The Art of Crafting Jade

Within the New World Infrastructure Limited ("NWI") value proposition, the art of crafting jade into recurring revenue streams with promising profitability levels falls under the purview of operational activities. On this front the management team chooses and nurtures businesses that create long-term investor value. It is in this domain where the hard work to cut, craft and polish is executed. At times, the end result of this effort is most rewarding. At other times, persistence and patience is essential to achieve the final result. This year was one of those in which persistence and patience was required.

Review of Operations

The fiscal year ended 30 June 2001 was one of consolidation and restructuring for NWI. Over the course of the year, NWI focused on strengthening its financial position through the consolidation of basic infrastructure and e-infrastructure/technology operations. Emerging from a record year of earnings and revenues in FY2000, NWI took advantage of market timing to dispose of under-performing assets, generate solid cash inflow through the opportune sale of assets and restructure the debt portfolio.

Due to the consolidation of assets and the restructuring of operations the financial results posted a significant downturn. Net profit dropped to HK$15.1 million, a decrease of 99% compared to HK$1.27 billion in FY2000. Attributable Operating Profit ("AOP") decreased to HK$1.16 billion, down 14% compared to HK$1.35 billion in FY2000.

There were a number of reasons for the setback in financial results. On the operational side, the majority of business segments reported a stable or increased contribution to AOP. However, this was offset by the fair performance of Guangzhou City Northern Ring Road ("GNRR"), the disposal of bridge assets and an increase in interest expense. Another factor in the AOP decrease was a loss on the disposal of the H-Share investment portfolio. Finally, due to the downturn in the global technology market NWI took a prudent view in making provisions on the value of e-infrastructure/technology investments.

In addition, NWI experienced a rise in other head office items to HK$599.5 million in FY2001, from HK$582.7 million in FY2000. The interest expense as a component of head office items was HK$209.4 million greater than in FY2000. This was mainly due to a strategic initiative to refinance short-term debt with longer-term instruments. Meanwhile, the provision for the diminution in the value of investments reached HK$229.4 million, compared to HK$232.4 million in FY2000. Part of the loss on disposal of H-Shares is the profit taken up in the previous year.

Managing Director's Report

Basic Infrastructure

The basic infrastructure business focuses on generating growth through stability. With some 85% of the total revenues produced by this segment the success of basic infrastructure is critical to NWI. In recent years, the basic infrastructure portfolio has expanded across a spectrum of sectors. Roads, energy, water treatment and cargo handling are the largest revenue drivers and their contribution to AOP changes with the operating environment.

Over the course of the last two years, NWI has rolled-out a policy of consolidation for the basic infrastructure portfolio. One reason for this initiative is the NWI drive for greater profitability and an intense desire to produce shareholder value. Overall, those projects that cannot make the performance grade do not have a place in the portfolio and are sold to strengthen the core business. On the other hand, those projects that show promise are supported on all levels.

In this fiscal year, NWI disposed of major assets – Guangzhou Three New Bridges and Roadway No.105. These disposals were completed at a modest profit. NWI concluded an agreement with joint venture partner Guangzhou City Tunnels Development Co. to sell its interest in Guangzhou Three New Bridges for US$174 million. NWI purchased an attributable 50% interest in Three New Bridges in November 1996 for US$144 million. Meanwhile, the HK$83.9 million sale of Roadway No.105 produced a return on investment of cost plus interest of 10%. Currently, NWI is contemplating the sale of other assets that do not fit into the profit-generating model of the basic infrastructure business.

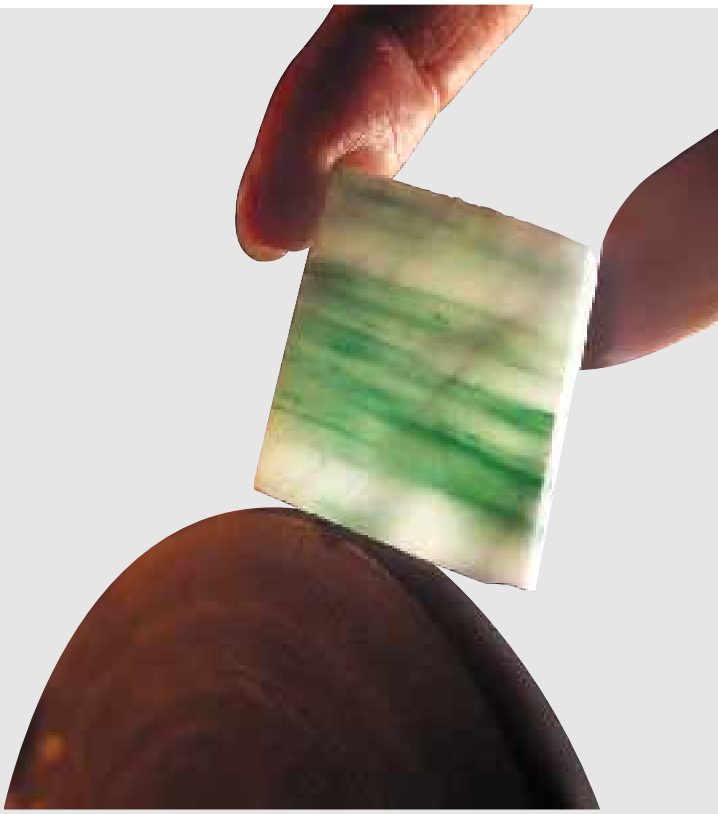
e-infrastructure/technology

New economy technology provides an emerging contribution to AOP and is a long-term value enhancer for NWI. Buoyed by the success of the chinadotcom investment NWI has participated in other e-infrastructure/technology projects. The vision behind the move into e-infrastructure/technology is to support the future development of China. Current investments in mobile communications, multimedia and data transmission technologies are designed to create long-term value for NWI and gain access to new economy opportunities created by China's accession to WTO.

