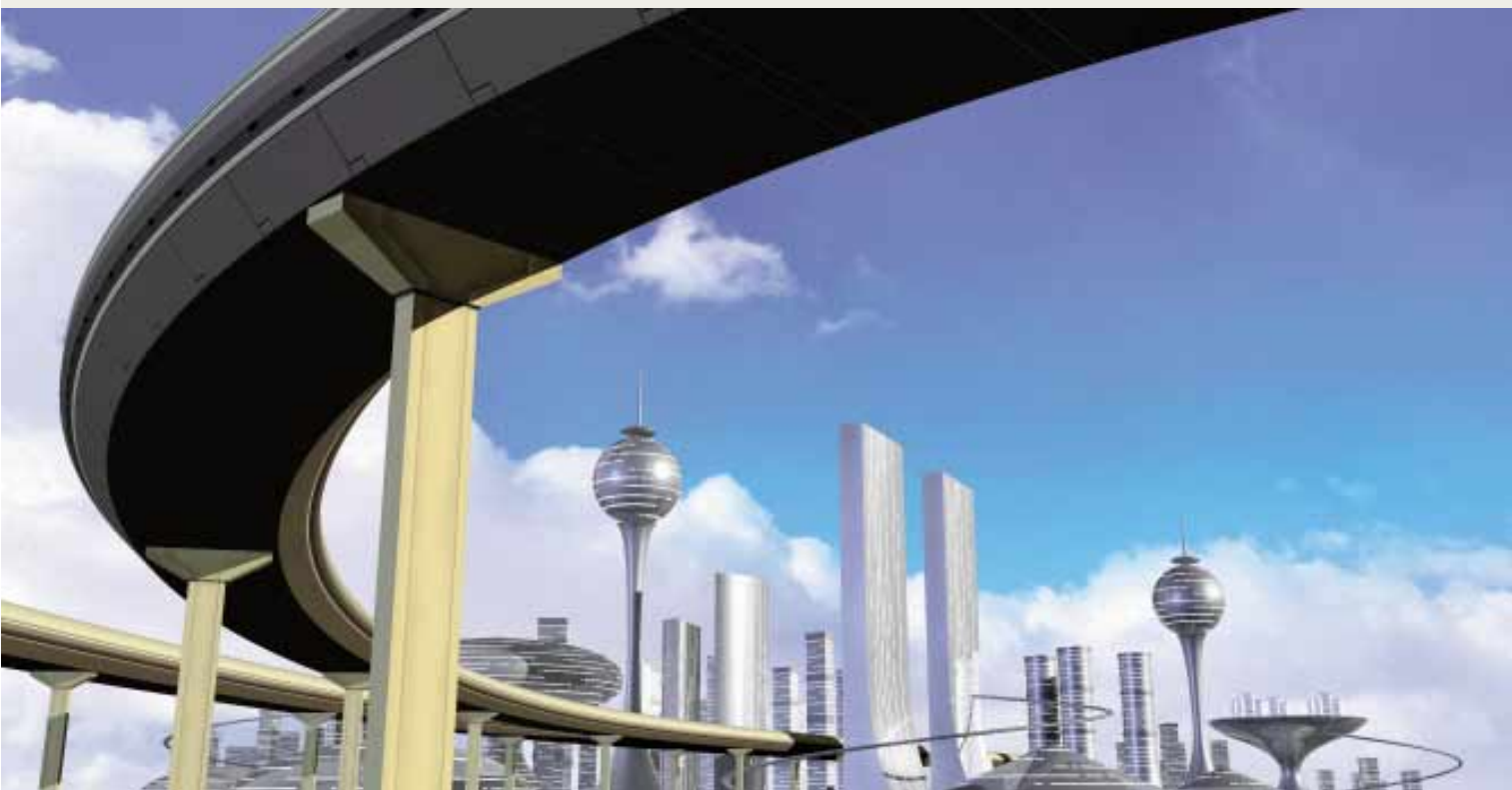


A Nation on the Move



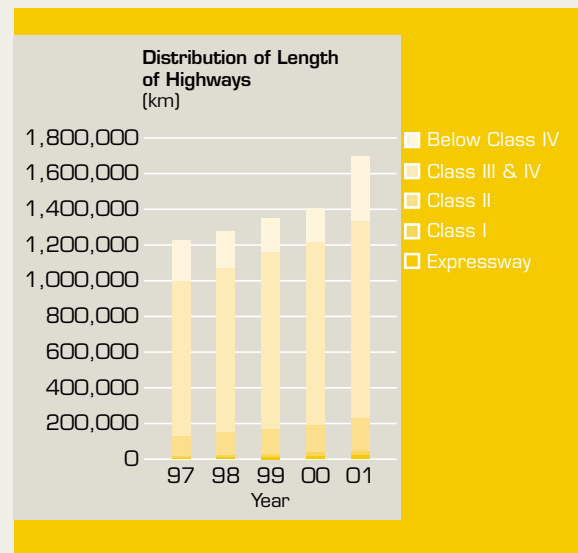
The highways and byways of China fuel the economy by moving people and goods from one end of the nation to the other.

