

# Service Management



## NWS Service Management Limited

Pursuant to the Reorganization, all NWSS businesses were acquired by NWSH and their results for the Period were consolidated into NWSH. For easier comparison, the operating performance is analysed on a year-on-year basis, unless otherwise specified.

NWSS was presented with a great challenge this financial year. NWSS' AOP declined when compared to the previous year due to a number of factors, yet the result was not as negative as predicted. SARS depleted NWSS profitability, however this operating division sustained AOP due to its service excellence and operational efficiency.

Each NWSS segment faced its own set of challenges over the year. Facilities was hit by a downturn in Hong Kong economic activity and the cancellation and postponement of exhibitions caused by SARS. Transport witnessed an AOP decline due to a reduction in local travel related to SARS and competition from other modes of transportation. Contracting faced a decline in construction activity as a result of the economic climate and a slump in the property market. The Financial and Environmental segments maintained AOP contributions, however these businesses represent a small part of operations.



# → Management Discussion and Analysis

## Operational Review — Service Management

The NWSS outlook is mixed as a result of underlying fundamentals that impact expansion. Over the years, NWSS has generated steady income from activities centered in Hong Kong. Forays were made into Mainland China, commencing with the Contracting segment's 1980 China Hotel project in Guangzhou. Though business development is limited due to a different operating environment and culture, expansion headway was made and investments in localized foreign enterprises are under consideration.

NWSS has advantages in the service market. Management quality and expertise have stood the test of time in a demanding market. NWSS benefits from an integrated management team with ample experience in dealing with people intensive businesses. NWSS can leverage this strength to aggressively pursue market share in Hong Kong and support its Mainland China investment programme. In addition, this management prowess is key to the development of the Group in terms of integration with other business divisions.

**Management quality and expertise have stood the test of time in a demanding market.**

### **Hong Kong Outlook Mixed**

The economic recovery of Hong Kong and the end of SARS will improve AOP contribution in the coming year. Among all operating segments, those likely to witness a marked AOP improvement are Transport and Facilities. Both segments will move from under the SARS shadow to post AOP gains.

From a macro-economic view, Hong Kong is prepared to emerge from a low growth period. After a rise in economic activity in the fourth quarter of 2002 and another surge in the first quarter of 2003, estimates project modest GDP growth of 1% for 2003. This trend will accelerate in 2004 with GDP expansion estimated to top 5.4%.

Other macro-economic factors place downward pressure on AOP. For instance, Hong Kong's deflationary trend is forecast to continue with consumer prices expected to fall by 2.8% in 2003, and another 0.6% in 2004. In addition, the budget deficit is rising at the same time as the current account surplus is estimated to fall. This could put pressure on the government to increase taxes, an action that may dampen economic growth. While SARS has had a severe impact on international travel to Hong Kong, a notable increase in travel from Mainland China may stem the downturn.

**With a firm foundation in Hong Kong NWSS is identified with service-oriented excellence.**

### **Mainland China Opportunity**

A combination of improvements in the Hong Kong economy and gradual expansion in Mainland China bodes well for AOP growth in coming years.

The potential to deliver a range of services to Mainland China is promising.

A booming economy means more construction, more buildings in need of service, more facilities to manage and more opportunity on every front.

Any new business generated in these areas supplements the already existing property management business developed by NWSS over the years.

Macro-economic factors stimulate the Mainland China economy and support the NWSS business expansion. Though the verdict is out regarding the impact of CEPA in terms of benefits to Hong Kong companies, the desire to integrate Hong Kong and Mainland China is a positive aspect for NWSS. Another development that favours NWSS is structural changes to the Mainland China property and construction market. Due to alterations in lending policies and other elements, the property sector is going through intense consolidation. The volatility of this situation presents an opportunity for the Contracting and Facilities segments to improve their profile in this market.

### **Business Review**

NWSS encompasses service providers in a spectrum of business and consumer operations that cater to Greater China. With a firm foundation in Hong Kong NWSS is identified with service-oriented excellence. Given accession to the WTO and the recent signing of CEPA, NWSS uses its Hong Kong service hub as a springboard to penetrate the Mainland China marketplace.