Marketable Securities

During the bull market period prior to the Asian Crisis NWI acquired a portfolio of H-Shares at the IPO stage. The reason for the purchase of these H-Shares was to form alliances and to reinforce basic infrastructure investments.

Over the last two years, NWI sold its H-Share portfolio. With the disposal of Jiangsu Expressway and Sichuan Expressway soon after the sale of Beijing Datang shares, NWI cashed out its H-Share investments. In combination with the sale of chinadotcom shares, NWI generated substantial cash inflows through the sale of securities.



Credit Management

In the area of credit management NWI is strengthening its balance sheet. With convertible bond issues of US$119 million and US$177 million maturing in 2001 and 2003 respectively, the first order of business in FY2001 was to refinance borrowings with lower cost syndicated loans. Over the course of the year, NWI raised a US$350 million syndicated loan maturing in 2006. In addition, a US$177 million convertible bond due in 2003 will be financed through internal cash flow or refinanced debt. NWI now has the cash on-hand and the loan facilities in place to finance operations and expansion.

The NWI effort to improve the balance sheet over the last two years has proceeded according to plan. In the year ahead, NWI will continue to follow the road of financial prudence. NWI is also in the process of raising yuan denominated debt to finance operations and reduce currency risk.

Cash Position

During a period when cash is king, NWI has brought cash positions to record levels. Primarily due to the sale of chinadotcom shares and the disposal of assets, NWI has collected over US$500 million of cash. This position is further supported by operational cash flow produced from portfolio investments.

Outlook for FY2002

In the year ahead NWI expects to improve its financial performance. Many of the factors that had a negative financial impact on the current fiscal year are mitigated. GNRR traffic flows will return to normal with the completion of the surrounding road network while interest expense will decrease. In addition, no major provisions or write-backs are expected, as the disposal of non-performing assets is almost complete. Any upcoming disposals will have a minor effect on the financial statements.

Recent economic and political events will take a toll on the macro-economic environment around the world and Greater China is not immune. However, the prospects remain relatively bright due to a number of factors. The latest estimates on economic growth show that China should surpass the 7.5% level for GDP growth in 2001. The economic prospects will further improve with China's accession to the World Trade Organization ("WTO") in 2002.

In terms of operations, the FY2002 outlook is for continued consolidation in basic infrastructure and e-infrastructure/ technology projects with the possible disposal of under-performing assets. AOP from top performing projects will increase and new projects will contribute to AOP for the first time, thus further improving cash flow. The cash flow from basic infrastructure will be used to pay-down debt and reinvest in profitable projects.

Finally, NWI will access PRC equity markets. One innovative way of doing this is to prepare projects for exits on the local market or gain access to private equity. Currently, a number of projects are reaching the maturity stage and the opportunity is present to create rewarding spin-offs.

Outlook by Segment

On a segment-by-segment basis, NWI expects improvements across the board. The road segment will improve on the back of better performance from GNRR and the introduction of new projects. Furthermore, with a major portion of the projects in Guangdong, the strong economy of this province is expected to improve traffic flows on all roads. Other projects in the provinces of Guangxi and Shanxi as well as in the cities of Wuhan and Tianjin are looking forward to solid returns as surrounding road networks mature and projects are completed. With the Beijing-Zhuhai, Jincheng-Jiaozuo and Tangjin expressways coming on-stream, the long-term outlook for the segment is solid.

The energy segment should perform well in view of strong power demand in Guangdong Province, where the Zhujiang Power Stations and De Sheng Power Plant are located. As for the emerging alternate energy sector, NWI expects exciting breakthroughs.

Following a period of consolidation Pacific Ports Co. Ltd. ("PPC") is prepared to improve on its AOP contribution in the cargo handling segment. Hong Kong will remain a key focus of operations and the PPC plan in the world's largest container port is ambitious. Business will be boosted by China's accession to the WTO and the government development policy. Finally, Xiamen Port anticipates an increase in activity with the liberalization of the "Three Links" policy between the Mainland and Taiwan.

The water treatment segment is primed for growth. Industry deregulation will alleviate the supply situation and produce a positive effect on revenue streams. Meanwhile, the improvement of the distribution network creates opportunities to build new water plants. With tariffs and efficiency on the rise the profitability of the water portfolio will expand.

The e-infrastructure/technology segment serves the technology-hungry China market with NWI invested businesses. In this segment, NWI takes a conservative revenue-driven focus that is in direct contrast to the conceptual vision of the craze that fuelled the dotcom bubble. This prudent view was supported in FY2001 by making provisions on under-performing ventures related to Internet investments. Those companies that are left to lead the way forward in this segment have a strong potential. Among the promising technology companies in the NWI portfolio are GWcom, Linkair and PrediWave Corp., all of which have made significant headway. In coming years, it is expected that this segment will produce solid AOP and capital gains.

Difficult Times Create Opportunity

Overall, the coming year will be one of the most challenging for NWI. Nonetheless, the foundations for growth are in place and management expects the economies of Greater China to lead the world in difficult times.

The first-mover advantage will hold NWI in good stead with accession to the WTO. In the wake of WTO and with the introduction of new NWI invested technology, investment opportunities will increase significantly in new economy sectors. In addition, the flood of new entrants into the PRC market will see leaders in the global economy turn to NWI in search of alliances and operational support.

Overall, the NWI focus is on the creation of long-term value for shareholders. The ability to create this value is predicated on the success of commercial applications of e-infrastructure/ technology in tandem with the recurring income flows that the basic infrastructure generates. This fundamental dynamic, combined with prudent management and a strong financial position, are key to the future prospects of NWI and its shareholders.

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