SEGMENT OVERVIEW

Roadway infrastructure remains one of the most profitable elements in the investment portfolio, providing NWI with stable expansion and a steady income stream. The development and upgrade of new and existing road networks is vital to facilitate inter-provincial trade and transportation flows. As this network consolidates, the traffic flow on NWI roads will begin to improve substantially.

As one of the largest nations in terms of total land mass, China has constructed an impressive road network. At the end of 2001, this network ranked fourth in the world with a total length of 1.7 million km. Within this total the expressway portion ranks second, with some 19,000 km of expressways. More recently, there has been notable improvement in the network as Class II or above roadways reached 227,000 km in length, or some 13% of the grand total.

Given the government priority of developing road infrastructure, investment opportunities are notable. Total road construction investment exceeded Rmb260 billion in 2001. This was the fourth straight year that investment surpassed the Rmb200 billion mark.



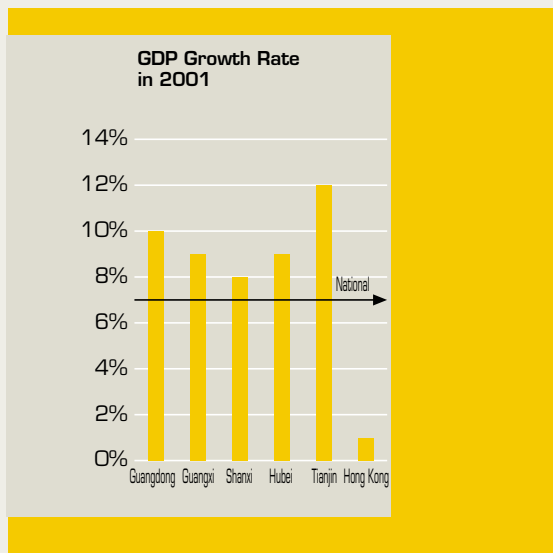
Source: China Statistical Yearbook 2002

Positive Economic Factors

China's economic growth continues and this is good news for road sector investors. A change in consumption patterns has followed increases in personal income levels and this has both a direct and indirect impact on the sector. Studies show the development of the road network provides synergy for economic expansion – and vice versa.

Another indirect benefit of economic expansion on the road network is seen in the housing sector. As individual income levels rise, consumer confidence translates into home purchases. In 2001, sales of residential buildings increased by 25%, reaching Rmb402 billion. The road network benefits as these communities require extensive links to major centers.

Under the Tenth Five-Year Plan, the central government plans to construct 200,000 km of additional roadways. Expressways will reach 25,000 km while Class II or above roadways will represent 280,000 km, or about 18% of the total. Overall, road density is expected to reach 16.7 km per 100 sq. km. One of the main focuses of the current road development plan is West China. Opportunities created by this expansion will attract foreign investors.



Source: China Statistical Yearbook 2002

OPERATIONAL REVIEW

Road Segment

NWI invested in 34 road projects covering 1,146 km and four provinces (Guangdong, Guangxi, Shanxi and Hubei), one municipality (Tianjin) and one Special Administrative Region (Hong Kong). Up to October 2002, one project was disposed and one project was not operational.

Guangdong Road Network

Guangdong has the most comprehensive road system. Each year Guangdong invests more on highways than any province. Currently, Guangdong has a total road length of 104,798 km with a density of 58.4 km per 100 sq. km. Expressways and Class I & II Highways compose 21% of the network. Overall, highways handle 69% of freight traffic and 92% of passenger transport.

To bolster the economy, Guangdong is improving traffic flows by building an inter- and intra-provincial network. According to the Tenth Five-Year Plan, an investment of over Rmb100 billion is earmarked for road construction. Moreover, the standardization of toll collection, which encompasses vehicle category and toll rates, is to be implemented in 2003. The impact of such a move on the NWI network is expected to be minimal.

NWI invested in over 20 roads across Guangdong for a combined road network length of 757 km. These roads are grouped into four areas: Southern, Western, Northern and Eastern.

Southern Guangdong	No. of Roads: 2	Length: 84.4 km
Guangzhou City Northern Ring Road		22.0 km
Beijing-Zhuhai Expressway (Guangzhou-Zhuhai Section)		62.4 km

Western Guangdong	No. of Roads: 10	Length: 349.2 km
Roadway No. 321 (Fengkai Section)		42.0 km
Roadway No. 321 (Deqing Section)		79.0 km
Roadway No. 321 (Gaoyao Section)		23.8 km
Roadway No. 1962 (Gaoyao Section)		32.4 km
Roadway No. 1958 (Deqing Section)		30.0 km
Roadway No. 1967 (Xinxing Section)		25.0 km
Roadway No. 324 (Gaoyao Section)		24.0 km
Roadway No. 1969 (Gaoyao Section)		27.0 km
Roadway No. 1964 (Zhaojiang Section)		32.0 km
Shuangjin Roadway (Gaoyao Section)		34.0 km

