MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

Over the course of the six-month period ended 31st December 2000, New World Infrastructure Limited ("NWI") focused on strengthening its financial situation through the consolidation of basic infrastructure and e-infrastructure operations. Emerging from a record year in earnings and revenues NWI continued to consolidate under-performing projects, strengthened its cash position, restructured the debt portfolio and completed the first phase of its expansion into e-infrastructure.

During a period in which management improved financial stability and consolidated operations, the interim result declined by 17% due to factors related mainly to financial operations. Net profit for the period reached HK$361.6 million, a decrease of 17% from HK$434.1 million for the six months ended 31st December 1999. Rising finance costs due to interest rate increases during the period and, to a lesser extent, additional borrowing affected the net profit. Overall, finance costs increased by HK$113.4 million to HK$376.1 million from the 1999 interim period.

On the operating front NWI maintained activities at the near record levels of the previous 1999 period. Total Attributable Operating Profit ("AOP") derived from projects for the period decreased slightly to HK$690.6 million from HK$710.5 million. There was a marked improvement in the Cargo Handling Segment and the Energy and Water Treatment Segment. The strength of most segments was countered by negative growth in Roads and Bridges.

Road Segment

Road Segment AOP fell HK$41.3 million to HK$152.6 million for the period, 21% less than the six months ended 31st December 1999. However, toll roads witnessed traffic flow improvements with a few notable exceptions. Guangzhou City Northern Ring Road ("GNRR") suffered a traffic flow decrease due to traffic redirection and closure of connecting roads caused by the construction of the Inner Ring Road affected traffic flow. A decrease in traffic flow by 3% to 139,500 vehicles per day and the completion of repayment of shareholder loan accounted for an AOP decrease to HK$81.4 million.

At Beijing-Zhuhai Expressway, AOP decreased HK$9 million despite a 17% increase in traffic flow for Section I. This was mainly due to the finance costs incurred on project loans. For most road projects, AOP was generally in line with changes in traffic flow. For instance, Tangjin Expressway AOP more than doubled to HK$11.1 million from HK$4.3 million on the back of a 46% increase in traffic flow to 9,200 vehicles per day.

Bridge Segment

Bridge Segment AOP fell HK$34.2 million or 36% to HK$60.4 million over the 1999 interim period. Wuhan Bridges was mainly accountable for this reduction. The New Yangtze Bridge traffic flow remained stable after the rescinding of toll collection rights on Han River Bridges No. 1 and No. 2 in June 1999. However, income decreased as a result of a traffic mix change, a HK$23.2 million depreciation charge due to a change in the depreciation method of the bridge and no repetition of a tax refund received last period. Overall, AOP decreased HK$29.1 million to HK$6.3 million during the period.

Some 75% or HK$45.3 million of Bridge Segment AOP derived from the Guangzhou Three New Bridges ("GTNB"). Through an agreement with Guangzhou Construction and Investment Development Co. Ltd. in December 2000, which was approved by Guangzhou Municipal Commission of Foreign Economic Relations and Trade in January 2001, NWI withdrew from GTNB for a consideration of US$174 million or the investment cost plus interest of 7.8%. With the GTNB withdrawal NWI substantially reduces bridge investment.

Energy & Water Treatment Segment

AOP in this Segment increased 2% to HK$289.5 million from HK$284.1 million in the 1999 interim period. All power stations sold more electricity during the period. The increase in electricity sold at Zhujiang Power Station Phase I and Phase II was especially significant at 69% and 29% respectively due to robust economic activity in Guangdong Province. As Phase I and II reduced variable costs per unit of electricity generated, operating results improved despite lower tariff rates.

Zhujiang Phase II AOP increased 29% to HK$60.3 million from HK$46.8 million. In the case of Zhujiang Phase I and Desheng Power Plant, which are under fixed guaranteed return arrangements, AOP decreased marginally by 3% and 5% to HK$48.2 million and HK$61.8 million respectively. Meanwhile, less interest income was earned as shareholder loans were repaid. The NWI share of profit in Beijing Datang Power Generation Co. Ltd. ("Beijing Datang") increased to HK$64.6 million and equivalent to 22% of this Segment.

The NWI portfolio of water treatment projects showed steady improvement as AOP increased by 26% to HK$23.6 million from HK$18.8 million in the 1999 period.

Cargo Handling Segment

Cargo Handling AOP rose to HK$141.3 million from HK$138 million at the 1999 interim period. This was accomplished despite a 25% reduction in the effective interest in such key projects as CSX World Terminals Hong Kong Ltd. ("CSX"), formerly Sea-Land Orient Terminals Ltd., and ATL Logistics Centre Hong Kong Ltd. ("ATL"), formerly Asia Terminals Ltd. This result underscores the strong performance of these projects.