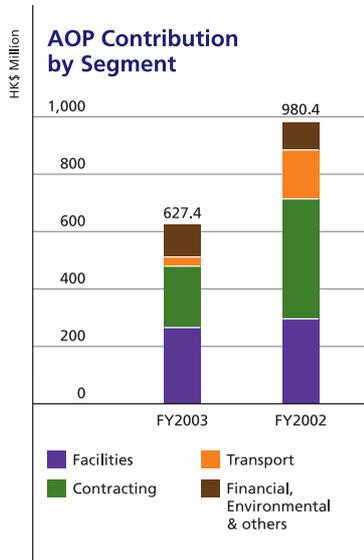
The five NWSS segments are: Facilities, featuring Hong Kong Convention and Exhibition Centre (Management) Limited ("HKCEC"), Urban Property Management Group ("UPML"), Kiu Lok Property Management Group, Urban Parking Limited, and service providers such as General Security and Uniformity Security, Wai Hong Cleaning Group and Pollution and Protection Services Group; Contracting, led by the Hip Hing Construction flagship; Transport, featuring NWFB, New World First Ferry Services Limited ("NWFF") and New World First Ferry Services (Macau) Limited ("NWFF(M)"); and, the smaller scale Environmental and Financial segments. This combination provides an impressive, high yielding investment portfolio.

# → Management Discussion and Analysis

## Operational Review — Service Management

### General Overview

The NWSS' AOP performance for FY2003 (12-month) produced a satisfactory result of HK\$627.4 million as compared to FY2002 of HK\$980.4 million and the contribution to NWSH for the Period reached HK\$236.4 million.



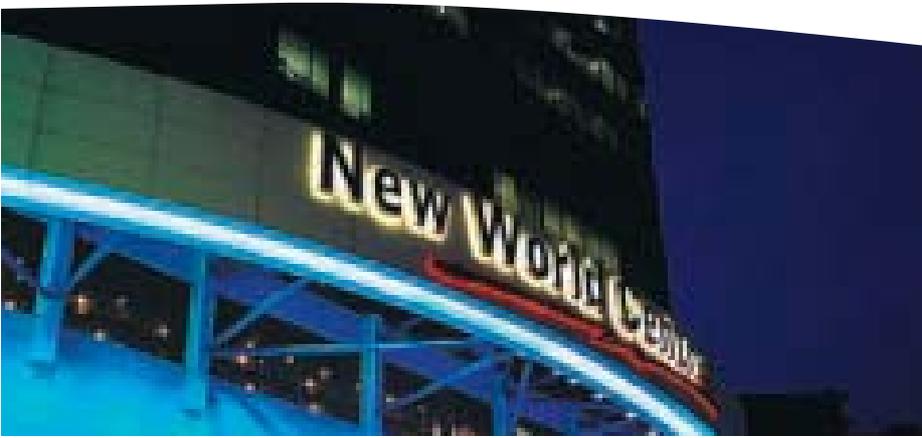
### AOP Contribution by Segment

|   | 2003<br>HK\$'M | 2002<br>HK\$'M | Change %<br>Fav. /<br>(Unfav.) | 5 months<br>ended<br>30 June<br>2003<br>HK\$'M |
|---|----------------|----------------|--------------------------------|--|
| Facilities                              | 265.5          | 290.9          | (9)                            | 73.3   |
| Contracting                             | 214.5          | 425.2          | (50)                           | 154.4  |
| Transport                               | 32.1           | 160.9          | (80)                           | (25.1)   |
| Financial,<br>Environmental<br>& others | 115.3          | 103.4          | 12                             | 33.8   |
| <b>Total</b>                            | <b>627.4</b>   | <b>980.4</b>   | <b>(36)</b>                    | <b>236.4</b>                                   |

### SARS Impact

The unforeseeable outbreak of SARS in March 2003 had a dramatic impact on all levels of city life. Government statistics show that with the exception of industries like insurance, supermarkets and sanitary service, Hong Kong's pillar industries were adversely affected by deep revenue cuts. The SARS' grip on Hong Kong slackened in late June 2003. It was not until July 2003 before social activities regained momentum and the promotion efforts of the Hong Kong government had an effect.