Northern Guangdong	No. of Roads: 5	Length: 179.9 km
Roadway No. 1959 (Qingxin Section)		26.6 km
Roadway No. 1906 (Qingcheng Section)		26.8 km
Roadway No. 1960 (Guangning Section)		60.0 km
Roadway No. 1960 (Sihui Section)		47.0 km
Roadway No. 1962 (Guangning Section)		19.5 km

Eastern Guangdong	No. of Roads: 3	Length: 143.0 km
Shenzhen-Huizhou Expressway (Huizhou Section)		34.7 km
Shenzhen-Huizhou Roadway (Huizhou Section)		21.8 km
Hui-Ao Roadway		86.5 km

⇔ Southern Guangdong

Guangzhou City Northern Ring Road (GNRR) remains an important AOP contributor. This roadway passes through high traffic areas in Guangzhou, linking the eastern and western sections of the city. This year GNRR was acclaimed by the Guangzhou Municipal Government as one of the most advance organizations in environmental innovation.

The GNRR average daily traffic flow decreased 7.8% to 120,556 vehicles in FY2002. The fall in traffic flow was due to a temporary traffic diversion to adjacent roads as construction continued on surrounding roads and the restriction of traffic flows during the busy Guangzhou Autumn Trade Fair. In addition, non-Guangzhou registered vehicles were encouraged to travel on the Guangyuan East Road, as toll collection was not scheduled to commence until December 2001.

The Beijing-Zhuhai Expressway (Guangzhou-Zhuhai Section) (BZGZ) is a 62.4 km expressway connecting the central and southern part of Guangdong. Section I connects to Humen Bridge at Nansha and Section II links Panyu and Zhuhai via Zhongshan. The average daily traffic flow of BZGZ I & II rose by 11.3% and 24.1% respectively between FY2001 and FY2002. The rise was mainly due to more drivers recognizing the convenience of using BZGZ to travel within southern Guangdong. It is expected that economic and tourism development in the region will continue to support the traffic growth of BZGZ.

⇔ Western Guangdong

The Western Guangdong Network serves local and cross-border traffic for west Guangdong and east Guangxi. The network radiates from Zhaoqing and has feeder roads directing traffic to key centers. Sections of the inter-provincial Roadway No. 321 are major cash flow generators and the entire Zhaoqing-Wuzhou section is owned by NWI.

Average daily traffic flows for most sections of the Western Guangdong Network rose in FY2002 due to the completion of Roadway No. 321 and improvements in the surrounding network. The exceptions were Roadway No. 1958 (Deqing Section) and Shuangjin Roadway (Gaoyao Section). There were no toll rate increases in FY2002.

NWI expects traffic to increase for Roadway No. 321 as the connecting road network improves. The commitment to develop West China will enhance the economy of Guangxi and support traffic flows. Above all, the Deqing and Fengkai sections are expected to benefit from a substantial increase in cross-border traffic.

During the year, Roadway No. 321 (Deqing Section – Yuecheng Toll Station), Roadway No. 324 (Gaoyao Section – Xinqiao Toll Station) and Roadway No. 1969 (Gaoyao Section – Xinhua Toll Station) were presented with the 2001 Advanced Management Toll Station award from the Zhaoqing City Roadways Bureau.

⇔ Northern Guangdong

The average daily traffic flow in Northern Guangdong Network increased in FY2002 given the popularity of road transport and an improved economic climate. The Northern Guangdong Network benefits from the migration of industries, many of which have moved from the high-cost Zhujiang Delta to outer Guangdong. Meanwhile, the government is eager to promote tourism and this should increase traffic flows.

Roadway No. 1906 (Qingcheng Section) commenced operations in September 2001 and a toll rate increase was approved in July 2001 for Roadway No. 1959 (Qingxin Section).

⇔ Eastern Guangdong

The increase in average daily traffic flow remained healthy and steady for all projects in Eastern Guangdong. The expansion of traffic growth was mainly attributed to the rapid development in the surrounding area of Yantian Port, increased throughput at the port facilities, increased traffic from connecting roads and the recent establishment of a petrochemical refinery plant in the Huizhou Bay Area.

Guangxi Road Network

The Guangxi Road Network shows promise. The dynamics that drive the road sector in Guangxi Autonomous Region attract a growing amount of foreign investment. Due to the influx of investment, Guangxi expanded the length of its highways by 1,842 km to 54,752 km in 2001.

Still, the condition of the existing road network is poor. Expressways and Class I & Class II Highways account for just 10% of the total in 2001. In an effort to alleviate traffic pressures, Guangxi will construct links to the National Trunk Highway. By 2005, the Guangxi highway network is expected to reach 60,000 km. This is key to economic expansion, as highways remain the primary choice of freight transportation.