Throughput at Container Terminal No.3 at Kwai Chung operated by CSX increased 14% to 943,000 TEUs over the 1999 interim period. Higher turnover, solid productivity and cost controls resulted in a 24% rise in operating profit. At ATL, the occupancy rate remained at 94% and the pressure on rental rates eased as demand for quality warehouse space rises in line with the economic recovery. The ATL operating profit increased 22% mainly due to a reduction in interest costs and repayment of a bank loan.

In China, Sea-Land Orient (Tianjin) Container Terminals Co. Ltd. ("SLOTT") performed well. SLOTT throughput grew 33% to 381,000 TEUs and this trend will continue as Tianjin plays a role in the development of Central and Western China. Results also improved at Xiamen Port, which stands to benefit from China's accession to the World Trade Organisation and the commencement of Taiwan trade.

Strategic Overview

After a strong growth phase and expansion into new sectors, NWI is consolidating operations to boost long-term profitability and improve cash flow. The sale of Guangzhou Three New Bridges for US$174 million and the disposal of Beijing Datang H-Shares on 20th February 2001 for a gross consideration of HK$1.256 billion enhances the cash position to approximately HK$3.7 billion as at 28th February 2001. A portion of this cash will be used to pay-down debt while new loan facilities are in place to roll over existing loans.

On the basic infrastructure operational front NWI will continue to rationalize its existing portfolio. All projects are under review and those that do not meet management performance criteria in terms of profitability, cash flow and growth prospects will be promptly sold. Those projects that exceed targets will be supported by added investment to augment recurring income flows and future prospects.

E-infrastructure technology is a component of the strategic plan. NWI has invested in the sector and all its technology companies are leading edge in their chosen area of operations. NWI supports the development of this portfolio of companies in the China market by introducing strategic partners, investing when appropriate and localizing operations. The consolidation of existing investments is a primary focus in the coming period and, for that reason, NWI has put a hold on new investment.

Outlook

Given the strength of the economies within which NWI operates, the strengthened cash position, a maturing of technology projects and the streamlining of basic infrastructure projects, NWI is prepared to meet the challenges that lie ahead on the operational front.

All operating segments are expected to perform at a stable level in the coming period. Meanwhile, temporary setbacks in the Road Segment should be alleviated. The GNRR traffic decrease is only temporary. Construction work on the Inner Ring Road and roads linked to the Inner Ring Road are completed and GNRR will resume its growth trend. With healthy traffic flow expected for most roads, especially expressway projects such as Tangjin Expressway, road results should improve.

Overall, the outlook for the next six-month to 12-month period is positive. As noted, NWI AOP was affected by higher borrowing costs this period. In the coming period, AOP will benefit from a reduction in interest rates and a program to repay a portion of outstanding debt. In addition, the economic environment in Hong Kong and China is improving on all fronts. Hong Kong is registering strong growth and benefits from a solid economic expansion in the Pearl River Delta. In China, strong internal demand accompanied by a desire to improve infrastructure and living standards is having a positive effect on NWI operations.

Mainland China continues to maintain an impressive level of economic growth and this situation can only improve with China's entrance into the World Trade Organization. The preparation work for WTO is moving ahead and a groundswell of economic and structural reforms are now in the process of being implemented across the country. This trend will undoubtedly improve the transparency of the PRC business environment, provide a standard legal and regulatory framework and produce a second wave of China-related foreign investment.

NWI is positioned to benefit from changes in the Hong Kong and China marketplace. The Company has constructed a solid framework in the Greater China region, its investments are diversified across sectors and geographic locations and NWI has localized operations to smoothly integrate activities with the intricate PRC economy. Overall, current events are in step with NWI's long-term vision for China and the Group is excited to continue its role as a PRC Pioneer in the post-WTO phase.

Liquidity and Financial Resources

As at 31st December 2000, the Group has net current assets of HK$414.9 million as compared to HK$561.9 million at 30th June 2000. The decrease was mainly due to the decrease in bank balances and cash mainly for capital investments during the period. Total bank and other borrowings increased by HK$809.2 million to HK$11.08 billion as a result of further draw-down of bank loan facilities.

