results, additional profits of HK\$1.777 billion were recognized for the disposal of our interests in CT3 and CT8W and HK\$253.2 million for the disposal of our stakes in other infrastructure projects. On the other

hand, assets impairment losses of HK\$57.8 million were recorded, mainly for goodwill and other investments, as compared to HK\$375.4 million in FY2004. As the new Hong Kong Financial Reporting Standard 3 ("HKFRS 3"), Hong Kong Accounting Standard 36 ("HKAS 36") and Hong Kong Accounting Standard 38 ("HKAS 38") were early adopted, no amortization of goodwill was recorded, as compared to HK\$70.8 million amortization of net negative goodwill in FY2004.

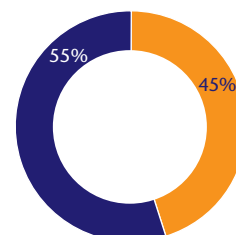
Contribution by Division For the year ended 30 June		
	2005 HK\$'m	2004 HK\$'m
Infrastructure	1,010.2	1,006.2
Service & Rental	404.8	897.1
Attributable operating profit	1,415.0	1,903.3
<i>Head office and non-operating items</i>		
Profit/(loss) on disposal of port projects	1,777.0	(3.3)
Net profit on disposal of other infrastructure projects	253.2	408.7
Loss on disposal of fixed assets	–	(26.7)
Assets impairment loss	(57.8)	(375.4)
Amortization of net negative goodwill	–	70.8
Other interest income	56.8	4.4
Other finance costs	(175.4)	(170.8)
Others	(350.8)	(272.8)
	1,503.0	(365.1)
Profit attributable to shareholders	2,918.0	1,538.2

AOP by Region



2005
Total HK\$1,415.0 million

- Hong Kong
- Mainland China and Macau



2004
Total HK\$1,903.3 million

- Hong Kong
- Mainland China and Macau

Contributions from Hong Kong accounted for 33% of AOP while Mainland China and Macau contributed 67%, as compared to 55% and 45% respectively in FY2004.

Earnings per share

The earnings per share for FY2005 was HK\$1.62, an 88% increase over HK\$0.86 in FY2004, mainly due to the substantial increase of net profit driven by exceptional profits. Diluted earnings per share for FY2005 were HK\$1.61 after we take into account the dilutive effect of share options, as compared to HK\$0.86 for FY2004.

Liquidity and financial resources

The Group's funding and treasury policy is to maintain a balanced debt profile with significant risk diversification. As at 30 June 2005, total cash and bank balances amounted to HK\$3.650 billion, as compared to HK\$3.502 billion as at 30 June 2004. Net Debt dropped significantly by 46% from HK\$4.618

billion as at 30 June 2004 to HK\$2.473 billion as at 30 June 2005. The gearing ratio decreased significantly from 44% as at 30 June 2004 to 18% as at 30 June 2005. The capital structure of the Group was 32% debt and 68% equity as at 30 June 2005, a much stronger financial position as compared to 46% debt and 54% equity as at 30 June 2004.

As at 30 June 2005, Total Debt decreased to HK\$6.123 billion from HK\$8.120 billion as at 30 June 2004. Besides the HK\$1.350 billion zero coupon guaranteed convertible bonds due 2009, long-term bank loans and borrowings decreased from HK\$4.214 billion as at 30 June 2004 to HK\$2.493 billion as at 30 June 2005, with HK\$1.041 billion maturing in the second year and the remaining in the third to fifth year. Secured bank loans and overdrafts amounted to HK\$42.6 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. Except for the RMB bank loans and the convertible bonds, all other debts were bearing interest at floating rate. The Group did not have any material exposure in exchange risk other than RMB during the year. No fixed assets were pledged as at 30 June 2005.

Total Group commitments for capital expenditure were HK\$22.0 million as at 30 June 2005 as compared to HK\$69.4 million as at 30 June 2004, and the share of commitments for capital expenditure committed by jointly controlled entities was HK\$166.2 million as at 30 June 2005 as compared to HK\$473.5 million as at 30 June 2004. Sources of funding for commitments for capital expenditure are internally generated resources and banking facilities. In addition, the Group had committed to acquire interests in various infrastructure projects in Mainland China. The estimated total relevant commitments as at 30 June 2005 were approximately HK\$829.2 million.

Debt Profile



Contingent liabilities of the Group were HK\$1.122 billion as at 30 June 2005 as compared to HK\$2.150 billion as at 30 June 2004. These were composed of guarantees for credit facilities granted to associated companies, jointly controlled entities and a related company of HK\$19.2 million, and HK\$1.048 billion and HK\$55.0 million as at 30 June 2005 as compared to HK\$82.4 million for associated companies and HK\$2.068 billion for jointly controlled entities respectively as at 30 June 2004. The share of contingent liabilities of jointly controlled entities was HK\$95.1 million as at 30 June 2005 as compared to HK\$206.9 million as at 30 June 2004.