Guangxi Road Network	No. of Roads: 7	Length: 175.4 km
Beiliu City Roadways		39.8 km
Rongxian Roadways		26.0 km
Yulin-Shinan Roadway		27.8 km
Yulin Shinan-Dajiangkou Roadway		38.7 km
Yulin Shinan-Guigang Roadway		20.0 km
Roadway No. 321 (Wuzhou Section)		13.0 km
Cangwu County Roadway		10.1 km

All NWI roads are fully operational in Guangxi other than the Yulin Shinan-Guigang Roadway. NWI may withdraw from Yulin Shinan-Guigang Roadway due to government plans to construct an expressway parallel to this road that runs from Nanning to Guangzhou. The performance of roadways is mixed. Four roads showed improvement in the average daily traffic flow in FY2002. In addition, toll rate increases were approved for Cangwu County Roadway and Beiliu City Roadways. However, the traffic flow of Beiliu City Roadways and Rongxian City Roadways decreased due to the usage of new roadways. However, the situation will stabilize as the local government adjusts the overall planning of city road network to avoid competition between roadways.

The Guangxi Network will benefit from economic expansion and the growth in freight traffic at Beihai Port, one of the largest ports in the province. Furthermore, traffic to the road network will improve significantly after the completion of an expressway between Nanning and Shinan (part of Nanning-Guangzhou Expressway) in 2004.

Shanxi Road Network

Shanxi's economic strategy hinges on the construction of roads, resource development and tourism promotion. For these reasons Shanxi is committed to improving its inter- and intra-provincial network over the next five years. The road length should reach 60,000 km by 2005, with Class II Highways or above expanding by 3,000 km.

Shanxi is China's largest coal producer and its resource is carried by rail and road to Beijing, Tianjin and other cities. Freight traffic via highways and railways reached 615 million tons and 320 million tons respectively in 2001. With coal as a vital input for power Shanxi is promoted as an industrial hub that can save on inter-provincial transport costs.

Shanxi Road Network	No. of Roads: 5	Length: 131.7 km
Shanxi Taiyuan-Gujiao Roadway (Taiyuan Section)		23.2 km
Shanxi Taiyuan-Gujiao Roadway (Gujiao Section)		36.0 km
Roadway No.309 (Changzhi Section)		22.2 km
Taiyuan-Changzhi Roadway (Changzhi Section)		18.3 km
Jincheng-Jiaozuo Expressway (Shanxi Section)		32.0 km

All of the Shanxi Road Network is operational, except for Jincheng-Jiaozuo Expressway (Shanxi Section), which was disposed of in September 2002. Within the network, Roadway No. 309 (Changzhi Section) and Taiyuan-Changzhi Roadway (Changzhi Section) benefited most from rising coal truck traffic.

With an emphasis on infrastructure development, plans to construct a new power plant and rising tourism flows, the Shanxi economy continues to grow and NWI roadways benefit.

Wuhan City Project

Wuhan's central location makes the city an ideal transportation hub. Both the Beijing-Zhuhai Expressway and the Shanghai-Chengdu National Highway cross the city. Highways are a major method of transporting goods but road development cannot support traffic levels. Some Rmb9.7 billion will be invested to improve the network and expressways are expected to expand by 60% by 2005.

Wuhan Airport Expressway (WAE) is the only connection between Wuhan Tianhe Airport and Wuhan City. Average daily traffic flow rose by 16.6% in FY2002 as Wuhan Airline moved to Tianhe Airport in January 2001. The average toll per vehicle showed an increase of 36.1% due to a rate increase of 45% approved by the Hubei Provincial Government, effective as of April 2001. With growth in tourism and the introduction of international flights, traffic on WAE is expected to improve.

Tianjin Project

Tianjin is a vital trade and industrial hub that serves North China. Tianjin enjoys preferential tax treatment and is a magnet for foreign capital as a Free Trade Development Zone. Freight traffic is heavy as six National Highways pass through Tianjin. Due to a number of factors, foreign enterprises find the city a strategic location from which to build businesses.

Tangjin Expressway (Tianjin North Section) (TEN) serves intra-provincial traffic. Since Section II of the expressway commenced operating in January 2001, transportation to Tianjin port and Tianjin City is more convenient. Linkage to highway networks in Shenyang is possible through the Beijing-Shenyang Expressway. The opening of Tangxuxi toll station in December 2001 links Tangjin Expressway to Beijing-Tianjin-Tanggu Expressway.

Average daily traffic flow on TEN rose by 14.9% in FY2002. This was primarily due to the growing convenience of using the expressway and improvements in the surrounding road network. With the start of operations of Section II of TEN, average toll rates per vehicle increased by 31.7% in FY2002 as a result of longer travel distances.

The construction of the 66 km Tangjin Expressway South Section will be completed by 2004. When this section is connected with TEN, there will be a positive impact on traffic flows.

Hong Kong

Hong Kong boasts one of the world's best infrastructures and China plays an important role in pushing road expansion plans. Since reunion with the Mainland, the level of cross-border traffic has intensified and alternative transportation routes between Hong Kong and the Mainland are currently being studied. In 2001, it is estimated that cross-border vehicles carried over 9.1 million tons of goods into Hong Kong.

Within the road portfolio, Tate's Cairn Tunnel remains a valuable asset. The average daily traffic flow and average toll rate remained stable at Tate's Cairn Tunnel throughout FY2002.

