

→ Management Discussion and Analysis

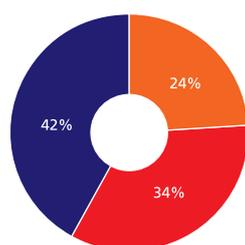
NWSH Overview

In 2003, the Group entered into the Reorganization exercise with NWI and NWSS, and the Reorganization was completed on 29 January 2003 (for more details see the “Reorganization of New World Group”). As a result of the Reorganization, Group profitability and net worth were substantially enlarged.

AOP Mix*

(for the year ended 30 June 2003)

Total: 964.9 million



Service Ports
Infrastructure

* Full year for Ports, 5 months for Infrastructure and Service

AOP Breakdown

The Group reported profit attributable to shareholders of HK\$1,213.4 million, an increase of 743% compared to HK\$143.9 million from FY2002. AOP rose to HK\$964.9 million, up 167% from HK\$360.8 million in FY2002. Robust growth in profit attributable to shareholders and AOP were mainly due to the Reorganization that combined existing ports business with traditional infrastructure assets and service businesses. As the Reorganization was completed in January 2003, the contributions from NWSS and NWSI cover 29 January 2003 to 30 June 2003 (the “Period”) and are consolidated into Group results.

NWSS includes five segments: Facilities, Contracting, Transport, Financial and Environmental. NWSS’ AOP for the Period was HK\$236.4 million, representing 24% of the Group total. Facilities achieved AOP of HK\$73.3 million, or 31% of total NWSS’ AOP. Contracting reported AOP of HK\$154.4 million, some 65% of the total NWSS’ AOP. Transport recorded a HK\$25.1 million loss, mainly due to a decline in customer flows during the SARS period and the competition from the new Mass Transit Railway line in Tseung Kwan O (“TKO Line”).

NWSI comprises three segments of Roads and Bridges, Energy, and Water Treatment and Waste Management. These segments generated AOP of HK\$324.9 million for the Period and accounted for 34% of Group AOP. The Roads and Bridges and Energy segments were major contributors, with AOP of HK\$124.3 million and HK\$182.8 million respectively, for a combined 95% of NWSI’s AOP. AOP contribution from Water Treatment and Waste Management reached HK\$17.8 million.

NWSP reported AOP of HK\$403.6 million, a rise of 12% from HK\$360.8 million in FY2002, representing 42% of the Group’s AOP. Container handling was the major contributor and achieved AOP of HK\$229.0 million, accounting for 57% of NWSP’s AOP.

In Spring 2003, Hong Kong and Mainland China suffered severely from SARS and Group’s AOP was negatively impacted by the outbreak. NWSS was the hardest hit business arm and within this division the Transport segment suffered most. The total estimated loss in profit for NWSS was approximately HK\$147.7 million.

NWSI was comparably less affected by SARS, though some HK\$10.0 million of estimated profit was lost. Generally, SARS had limited impact on the NWSP in FY2003. Generally, there is concern that SARS may resurface in the second half of 2003.

Besides AOP derived from operating business divisions, the financial results benefited from net negative goodwill of HK\$994.6 million derived from acquisition of the NWSS businesses. The amortization of net negative goodwill of HK\$546.0 million has been recognized in the consolidated profit and loss account, and is composed of a recognition of one-off negative goodwill of HK\$474.0 million and annual amortization of HK\$72.0 million. Other non-recurring items include a HK\$27.1 million profit on disposal of Roadway No. 1967 (Xinxing Section) and a HK\$74.8 million impairment loss on fixed assets as compared to HK\$119.5 million in FY2002.

Contribution by Division

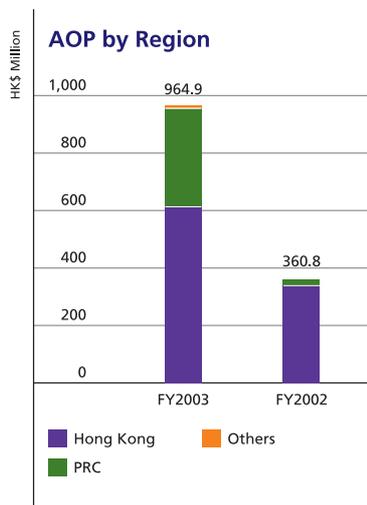
	2003 HK\$'M	2002 HK\$'M
Service	236.4	–
Infrastructure	324.9	–
Ports	403.6	360.8
Attributable operating profit	964.9	360.8
<i>Head office and non-recurring items</i>		
Impairment loss on fixed assets	(74.8)	(119.5)
Profit on disposal of a subsidiary	27.1	21.7
Loss on disposal of a subsidiary and partial disposal of jointly controlled entities	–	(90.0)
Recognition of one-off negative goodwill	474.0	–
Amortization of net negative goodwill	72.0	–
Fair value adjustment arising from the Reorganization	(20.9)	–
Other interest income	6.5	4.3
Other finance costs	(131.5)	–
Expenses arising from the Reorganization	(24.0)	–
Other operating expenses	(79.9)	(33.4)
Profit attributable to shareholders	1,213.4	143.9

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Geographic Breakdown

Hong Kong and Mainland China were the dominant AOP producers, contributing 64% and 36% respectively, compared to 94% and 6% in FY2002. Overall, the Group achieved a more balanced investment portfolio by region.