The financial impact of SARS on NWSS profitability was material. Nonetheless, nine strong months of operating AOP prior to SARS dampened the negative effect. While it is hard to quantify the extent of the SARS related loss, the AOP drop is estimated to amount to approximately HK\$147.7 million. This accumulated loss produced a strong negative result to the AOP contribution of NWSS for the Period.



## Facilities

Facilities performed well this financial year, posting an AOP of HK\$265.5 million, just 9% below that of the previous year.

HKCEC attained a satisfactory result despite the fact that many planned exhibitions, events, functions and banquets were postponed or cancelled due to SARS, and food and beverage revenue was cutback as customers refrained from dining out. Some 168 planned exhibitions, events, corporate functions and banquets were cancelled while 89 were rescheduled to beyond June 2003. Budgeted revenue from these businesses was drained or deferred. Due to tough and decisive cost saving measures and business recovery actions taken by HKCEC, the performance was not as adversely affected as forecast.

Most other facility management and customer related service companies, such as property management, security and guarding and cleaning service companies delivered solid results. Only the laundry service was severely impacted by SARS. UPML and Wai Hong Cleaning Group out-performed their forecast budgets and yielded exceptional results. UPML's strong management team maintained its profile as an award-winning subsidiary. This year, UPML won the respected HKMA Quality Award as an Overall Winner as well as being named as one of the ten "Best Employers in Hong Kong" by Hewitt Associates.

## Contracting

The AOP contribution from Contracting was under pressure due to an economic downturn that decreased development activity in the public and private property market. Contracting AOP reached HK\$214.5 million in FY2003, a 50% decrease over the previous year.

Though infrastructure development in Hong Kong continued, the pace was not enough to counter the low level of tenders, a decrease in capital expenditures and a drawback on public expenditures. This had a particularly strong impact on the housing sector, where contracting opportunities were reduced. Hong Kong contracting suffered a 28% drop in 2002, compared to the 1997 peak. In terms of building construction, a 37% decrease in activity was noted in FY2003 compared to 1997. Competition for contracts intensified as market available to contractors shrunk.

### From Left to Right:

- New World Centre managed by Kiu Lok Service Management Company Limited
- Urban Parking Limited
- General Security (HK) Limited
- Living etc....run by Extensive Trading Company Limited



# → Management Discussion and Analysis

## Operational Review — Service Management

**NWFB serves the Hong Kong, Kowloon and New Territories mass transit network with 100 routes and 769 buses.**

Though most of the construction industry peer group posted negative results, Hip Hing Construction and the NWS Engineering Group reversed the trend to register a substantial AOP contribution. This outstanding performance was mainly attributable to vigorous cost cutting and improvements in operating efficiency.

Total contracts on hand at the end of the financial year reached HK\$25 billion, with about 32% secured from government, semi-government or institutional clients, 46% from private clients and the remaining 22% from New World related companies. Geographically, 14% of these contracts were sourced from Mainland China while 86% were secured in Hong Kong. As at 30 June 2003, the total contracts on hand and the value to be completed were HK\$25 billion and HK\$13.6 billion respectively.

### Transport

Transport posted a decreased AOP contribution for FY2003. AOP was down 80% from the previous year. This was mainly attributable to business setbacks during SARS.

NWFB serves the Hong Kong, Kowloon and New Territories mass transit network with 100 routes and 769 buses. NWFB contributed to Transport profitability, though business was affected by commencement of the TKO Line. Customer flows dropped dramatically along bus routes adjacent to TKO Line since September 2002, despite efforts to reorganize the bus network in a competitive manner. NWFF and NWFF(M) provide a fleet of 33 vessels to serve 11 routes, including the much-travelled Hong Kong-Macau destination.

SARS took its toll on operations from mid-March 2003 and erased a substantial AOP contribution from NWFB and NWFF(M). Average daily customer flows for both NWFB and the NWFF(M) dropped by some 20% and 58% respectively, compared to the period prior to the SARS outbreak.