Bridge Segment

Bridge Project	No. of Bridges: 6	Length: 7.0 km
Wuhan Bridge Development		4.0 km
Gaoming Bridge		1.1 km
Zhaoqing Deqing Xijiang Bridge		1.4 km
Tianjin Yonghe Bridge		0.5 km

The bridge portfolio is composed of four bridge projects. The performance of the bridge segment improved as it experienced an overall increase in traffic volume in FY2002.

Gaoming Bridge is a vital passage connecting East and West Guangdong. Average daily traffic flow rose by 5.6% in FY2002. With the opening of the entire Guangzhou outer ring road in the near future it is expected that the traffic flow of Gaoming Bridge, which links to the outer ring road through a connecting road, will benefit. Zhaoqing Deqing Xijiang Bridge links Deqing County with Luoding City and Yunan County. The average daily traffic flow increased in FY2002.

Wuhan Bridge Development includes Yangtze River Bridge No. 2. Wuhan Municipal government imposed traffic control measures in early 2002 to divert traffic from Yangtze River Bridge No.1 to Yangtze River Bridges No.2 and No.3 to surmount the over-utilization problems. Due to this factor, average daily traffic flow for the Yangtze River Bridge No.2 increased by 11.8% in FY2002.

Yonghe Bridge is 510 meters in length and connects Tangjin Expressway to Tianjin City. Average daily traffic decreased by 13.7% in FY2002. This was mainly because of a traffic diversion to Tangjin Expressway (Tianjin North Section) Section II. In addition, some traffic was diverted to nearby roads during the renovation of Jinhan Road from July to September 2001.

Power to Grow



Energy is the lifeblood for economic growth as well as a major factor in the improvement of living standards for an entire nation.

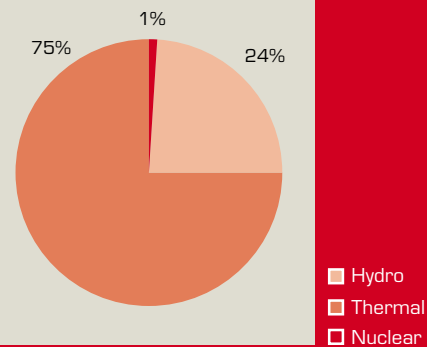
SEGMENT OVERVIEW

The energy segment has always been a strategic imperative for NWI. The steady growth of the power industry has opened new vistas in this segment of the basic infrastructure portfolio. As is always the case, the profitability of the power sector is based on the ongoing expansion of the PRC economy. Economic growth shows no signs of abating, so the prospects for NWI in the energy segment remain solid.

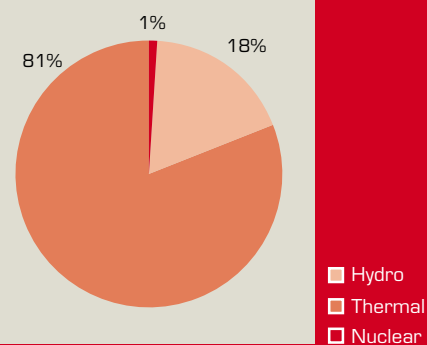
China has always been a major player in the global energy market due to the size of its population and the pace of economic growth. By the end of 2001, China ranked second in the world with generating capacity of nearly 340 GW. Thermal power represents 75% of installed capacity, hydro 24% and nuclear just 1%. Overall, China expects to increase generation capacity to 390 GW by 2005.

With strong growth in consumption levels for both individual consumers and enterprises, the demand for power increases on a yearly basis. The economic growth associated with accession to WTO and improved standards of living are major contributing factors to sustain growth in this market. Currently, electricity consumption growth rates are moving closely in line with the economy. For instance, in 2001 electricity consumption rose by 8% to 1,453 TWh while GDP grew by some 7.3%.

2001 Installed Capacity in China



2001 Electricity Generation in China



Structural Reforms

The central government is moving at full speed to break the state monopoly currently exercised over the electricity supply. Policy reforms in this area look to decrease cost, to raise efficiency levels and optimize the use of resources. With the adoption of tariff reforms and new pricing mechanisms, the government is dedicated to forming rational and transparent supervisory regulations in this sector.

Presently, China is undergoing a long and arduous restructuring process. The current regulatory and industry structure create different platforms for the various players. This leads to different interests among independent power producers, state-owned generation units and state-owned transmission and distribution operations. Such an initiative encourages a more competitive environment with a fair and sustainable operation and development climate.

As part of the reform of the power sector, China will establish four or five independently operated national power generation companies, each with a capacity of 30 GW to 40 GW. By regrouping power transmission networks China will establish a national power network company, comprising five regional companies in the northern, northeastern, northwestern, eastern and central areas. An independent South China network will operate power transmission in the provinces of Guangdong, Hainan, Yunnan and Guizhou as well as in Guangxi Autonomous Region.

Essentially, China has conducted a thorough industrial review to rebalance the focus on power generation, transmission, distribution and sales. To translate this initiative into monetary terms, an affordable end users' tariff will be divided amongst these four segments according to a new proportion. Competitiveness is key for all players. In the future, power producers will bid to sell through the power pooling system. Eventually, end users may be able to choose favorite suppliers based on price and service levels.