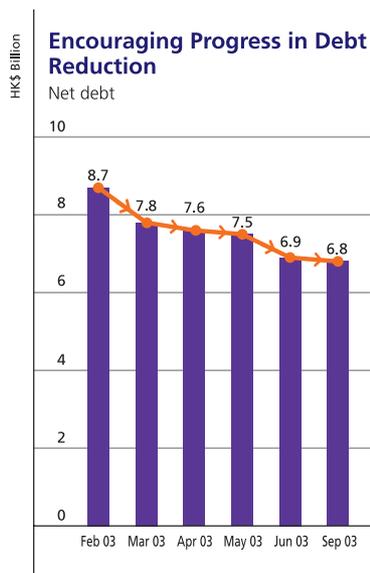


Earnings Per Ordinary Share

Earnings per ordinary share ("EPS") reached HK\$1.39, representing a 27 times increase compared to FY2002. This huge exceptional increase in EPS was due to the rise in profit attributable to shareholders and also the decrease in payment of a preference dividend from FY2002 HK\$133.9 million to FY2003 HK\$11.4 million.

Liquidity and Financial Resources

As at 30 June 2003, total cash and bank balances amounted to HK\$2,548.4 million, compared to HK\$349.3 million for FY2002. The net debt after the Reorganization amounted to HK\$8,682.0 million, which was primarily due to the consolidation of debt from NWSS and bank finance for the acquisition of NWI assets, of which approximately HK\$1,789.3 million was repaid during the Period, and the net debt reduced to HK\$6,892.7 million as at 30 June 2003. As a result, the gearing ratio, which represents net debt to shareholders' funds plus minority interests and loans, decreased from 85% after the Reorganization to 62% in June 2003. The capital structure of the Group was 52% debt and 48% equity in June 2003, compared to the debt free position in the previous financial year.



Net cash generated from operating activities reached HK\$920.2 million. Net cash used in investing activities amounting to HK\$4,465.2 million was primarily due to the acquisition of NWI's infrastructure assets and net cash generated from financing activities totalling HK\$5,732.9 million was mainly due to the bank financing for this acquisition.

The Group's funding and treasury policy is to maintain a balanced debt profile with significant risk diversification by specifying the preferred mix of fixed and floating debts. As at 30 June 2003, long-term bank loans amounted to HK\$7,754.6 million, representing 82% of total debt. A substantial portion of the long-term bank loans was attributable to a bridging loan arranged for the Reorganization of HK\$6,000.0 million outstanding at 30 June 2003, that was secured by shares in directly owned subsidiary companies of NWSH. This bridging

loan is to be refinanced by a long-term syndicated bank loan subsequently. Other secured bank loans amounted to HK\$232.3 million, of which HK\$133.2 million was secured by the toll collection rights of certain toll roads and HK\$99.1 million was secured by cash deposits. Fixed rate borrowings amounted to HK\$226.7 million denominated in Renminbi ("RMB"). All other debts were in floating rate and denominated in Hong Kong dollars.

Except for RMB, the Group did not have any other material exposure in exchange risk during the year.

The Group's funding and treasury policy is to maintain a balanced debt profile.

Total Group commitments for capital expenditure were HK\$50.4 million, and the share in commitments for capital expenditure committed by jointly controlled entities was HK\$411.5 million. Sources of funding for commitments for capital expenditure are internally generated resources and banking facilities.

Contingent liabilities of the Group were HK\$2,211.1 million, composed of guarantees for credit facilities granted to associated companies and jointly controlled entities HK\$1,279.9 million (2002: Nil) and HK\$931.2 million (2002: Nil) respectively. These guarantees included a corporate guarantee given by the Group for banking facilities granted to Asia Container Terminals Limited ("ACT"), releasing and replacing guarantees from NWI prior to the Reorganization, to the extent of approximately HK\$858.0 million as at 30 June 2003 (2002: Nil), in proportion to the Group's interest in ACT. The proportionate amount utilized against such facilities at 30 June 2003 which was secured by the guarantee amounted to approximately HK\$267.3 million (2002: Nil). CSX World Terminals Hong Kong Limited ("CSXWTHK") has agreed to counter indemnify the guarantee of approximately HK\$507.0 million (2002: Nil).

Employees

As at 30 June 2003, the Group employed over 29,000 people of which some 24,000 were employed in Hong Kong. Related staff costs, excluding directors' remunerations, totalled approximately HK\$1,080.0 million. Provident funds and staff bonuses were paid to employees. Remuneration packages are reviewed according to general market conditions every year. Structured training programmes were provided to employees on an ongoing basis.