BUSINESS REVIEW

Property Development

The Group is committed to increasing its presence in the Hong Kong's property market by actively acquiring new projects and developing more properties for sale in the coming years. As at 31 December 2000, the Group has 41 property development projects in Hong Kong with a total attributable gross floor area ("GFA") of 13.3 million sq.ft. In addition, the Group has 20.1 million sq.ft of agricultural land, mostly located next to the existing or planned infrastructure developments in the New Territories. Fourteen projects with a site area of 11.1 million sq. ft. have been approved to build 4.5 million sq.ft. of GFA, with most designated for residential usage.

Encouraging responses have been received for the Group's property sales including high block of the Grand Millennium Plaza, the Dragon Pride and the Rhythm Garden. Residential projects to be offered for sales in 2001 are:

Projects	**Total GFA** (sq.ft.)	**Interest** (%)	**Att. GFA** (sq.ft.)
The Parcville, Yuen Long	995,821	33.3	331,940
Monte Carlton, Tai Po Road	102,974	100.0	102,974
The Belcher's Phase II	1,331,034	10.0	133,103
Tai Tong Road Phase I, Yuen Long Town Lot 500	467,480	56.0	261,789
Prince Edward Road West project	65,622	50.0	32,811
West End Terrace and Bonham Road project	73,046	70.0	51,132
Park Road project	119,633	100.0	119,633
Total	**3,155,610**		**1,033,382**

Residential Property Outlook

The residential property market has recently been regaining much of its vitality in the wake of the Government's positive steps to effectively help stabilize the market. The Government's attempted stimulus through a combination of measures as lowering of income and asset eligibility limits for the Home Ownership Scheme applicants, reduction in the annual production of Home Ownership flats, scaled-down land sales programme and relaxation of flat-sale restrictions, have timely converged with the property market reactivating itself into a positive cycle. Market demands reviving in the face of much improved affordability, low interest rates, flexible and preferential bank mortgage loans have, in the context of market discipline, engineered an encouraging increase in transaction volumes, with new launches being planned to tap the renewed buying interest. This phenomenon is quite unlike those of short-term rebounds in the past year and will continue to stay strong on the sustaining of general confidence and the territory's continuing economic growth.

Property Investment

The Group's investment properties have shown increase in contributions during the period under review.

The Group's office portfolio benefited from the prevailing tight supply of the prime office spaces, particularly in the Central area. New World Tower and Manning House, both located in Central, were over 95% leased. New World Centre office buildings in Tsim Sha Tsui also achieved over 90% occupancy rates with higher rental rates compared to the same period of last year.

New World Centre Shopping Mall, whilst still in refurbishment, experienced a reduction of rental income. The mall will have its soft opening in April, followed by grand opening in July this year. With 80% of the area already pre-leased, the Group's rental income will be further strengthened. Meanwhile, the Group's shopping malls at Telford Plaza and Discovery Park achieved close to full occupancy, whereas Pearl City was 100% leased as at December 2000.

Hotels & Restaurants

Driven by higher tourist arrivals, the Group's hotels in Hong Kong have achieved satisfactory results. With the influx of sightseers and business travellers, both the Grand Hyatt and Renaissance Harbour View in Wanchai and the Regent and New World Renaissance Hotel in Tsimshatsui have performed well in these six months with higher occupancy rate, room rate and increased food and beverage revenues.

China Property

New World China Land, the Group's China property arm, recorded HK$96.1 million profit attributable to shareholders in the period under review, a rise of 15% compared with the same period of last year.

Property sales of the Group's China projects have been encouraging with the increased contributions from projects targeted at the mass market in cities such as Shenyang, Beijing and Dongguan. Contributions from property sales are expected to grow further in the second half as more projects are due for completion and housing demand in China remains strong.

Rental income in China has also increased resulting from the higher occupancy and rental rates of the Group's existing investment property projects and the opening of shopping arcades in Beijing and Tianjin.

China's stable macroeconomic environment in 2000 pointed to top a solid 8% GDP growth for the first time since 1997 on the back of return of consumer confidence. The mood is broadly expansive despite a possible dip back of the cyclical growth rate due to an imminent global economic slowdown. In leveraging the economy for convergence with its entry into the World Trade Organization, China is prompted to implement the unprecedented breadth and depth of economic restructuring. Premier Zhu Rongji has, in unveiling the 10th Five-Year Economic Plan, pledged that the country will continue to pursue a relatively fast growth, aimed for significant results in economic restructuring and emphasizing quality and efficiency over the next five years. Particular attention will be paid to correct the imbalances in the economy, serious ecological deterioration, rising unemployment and growing income disparity between provinces, and above all, to enhance China's ambitious plan to triple GDP by 2010. On the property front, the market continues to stay sound and vibrant with the Government's marked successes in privatization of housing and improvements in credit access consequent upon China's banks expanding aggressively into the mortgage business. A keynote fathomed out is the country's seeking a breakthrough to a vigorous upsurge in demand for housing as so dictated by the forces of the market economy.