Five-Year Power Plan

As part of the ongoing reform process in the power sector, the government is continuing with plans to improve urban and rural distribution networks on a nationwide basis. To do so the government is initiating construction projects of power grids throughout the country. This effort will improve the efficiency of the industry.

At the moment, the discrepancy between supply and demand varies dramatically between regions. For example, the northeast and Hainan power grids have relatively high excess capacity and that situation is expected to continue. The central China and Sichuan grids experience excess capacity only in the rainy

season due to a focus on hydro-power. On the other hand, peak load demand for coastal provinces is expanding and Guangdong may suffer from power shortages.

In the coming year, the government will continuously push forward the West-to-East Transmission Program to resolve the geographic resource imbalance problem. The objective is also to tackle increasing peak demand along the coastal provinces. To enhance the system, regulators are placing a priority on environmental protection to promote water and oil conservation. These initiatives will allow China to better develop a sector that is critical to ongoing economic growth.

Guangdong Market

It comes as no surprise that Guangdong Province is the nation's leader in industrial output once again in 2001. Year after year this booming southern province has managed to produce stellar numbers. Over the next five years, the industrial dynamos of Guangdong are expected to lead the province to an average GDP growth of 9% per annum. However, Guangdong's leading position comes at a price: the power grid system must run at full capacity to meet peak consumption loads and there is a danger of power shortages.

A lack of energy resources within Guangdong has forced the province to import 90% of its resources from other regions to fuel power generating facilities. Despite the fact that Guangdong has the highest installed capacity of 32 GW and power generation of 123 TWh in 2001, the province also has the highest consumption. With a consumption rise of 21% to 120 TWh in 2001, Guangdong is on the road to another record year in 2002.

Guangdong has the highest end users' tariff among all provinces. In order to close the gap, the Guangdong end user's tariff was cut severely in May 2002. The Guangdong government wants to achieve a uniform urban and rural residential tariff at not higher than Rmb0.79 per kWh by the end of 2002. This exerts pressure on all levels of industry, especially power producers, and this policy may create more generation volume. NWI will continuously manage its cost at the most efficient level and on an environmental friendly basis to be competitive in the market.

Sichuan Province

Power generation activity increased substantially in Sichuan Province. Electricity sold by Sichuan suppliers rose by 15% in 2001 over 2000, and additional growth of 10% is expected in 2002. One reason is a surge in rural demand with the completion of the initial phase of the rural power-grid reconstruction in first quarter 2002. Another is the connection of the

Sichuan power grid to the energy hungry coastal region. Currently, Sichuan supplies 15,000 GWh of electricity to other provinces annually. These exports will rise as economic activity for central and western regions show signs of improvement following a development campaign launched in 1999.

OPERATIONAL REVIEW

NWI operated five power plants in China and Macau with a total capacity of 1,924 MW in FY2002. The portfolio includes: Zhujiang Power Stations (ZPS) Phase I & II and Shunde De Sheng Power Plant (DSP) in Guangdong; Qianwei Dali Power Plant (QDP) in Sichuan; and, Companhia de Electricidade de Macau-CEM, SA (CEM) in Macau. NWI owns a stake in New Qu Energy (New Qu), an alternate energy producer serving the Mainland market.

ZPS Phase I, whose generation exceeds the minimum off-take amount, was a prime growth generator with a 12.4% surge over FY2001. The generation capacity of ZPS Phase II decreased slightly due to maintenance. However, the average tariff for Phase I and II rose slightly due to the elimination of power bidding for electricity sold in FY2002.

DSP is a major power producer in Shunde and operates at a high efficiency rate to cope with expanding demand for the district. Power sales rose 3.9% because of an upsurge in demand for Guangdong Province. Sichuan's QDP achieved impressive growth with generation rising 15.2%. This is due to government policies to develop the central and western provinces as well as increased energy demand from rural areas.

In Macau, CEM maintained its exclusive right to supply electricity for a 25-year period ending in 2010. Given this franchise, CEM achieved stable growth in FY2002, as gross generation rose 5.6% over FY2001. To meet growing demand, CEM is constructing a power plant composed of two phases with total capacity of 136 MW. The first phase commenced operations in January 2002 and the second expects to be operational by 2003.

New Qu secured an important Memorandum of Understanding to commence work on transportation infrastructure projects in Tibet. In cooperation with the local authorities New Qu will deal with the permafrost problems plaguing the Qinghai-Tibet Railway and the Qinghai-Tibet Highway.