## Financial, Environmental and Others

Financial overcame market volatility to produce a constant AOP result. New World Insurance Management Limited registered encouraging performance while the corporate secretarial service group Tricor Holdings Limited made a solid contribution. The AOP of the division reached HK\$34.3 million in FY2003.

Environmental posted a stable AOP contribution of HK\$18.8 million for the year, compared to HK\$17.9 million in the previous year.

Hong Kong Island Landscape Company Limited ("HKIL"), a gardening and landscaping contracting service company that supplies and maintains plants for corporate and retail clients, performed well. Though the scale of operations is relatively small, HKIL provided a steady contribution and expanded its business through aggressive marketing.

NWSS participation in a landfill business, through 47%-owned Far East Landfill Technologies Limited, produced a constant AOP. The landfill and waste management professionalism of this investment proved to be synergistic with other businesses, especially complementing infrastructure projects within NWSH.

### From Left to Right:

- Chi Lin Nunnery built by Hip Hing Construction Company Limited
- New World First Bus Services Limited
- New World First Ferry Services (Macau) Limited
- New China Laundry Limited





→ Management Discussion and Analysis  
Operational Review

# Infrastructure Management



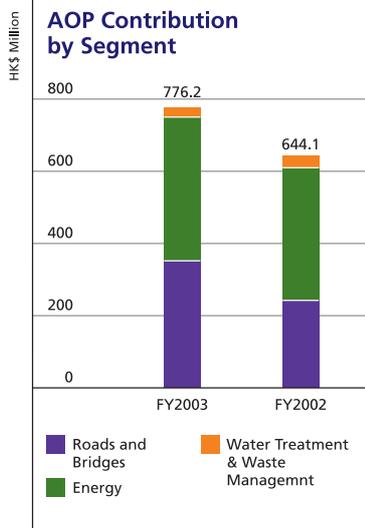
### **NWS Infrastructure Management Limited**

Pursuant to the Reorganization all NWI traditional infrastructure assets were transferred to NWSH. The NWSI results for the Period were consolidated into NWSH. Accordingly, the results of NWSI for the financial years ended June 2002 and June 2003 were prepared on a pro forma basis to reflect performance on a year-on-year time frame. For easier comparison the operating performance is analyzed based on the 12-month pro forma results, unless otherwise specified.

# → Management Discussion and Analysis

## Operational Review — Infrastructure Management

NWSI profitability is largely predicated on economic expansion in Mainland China, Hong Kong and Macau. Within this context, NWSI benefits from a steady flow of recurring income generated from projects in Roads and Bridges, Energy, and Water Treatment and Waste Management. After years of development the 59-strong project portfolio is ready to maximize AOP contribution. To strengthen operations NWSI plans to divest infrastructure projects that do not meet performance targets and invest in projects that present solid returns.



This financial year, NWSI showed resilience and attained an AOP increase based on solid performance from all segments. The Roads and Bridges segment surmounted problems caused by travel restrictions due to SARS and the suspension of tolls for three bridges to achieve AOP gains. The Energy segment balanced a government tariff cut with higher energy generation levels to hold the line on AOP. Water Treatment and Waste Management expanded its portfolio with the RMB360 million purchase of a water plant in Chongqing and an RMB125 million acquisition of a water plant in Qingdao.

The overall performance of NWSI exceeded expectations. AOP contribution from the Roads and Bridges, Energy, and Water Treatment and Waste Management segments amounted to HK\$351.9 million, HK\$398.1 million and HK\$26.2 million respectively.

On the cash side of the balance sheet, NWSI maintained strong cash flow. Total cash contribution from 1 October 2002 (first date of cash contribution to NWSH pursuant to the Reorganization) to 30 June 2003 was some HK\$1,130.0 million, exceeding the budgeted cash contribution by nearly 10%.