Debt Profile

		Outstanding Amount		Repayment		
				Within	Between	
Facility Type	Facility Amount	Fixed Rate	Floating Rate	1 year	1 and 2 years	Onwards
	(HK$million)	*(HK$million)*	*(HK$million)*	*(HK$million)*	*(HK$million)*	*(HK$million)*
As at 31st December 2000						
5% Convertible bonds	1,950.00	931.59	–	931.59	–	–
1% Convertible bonds	1,950.00	1,381.74	–	–	–	1,381.74
10% Notes	200.00	200.00	–	–	–	200.00
Floating rate notes	351.00	–	351.00	–	–	351.00
Syndicated loan for Wuhan Airport Expressway	312.00	–	74.88	74.88	–	–
Short-term bank loan facilities	692.00	–	–	–	–	–
RMB bank loan facilities	975.42	824.21	–	–	46.95	777.26
Long-term bank loan facility	600.00	–	600.00	–	–	600.00
Syndicated loan revolving/term loan facility	5,070.00	–	4,927.65	–	4,927.65	–
Syndicated term loan facility	2,184.00	–	468.00	–	–	468.00
Other loan	54.13	–	7.39	7.39	–	–
Total amount	14,338.55	3,337.54	6,428.92	1,013.86	4,974.60	3,778.00

Debt rose from HK$8.96 billion at 30th June 2000 to HK$9.77 billion at 31st December 2000. The increase was due to a US$60 million draw-down of the US$280 million syndicated bank loan and a HK$500 million draw-down of a HK$600 million term loan. Accordingly, the proportion of floating rate debt rose to 65.8% of total debt, compared to 64.4% at 30th June 2000.

At 31st December 2000, US dollar debt amounted to US$1.04 billion which accounted for 83% of the total. Forward purchase of US$650 million against Hong Kong dollar at exchange rates below 7.80 is in place to eliminate the US dollar currency risk.

The syndicated loan for Wuhan Airport Expressway is secured by the Group's interest in a joint venture and guaranteed by New World Development Company Limited ("NWD"), the ultimate holding company of the Company, to which the Company has given a counter-guarantee.

The Rmb loan facilities are secured by the Group's interest in certain joint ventures and a subsidiary in the PRC.

The shares in a jointly controlled entity are pledged to secure a bank loan facility of HK$1,750 million (year ended 30.6.2000: HK$1,750 million) granted to that jointly controlled entity. At 31st December 2000, the outstanding amount under the bank loan facility was approximately HK$627 million (as at 30.6.2000: HK$757 million).

Debt Profile (cont'd)

Borrowing Capacity

Allowable Debt to Equity*(Note)* of the Company increased from 64% at 30th June 2000 to 76% at 31st December 2000 due to the draw-down of loan facilities for the financing of capital investments. The Allowable Debt to Equity will rise to 90% when the US$280 million syndicated loan is fully drawn.

The Net Allowable Debt to Equity*(Note)* of the Company reached 70.7%, compared to 55.2% as at 30th June 2000. The increase in Net Allowable Debt to Equity was due to an increase in borrowing for funding technology investments over the period.

Note: Allowable Debt to Equity: The aggregate of bank and other loans, convertible bonds, notes plus contingent liabilities arising out of the Company's guarantees for loans / Equity.

Net Allowable Debt to Equity: Allowable Debt less bank balances and cash of the Company / Equity.

Capital Structure

	HK$'000	**31.12.2000 Proportion**	**Average rate of interest**	HK$'000	30.6.2000 Proportion	Average rate of interest
Equity	12,356,373	52.7%	–	13,614,255	57.0%	–
5% Convertible bonds	931,593	4.0%	5.0%	1,005,810	4.2%	5.0%
1% Convertible bonds	1,381,739	5.9%	4.2%	1,381,739	5.8%	3.6%
Fixed-rate debt	2,251,077	9.6%	9.9%	2,022,112	8.5%	10.4%
Floating-rate debt			7.9%			7.1%
LIBOR	5,754,041	24.6%		5,568,366	23.3%	
SIBOR	74,880	0.3%		106,080	0.5%	
HIBOR	600,000	2.6%		100,000	0.4%	
Interest free debt	82,901	0.3%	–	82,901	0.3%	–
	23,432,604	100%		23,881,263	100%	

Equity decreased by HK$1.26 billion and accounted for 52.7% of total capitalisation, compared to 57% as at 30th June 2000. The decrease in equity was mainly due to the net deficit in the revaluation of non-trading securities of HK$1.49 billion, which was offset by the increase in retained profit for the period.

The Company repurchased its shares in order to enhance shareholder value. During this period, a total of 6,589,600 shares was repurchased and cancelled, thus reducing equity by HK$51.8 million.

Fixed rate debt increased from 8.5% to 9.6% of total capitalisation due to a draw-down of Rmb loan facilities. Floating rate debt rose from 24.2% to 27.5% of total capitalisation as a result of a draw-down of US$60 million of the US$280 million syndicated loan facility and fully draw-down of the HK$600 million term loan facility. A slight increase in the funding cost of the floating rate debt from 7.1% to 7.9% which was in line with the increase in interest rates during the period.

Employees

The Company has 142 employees at 31st December 2000, compared to 137 at 30th June 2000. Remuneration policies are reviewed yearly. Remuneration, bonuses and share options are awarded to employees based on individual performances and market practices. Education subsidies will be granted to employees who are taking job-related courses. Periodic in-house training programs are also offered.