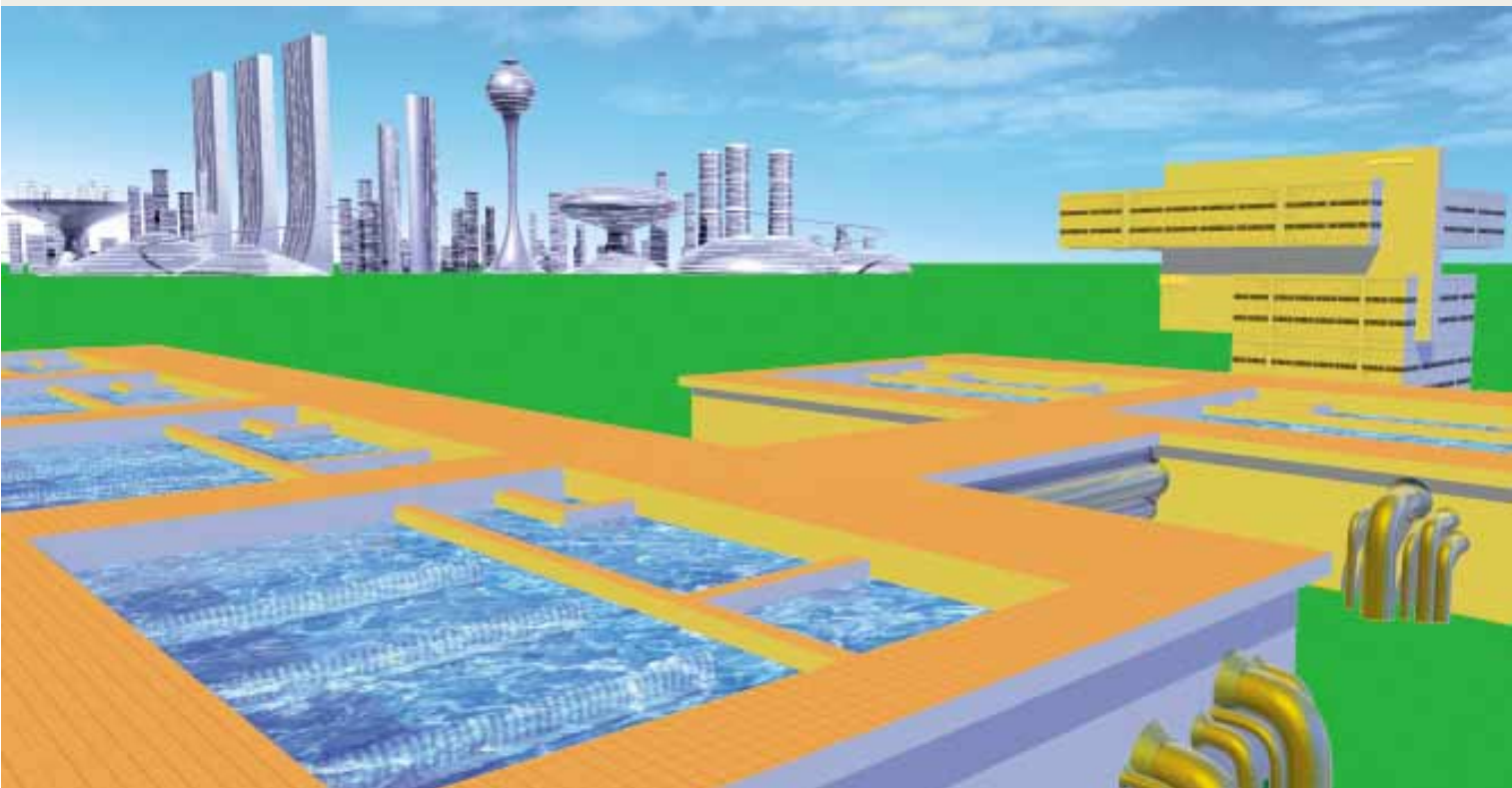
Outlook

The energy segment is expected to continue its solid performance due to a variety of favorable factors. Guangdong is in short supply of power. This bodes well for the expansion program of the Guangdong power plants. Meanwhile, QDP will maintain stable growth in the coming year as the plant benefits from power grid reform and government policies to bolster the economies of central and western provinces.

In Macau, the additional installed capacity of CEM will come online. This expansion in generation capacity will allow CEM to cope with increased demand in the area.

Finally, in the alternate energy sector NWI is expecting to announce more breakthroughs. Over the course of the coming year, New Qu products and applications will enter the market. This alternate energy company is expected to build on its Tibetan success with more contracts.

Conserve to Sustain



The ability to produce clean water and to protect the environment is the challenging mission of the water treatment industry.

SEGMENT OVERVIEW

Due to an impressive round of government reforms water treatment is one of the most promising sectors for foreign investors in the infrastructure arena. Based on a long-term commitment to reform the water tariff system, investors interested to operate treatment facilities enjoy an environment that presents many opportunities. As a leading investor in this sector NWI is positioned to take advantage of these opportunities.

The water treatment sector is on the road to liberalization. Above all, the overhaul of treatment facilities will create numerous benefits. However new and old challenges must be addressed in the years ahead. For instance, water supply efficiency remains a serious issue considering the large amount of wastage. Although China's water consumption is equal to that of the US the nation's GDP is substantially lower at less than 15% of the US total.

It is commonly believed that many of the challenges faced by water sector regulators can be countered by a solid public relations campaign. Basically, the government must build awareness of the benefits of conserving water to the populace as a whole. Presently, water is still considered to be a welfare commodity rather than a commercial product. Until this philosophy changes the task of reform will be difficult. In order for the sector to become more efficient, the country must tackle the issue of poor management and allocation of resources.