## AOP Contribution by Segment

|  | 2003<br>HK\$'M | 2002<br>HK\$'M | Change %<br>Fav. /<br>(Unfav.) | 5 months<br>ended<br>30 June<br>2003<br>HK\$'M |
|--|----------------|----------------|--------------------------------|--|
| Roads and Bridges                          | 351.9          | 242.3          | 45                             | 124.3  |
| Energy                                     | 398.1          | 367.5          | 8                              | 182.8  |
| Water Treatment<br>and Waste<br>Management | 26.2           | 34.3           | (24)                           | 17.8   |
| <b>Total</b>                               | <b>776.2</b>   | 644.1          | 21                             | 324.9  |

### Roads and Bridges

Roads and Bridges AOP reached HK\$351.9 million in FY2003, an increase of 45% over the previous year. Though the performance of Roads and Bridges was affected by SARS in the second half of FY2003, the overall result was outstanding due to the prominent traffic growth in expressway projects and one-time windfall gain.

AOP contributions from road projects in Guangdong increased to HK\$217.6 million, up from HK\$126.7 million in FY2002. The average daily traffic flow of Guangzhou City Northern Ring Road ("GNRR") dropped slightly by 3% to 117,217 vehicles per day. GNRR's results were affected by a reduction in interest income due to gradual repayment of NWSI's investment. The reduction was balanced by a withholding tax refund of some HK\$8.4 million in December 2002 and a decrease in operating expenses, which led to an increase in AOP contribution by 13% to HK\$112.7 million.

# → Management Discussion and Analysis

## Operational Review — Infrastructure Management

**The outlook for Roads and Bridges is promising and NWSI expects to maintain double-digit growth in key projects.**

Beijing-Zhuhai Expressway's (Guangzhou-Zhuhai Section) AOP increased by HK\$51.4 million to HK\$58.2 million in FY2003. Apart from an increase in average daily traffic flow of 14% for Phase I and 17% for Phase II, the AOP increase was attributed to recognition of a one-off net interest income of HK\$36 million as a result of restructuring the project's investment vehicle.

In East Guangdong, Shenzhen-Huizhou Expressway / Roadway's (Huizhou Section) AOP decreased by HK\$5.9 million to HK\$13.1 million this year. The decrease was mainly due to the reduction in interest income as a result of the repayment of a substantial portion of shareholder loans to the joint venture and the write-off of repairs and maintenance expenditures. On the other hand, a major increase in AOP contribution from Hui-Ao Roadway was noted. The Hui-Ao Roadway's attributable operating loss ("AOL") of HK\$25.8 million in FY2002 improved to AOP of HK\$15.4 million in FY2003. This transpired when the joint venture partner agreed to reduce the interest rate on shareholder loans from 10% to 2% effective retrospectively, thus creating interest savings of about HK\$40 million in FY2003.

Contributions from road projects in the Zhaoqing and Qingyuan regions noted a HK\$7.1 million decrease in AOP. This was attributable to the impact of SARS and a decrease in interest income as a result of continuous repayment of shareholder loans.

Performance of the Guangxi road network was fairly stable while that of road projects in Shanxi was satisfactory. Increase in toll rates for all projects in Shanxi was approved in August 2002. Tangjin Expressway (Tianjin North Section) in Tianjin recorded an increase in average daily traffic flow of 25% and AOP increased by HK\$19.5 million. In Hong Kong, the AOP of Tate's Cairn Tunnel increased slightly, mainly due to a reduction in interest expense as a result of gradual repayment of bank loans during the year.



The contribution from Bridges was insignificant in FY2003. This was primarily due to the cessation of the toll collection at Yangtze River Bridge No.2 as of 1 October 2002. The negotiation with the Wuhan City Government for compensation for the cessation in toll collection is in progress. The AOP contribution from Bridges reduced by HK\$7.6 million to HK\$3.4 million in FY2003.

### Roads and Bridges Outlook

The outlook for Roads and Bridges is promising and NWSI expects to maintain double-digit growth in key projects. This outlook is bolstered by the mobility of individuals, intra-provincial trade, vehicle sales and a rise in tourism.

Mainland China's road network is expanding at a torrid pace. By 2005 highway mileage will reach an estimated 1.6 million kilometres. Mainland China will boast some 50,000 kilometres of expressways and Class-II highways and above will total 280,000 km, accounting for 18% of roads. Some 99.5% of towns and townships and 93% of administrative villages will have access to highways. Meanwhile, a priority is placed on developing roads in Western and Inland regions.