Infrastructure

New World Infrastructure, the Group's infrastructure arm, reported a net profit of HK$361.6 million for the six months ended 31 December 2000, a drop of 17% when compared with the same period of last year.

The Road Segment comprises of 35 toll road projects, of which 32 projects were in full operation in this period. Guangzhou City Northern Ring Road, which has been a top revenue generator within this segment, reported a 3% drop in traffic flow mainly due to the construction works in its surrounding road network. Meanwhile, the Bridge Segment has also shown a drop in profitability because of the lower returns from the Wuhan Bridges. Their profit retreats, nevertheless, have been mitigated by the improved results of the Energy & Water Treatment Segment, which benefited from the increased power consumption for Zhujiang Power Stations. The Cargo Handling Segment also reported a rise in profit, mainly attributable to higher throughput in this period.

In these 6 months, 515,000 shares of Chinadotcom have been sold generating total proceeds of HK$52.9 million. Meanwhile, Integrated Telecom Express, Inc. ("ITeX") was successfully listed on NASDAQ in August 2000.

Services

New World Services, the Group's services arm, reported an 18% rise in profit after tax to HK$496 million for these 6 months, through an expanded business portfolio covering Facilities, Contracting, Transport, Financial and Environmental Divisions.

The Facilities Services Division reported an encouraging growth due to the fact that an increasing number of events have been held at the Hong Kong Convention and Exhibition Centre.

The Contracting Division, comprised of Construction and Electrical & Mechanical Engineering, delivered improved results in this interim period. At present, the Construction Sub-division recorded contract works with value of HK$27,444 million, whilst contracts on hand for Young's Engineering Holdings Ltd. and Trident Engineering Co. Ltd., the Group's Electrical & Mechanical Engineering arms, amounted to HK$5,481.6 million in total.

The Transport Division, operating through New World First Bus Services Limited and New World First Ferry Services Limited, saw a continued rise in ridership during the reviewed period. In line with our commitment to quality services and environmental protection, we have purchased 19 Euro III buses and 5 high-speed catamarans, in addition to the construction of a permanent bus depot at Chong Fu Road.

In order to strengthen the Financial Services Division, New World Services has recently joined hands with Bank of East Asia and Deloitte Touche Tohmatsu to invest in Secretaries Ltd., which provides share registration, secretarial and accounting services.

Telecommunications

New World Telephone

New World Telephone is committed to be a comprehensive telecommunications and broadband services provider. Despite keen competition, New World Telephone has been able to sustain its market position in the IDD market by leveraging on its quality of services and its comprehensive set of IDD, postpaid and pre-paid card products. With the rapid roll out of its fibre network coverage in Hong Kong and its strategic investments in selected submarine cable networks, New World Telephone will be actively expanding its fixed line and broadband services with particular focus on the commercial markets. In order to capitalize on the fast growing level of the data and Internet Protocol (IP) data, NWT is also leveraging on its favourable bilateral relationship with 15 international carriers to build Internet Protocol Virtual Private Network (IPVPN) and Asia Internet Exchange (AIX) business in Asia Pacific.

New World Mobility

New World Mobility is dedicated to the provision of quality mobile telecommunication services and customized value-added services to fulfill and exceed the expectations of its customers. New World Mobility has consistently increased its EBITDA since it achieved positive EBITDA level in early 2000. In the coming year, NWM will further upgrade its network quality and customer services, continue to optimize its financial performance, and will grow revenues from existing subscriber base through development and introduction of corporate and consumer targeted applications on its 2G and GPRS networks.

Regarding the bidding of the 3G licence, NWM is dedicated to acquiring the spectrum, developing the technology and infrastructure needed to offer advanced services to its customers. NWM has assembled an internal multi-disciplinary team to develop a comprehensive business plan to provide guidance on developing its strategy to secure a 3G licence and to most effectively rollout compelling advanced services and applications at reasonable prices.

PROSPECTS

The Hong Kong economy has been performing steadily on a regime of low interest rates, moderate GDP growth and diminishing deflation, posting the prospects of positive investment sentiment and economic stimulus for the current year. Compromising this may be the shadows of the slowing US economy, continued stagnation in Japan and only lack-lustre growth in the other Asian countries looming over the international economic horizon. Outlook in China and Europe however appears robust and hopeful. Against this globalized economic environment is also seen the territory's leveraging its renowned agility, creativity and innovative entrepreneurship to long-term advances in information technology and business orientations of financial services and property development in the paradigm shifts of the knowledge-based economy. And the burgeoning economic activities between Hong Kong and the Mainland are predicated on an enhanced breadth and depth of infrastructural links embedded in efficient regional transportation networks and impressive internet and digital communications. Such will rein in the trajectory of Hong Kong's redefining itself in the dynamic context of China's entry to the World Trade Organization, developing the vast Western Region and Hong Kong's being an increasingly integrated part of the globally significant logistics region of the Pearl River Delta region. Vested with this critical mass, Hong Kong is adapting in its stride for positioning itself on long term sustainable growth and development entrenched in those mutually supportive economic sectors of logistics, financial and digital services by way of honing much of the business potential prevailing over the Mainland, as well as further enhancing its traditional role as a valuable conduit between China and the rest of the world.