Opportunities to participate in road network development provide this segment with room to enhance AOP. However, the central government wants to reduce toll stations in urban centres and some local governments have introduced discounted annual passes for vehicles, thus hurting potential revenue flows. It remains to be seen which regulatory framework is chosen to govern development and whether the result will be attractive for investors.

**From Left to Right:**

- Guangzhou City Northern Ring Road
- Roadway No. 309 (Changzhi Section)
- Beijing-Zhuhai Expressway (Guangzhou-Zhuhai Section)
- Taiyuan to Changzhi Roadway (Changzhi Section)



# → Management Discussion and Analysis

## Operational Review — Infrastructure Management

**The Energy segment is likely to experience stable AOP in the coming year as tariff reductions are offset by growth in demand.**

### Energy

The Energy segment achieved AOP of HK\$398.1 million, up 8% from FY2002. The combined AOP of Zhujiang Power Station Phase I and II increased slightly to HK\$269.2 million. Despite tariff reductions at Phase I and II, which was made retroactive to July 2002, of 24% and 21% respectively, a rise in the attributable profit of Phase I since January 2002 and a rise in sales volume at Phase II offset most of the impact of tariff reductions. The segment also benefited from the gain on the disposal of an effective interest of 1.35% in Companhia de Electricidade de Macau – CEM, S.A. (“Macau Power”) to China Power International Holding Limited in May 2003.

The segment is improving efficiency to counter tariff reductions. It is likely to experience stable AOP in the coming year as tariff reductions are offset by growth in demand. To capture the growth opportunity, new capacity of 135 MW was added to the Macau Power, which inaugurated Coloane B Power Station, a facility equipped with environmentally-friendly power generation technologies.

### Energy Outlook

The outlook is mixed in the Energy segment given a number of factors. On one hand, the government forecasts a relative slowing in electricity demand. Competition is expected to increase for Independent Power Producers with the introduction of regional power pooling in certain provinces next year, as the government moves towards nationwide pooling by 2010. On the other hand, several eastern and southern provinces faced power shortages this summer. Unusually high temperatures and rapid economic growth increased demand for electricity in Shanghai and the coastal regions. This surge in demand combined with lower hydropower supply due to drought is a positive factor for the segment.

Overall, the trend for the power industry is for increased generation as new plants come online and regulators approve projects. Mainland China’s electricity rose 15.4% to 738.4 TWh from January 2003 to June 2003, compared to the previous corresponding period. However, the government notes that consumption is gradually slowing. Energy consumption is forecast to reach 1,800 TWh in 2003, up some 8.9% over 2002. The growth trend is expected to drop in 2004 to between 6.5% and 8.6%, with consumption ranging from 1,900 to 1,940 TWh, and generating capacity expected to hit 430GW by 2005.



## Water Treatment and Waste Management

The AOP of this segment was HK\$26.2 million, a decrease of 24% compared to FY2002. The decrease was mainly attributable to a share of a specific provision of HK\$15 million made for under-performing projects and a fall in profit contribution from Shenyang Public Utility Holdings Company Limited, which disposed of all water plants after its restructuring. New projects in Qingdao and Chongqing came on stream to mitigate the downward effect. The projects commenced operation in August 2002 and November 2002 respectively and the combined AOP amounted to HK\$7.6 million in FY2003.

The Macao Water Supply Company Limited remained the top profit contributor in the segment. Water sales increased by more than 2%, compared to FY2002. During the year, NWSI explored new opportunities in the waste management sector. NWSI invested in a Sino-foreign equity joint venture to provide waste treatment and related services to industries in Shanghai Chemical Industrial Park and certain areas of Pudong in Shanghai.

## Water Treatment and Waste Management Outlook

The outlook for this segment is bright. Last year tariff increases as high as 50% were awarded in certain Mainland China's regions to promote development. The full impact of tariff increases, water treatment project deregulation, a desire to attract foreign capital and the contribution of operations in Chongqing and Qingdao will enhance AOP.

With a population expected to reach 1.6 billion by 2030, per-capita water resources will drop from the current 2,220 cubic metres to 1,760 cubic metres, close to the recognized water-shortage benchmark of 1,700 cubic metres. About 400 of 699 cities are short of water, threatening daily consumption for over 30 million citizens and causing economic losses of US\$14.5 billion annually.

In addition, Mainland China is expected to spend more on wastewater treatment than water supply systems by 2010. About 45% of urban sewage water will be treated and 60% of industrial wastewater recycled in 2005. Even if some 50% of wastewater was treated, 10,000 new sewage treatment plants would be needed.

Fundamentals in the water and wastewater treatment sectors should drive this segment to new heights.

### From Left to Right:

- Zhujiang Power Station
- Shunde De Sheng Power Plant
- Companhia de Electricidade de Macau – CEM, S.A.
- The Macao Water Supply Company Limited



# Ports Management



## NWS Ports Management Limited

NWSP maintained its AOP growth trend this year despite the economic downturn in Hong Kong and the SARS impact. The robust state of the container handling business in both Hong Kong and Mainland China was the key contributor to expansion. Hong Kong port operations held stable during the year and a rise in container handling activity was registered in the ports of Xiamen and Tianjin. Finally, NWSP's ability to invest in, manage or operate ports businesses, either handling all areas or focusing on a single area, presents a significant strategic advantage.

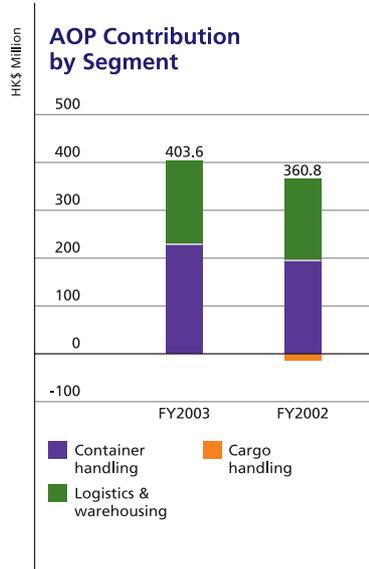


# → Management Discussion and Analysis

## Operational Review — Ports Management

NWSP activities include container handling, as well as logistics and warehousing services. Hong Kong is a key AOP contributor and Mainland China projects have steadily improved contributions. The NWSP strategy is to follow through on a business model that entails expansion in Hong Kong with the completion of Container Terminal No.9 (“CT9”) and builds on existing operations in Xiamen and Tianjin. In the future, NWSP will shift more attention to Mainland China by investing in AOP generating projects.

NWSP reported total AOP of HK\$403.6 million, compared to HK\$360.8 million in FY2002. The NWSP full year AOP contribution to NWSH for FY2003 can be classified into the following activities.



### AOP Contribution by Segment

|                         | 2003<br>HK\$'M | 2002<br>HK\$'M | Change %<br>Fav. / (Unfav.) |
|-------------------------|----------------|----------------|-----------------------------|
| Container handling      | <b>229.0</b>   | 195.1          | 17                          |
| Logistics & warehousing | <b>174.6</b>   | 170.2          | 3                           |
| Cargo handling          | –              | (4.5)          | N/A                         |
| <b>Total</b>            | <b>403.6</b>   | 360.8          | 12                          |

The container handling segment delivered an AOP of HK\$229.0 million, an increase of 17% compared to FY2002. The logistics and warehousing segment noted AOP of HK\$174.6 million, an increase of 3% compared to the previous year. In the cargo handling segment, no result was reported in FY2003 due to the disposal of loss-making Nanjing Huining Wharfs Co., Ltd. in FY2002.

**The fundamentals  
that drive expansion at  
this mammoth port  
favour NWSP.**

### **Hong Kong Nexus**

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\$364.6 million, an increase of 7% over FY2002.

AOP growth of CSXWTHK was mainly attributed to productivity improvement and stringent cost control, countering a slight decrease in throughput. CSXWTHK handled 1.34 million TEUs, a decrease of 2% compared with 1.37 million TEUs in the previous year.