COMMENTARY ON INTERIM RESULTS

(I) Review of Financial Results

For the six months ended 31 December 2000, the Group achieved a turnover of HK$15,901.5 million, a surge of HK$6,766.1 million or 74.1% over the same period last year. Operating profit before financing costs and income rose nine-fold to HK$1,573.3 million, while profit attributable to shareholders was HK$311.4 million. Earnings per share were 15 cents, compared with a loss of 43 cents for last corresponding period.

Analysis of change in Turnover (net of intra-group transactions):

	Year-on-Year Change
Property Sales	+1,433.5%
Rental Income	+4.6%
Hotel & Restaurant	+15.0%
Infrastructure	+11.0%
Construction & Engineering	+51.6%
Telecommunications & Technology	+3.2%
Others	+21.4%
Overall growth	+74.1%

Analysis of Attributable Operating Profit ("AOP"):

	Six months ended 31 December	
	2000	**1999**
	HK$M	**HK$M**
Property Sales	**233.2**	17.5
Rental Income	**518.9**	420.1
Hotel & Restaurant	**153.1**	89.1
Infrastructure	**339.6**	324.4
Construction & Engineering	**151.9**	97.6
Telecommunications & Technology	**(138.5)**	(94.5)
Others	**(90.4)**	(212.4)
Total	**1,167.8**	641.8
Other non-recurrent charge	**(66.4)**	(938.0)
Net financing costs	**(790.0)**	(610.9)
Profit/(loss) attributable to shareholders	**311.4**	(907.1)

Among all the property sales in this period, high block of Grand Millennium Plaza and Rhythm Garden were the major contributors to the AOP, whereas the associated companies for the projects of Tung Chung Crescent and the Belcher's have also reported positive returns.

Our office portfolio benefited from the prevailing tight supply of the prime office spaces, whilst the pick up in consumer confidence has also benefited our shopping arcades in terms of demand for additional space and in positive lease reversion. Meanwhile, the double-digit growth in tourist arrivals and the pick up in economy have translated into a 71.8% rise in AOP for our hotel & restaurant operations.

AOP from the infrastructure operations showed a steady growth of 4.7% over the last year. Whereas, the Construction & Engineering operation posted a robust growth of 55.6% in AOP, mainly attributable to the increased completion of the contracted works.

Despite a two-fold increase in EBITDA earnings, a greater loss was recorded in the period under review because of an one-off disposal gain of the Powerphone in the corresponding period of last year.

The loss posted by the other businesses has been substantially reduced by 57.4% mainly attributable to the improved operations for department stores and transportation.

Included in AOP for the period under review was other non-recurrent net loss of HK$66.4 million, mainly representing provision for listed shares of HK$99.8 million less profit on disposals of listed securities and a 4.73% stake in New World CyberBase Limited totaling HK$56.0 million.

Net financing costs charged to the consolidated profit and loss account for the period was HK$790.0 million (1999: HK$610.9 million) because of the slight increase in the debt level.

(II) Liquidity and Financial Resources

Taking into account the cash on hand of HK$6,319.6 million, the Group's total net debt as at 31 December 2000 was HK$28,620.5 million, translating into a gearing ratio at 50.1% *(Note 1)*.

Profile of the Group's Net Debt: (HK$ million)

	Total Consolidated	**Excluding NWI & NWCL**
As at 30 June 2000	27,800	20,512
As at 31 December 2000	28,621	20,119

Subsequent to the reviewed period, the Group has completed the disposal of its stakes in Guangzhou Three New Bridges Project and Beijing Datang Power Generation Co. Ltd., realizing over HK$2,600 million in total. Following the disposal of, together with reviving economy after consecutive interest rate cuts, coupled with the pick up in property sales under the government's revised policy, the Group's debt level as well as the resultant financial expenses are expected to drop in the second half of FY2001.

Note 1: Gearing ratio = Net Debt/Shareholders' Funds
Net Debt = the aggregate of bank loans, other loans, overdrafts, convertible bonds, debentures and finance leases less cash and bank balances

(III) Employees and Remuneration Policy

The Group has approximately 27,000 employees as at 31 December 2000. Employees are remunerated in accordance with the job nature and market trend, with built-in merit component incorporated in the annual assessment so as to reward and motivate individual performance. The Group also sponsors external training programmes that are complementary to certain job functions.

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