AOP growth of ATL was primarily driven by a rise in container freight station and storage cargo volume for existing and new customers as well as a corresponding increase in vehicle gate charge revenue. This year the average occupancy rate increased to 95.4% from 93.6% in the previous year.

ACT holds an interest in two CT9 berths. Upon completion anticipated in the second half of 2004, these two berths will be swapped for Modern Terminals Limited's two berths at Container Terminal No. 8 West ("CT8W"). Marketing strategies to build ACT clientele, procurement of container handling equipment and installation of computer terminal operating systems were initiated to prepare for the commencement of operations. The addition of handling capacity from CT8W will be an important long-term benefit to NWSP in terms of potential cooperation with Container Terminal No.3 ("CT3") to generate operating synergies.

### **Hong Kong Outlook**

Hong Kong will maintain its competitive position in South China due to its ability to efficiently process trade. Overall, the fundamentals that drive expansion at this mammoth port favour NWSP. Guangdong export growth, recent CEPA arrangements, planned construction of the Hong Kong-Zhuhai-Macau Bridge, new capacity coming online with CT9 and improved operating efficiencies at existing facilities present a promising outlook.

Hong Kong container handling volume reached 19.1 million TEUs in 2002, up 7% over 2001, making this port the world's busiest for nine of the last ten years. Hong Kong is on track to surpass the 20 million TEUs mark for the first time in 2003. This is largely a result of a strong export and import figures registered with regional trading partners such as East Asia, Mainland China and Taiwan.

# → Management Discussion and Analysis

## Operational Review — Ports Management

**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.**

### **Mainland Equation**

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, operator of four container berths and one coal berth in Tianjin Xingang, contributed AOP of HK\$35.4 million, an increase of 67% from FY2002. Throughput grew to 1.03 million TEUs, a rise of 16% from 884,000 TEUs in the previous year. The results were driven by the addition of new customers, higher tariff rates and stringent cost control.

### **Xiamen**

Xiamen Xiang Yu Quay Co., Ltd. ("Xiangyu") reported AOP of HK\$10.6 million, a decrease of 24% compared to FY2002. The AOP drop was mainly due to the reduction of the NWSP shareholding in Xiangyu to 50% from 92% in FY2002. Pursuant to an agreement executed in June 2002, Xiangyu merged with Xiamen Xiangyu Free Trade Zone Huijian Quay Co., Ltd. ("Huijian"), in which NWSP held a 60% stake, and Xiamen Xiangyu Free Port Developing Co., Ltd., a company wholly-owned by the minority Mainland shareholder of Xiangyu and Huijian collectively ("Xiamen Merger"). Throughput handled by Xiangyu increased by 51% to 482,000 TEUs from 320,000 TEUs in FY2002. The growth momentum of Xiangyu can be accommodated through the merger of these three terminal companies with a total of five container berths.



## Mainland Outlook

Mainland China is the key to the future success of the ports business. As the nation continues to expand exports and WTO accession opens a dormant import market, Mainland China ports are registering sizable growth rates. With economic growth forecast to continue, the rising affluence of consumers and the need for infrastructure to containerize trade, the growth momentum should be maintained.

The expansion of Mainland China ports is led by a 34% increase in exports and a 45% rise in imports for a value of US\$376 billion from January to June 2003, compared to the corresponding 2002 period. The value of trade reached US\$621 billion in 2002, and if expansion continues it will not be long before Mainland China surpasses the US\$1 trillion mark. This level of activity clearly supports development at container ports.

NWSP expects its business to keep pace with national growth rates. With the completion of the Xiamen Merger, the NWSP joint venture is in control of nearly 1,000 metres of quay length, making this facility three times the size of CT3. The expanded capacity generated by the merger can accommodate the demand resulting from increases in local trade and future trade links with Taiwan. Tianjin remains the gateway to the north and the port most likely to benefit from activity leading up to the Olympics.

From Left to Right:

- CSX World Terminals Hong Kong Limited
- CSX Orient (Tianjin) Container Terminals Co., Limited
- ATL Logistics Centre Hong Kong Limited
- Xiamen Xiang Yu Quay Co., Ltd