Nonetheless, the necessity to overhaul the water system is a critical task for the government. Failure to act in this area would have social repercussions. Explosive urban growth has led to greater demands on the water supply system. In addition, intense shortages, uneven distribution of resources and severe deforestation in the northwest has exacerbated the problem. However, the government can surmount this challenge and a suitable program is being enacted at various governmental levels.

Government Policy

The central government commitment to water sector reform is defined in the Tenth Five-Year Plan. This plan strongly emphasizes the government's dedication to protect water resources while promoting the ideals of intelligent conservation. In this way, the government hopes to dramatically improve recycling efforts within five years.

More specifically, there are plans to increase water sewage capacity by some 26 million cubic meters per day over the next five years. In addition, a program is underway to process some 45% of polluted water in urban areas. Most importantly, the government will establish a reasonable water tariff system by increasing tariffs throughout the nation.

To further its comprehensive reform policy, China will invest Rmb600 billion to Rmb700 billion on environmental protection. This is a large amount by any standard and the spending of these funds presents a boom for environment products and services. If the government can maintain this commitment to environmental protection China will soon reach the average level of developed countries.

Reform of Water Tariffs

Low water tariffs remain a perennial problem, but efforts have been made to improve the situation in recent years. Since water is treated as a welfare commodity, tariffs remain unreasonably low. These low tariffs do not support water conservation policies and huge amounts of water are wasted everyday because of carelessness. Inefficient systems and a lack of substantial investment have led to wastage, making the entire sector unprofitable in its current condition.

To combat this problem, tariff reform is a priority in the Tenth Five-Year Plan. Under the City Water Supply Tariff Regulation water is officially deemed a commercial commodity. According to the regulation, the government will establish a reasonable tariff system by increasing the price of water incrementally over the next five years.

The Ministry of Water Resources has remarked that in addition to this tariff increase water resources are protected under a legal framework. The result will create a progressive tariff system based on usage before 2005. Under such a system the water tariff will vary, depending on cities and other factors. Finally, recycled water and clean water will carry different pricing parameters to present a fair market value.

Room to Rise

In terms of the economic repercussions of tariff increases there seems to be room within individual budgets to absorb change. Water expenses represent only 1.3% of personal income of urban citizen, which is much lower than the international standard of 4%. This translates into only 0.2% to 0.5% of a consumer's personal expenditure. This leeway in pricing is a good sign for those interested in a profitable water sector.

Clearly, the government continues to put effort and thought into the tariff reform. Regulators are in the process of establishing a reasonable tariff and the policy is being enacted in cities such as Beijing and Shanghai. Presently, water prices for daily consumption by local citizens in these cities have risen from Rmb2 to Rmb2.5 per ton.

The benefits of increasing tariffs by increments are huge. The government maintains this will trigger public awareness of the scarcity of water and promote conservation. Such a policy will increase profits within the industry and operators will benefit from reform. In this way the industry can attract more investors and the system will improve with an influx of capital. Finally the tariff reform should substantially decrease water pollution levels throughout the country.

Sewage Treatment

The level of water pollution has grown to alarming proportions and if nothing is done the problem can only worsen as the urban population expands at a rapid rate. At present, cities and towns release about 137 million tons of waste-water daily, but only 6% of this amount is treated. In addition, the water recycling rate is about 40%, compared to 75% to 80% in most developed countries.

If left unresolved, the slow progress in tackling waste-water treatment means China will face a challenge to maintain its current pace of economic development. Outdated systems and a severe lack of funds are the primary hurdles to future improvements. In an effort to attract substantial foreign investment the government has established favorable conditions in the waste-water treatment sector.

According to the Ministry of Construction's water blueprint, all cities will be required to establish waste-water treatment facilities. This guideline will call for facilities to process 45% of a city's sewage by 2005 and up to 60% by 2010. Due to this program, investment in waste-water treatment is estimated to reach Rmb300 billion over the next decade.

This move will have a resounding impact on the economy. Experts estimate that if all cities above county level install sewage treatment facilities, there will be a demand of Rmb400 billion for the construction and upgrade of treatment plants. At this level, the sewage treatment rate would increase from 6% to as much as 50%. All cities will be required to levy a sewage treatment fee by the end of 2003. The foundation of the sewage drainage and central treatment increases construction levels of treatment infrastructure.

OPERATIONAL REVIEW

In August 1997, NWI acquired a 50% equity interest in Sino-French Holdings (Hong Kong) Ltd. (Sino-French), a joint-venture company with Suez Water (formerly Suez Lyonnaise des Eaux, SA). Through its interest in Sino-French, NWI holds stakes in one Macau water treatment plant, 13 China water treatment plants, a water micro-filtration equipment manufacturing plant, a waste-water treatment plant and a 4.3% interest in Shenyang Public Utility Holdings Co. Ltd.

During this year, Sino-French made a number of important investments and extended its geographic coverage. Sino-French invested in four PRC water treatment plants: Shanghai Spark Water Plant, Xinchang Water Plant, Panjin Water Plant and Qingdao Water Plant. Sino-French also invested in the Shanghai SCIP Waste Water Plant.

The daily aggregate capacity of the water portfolio reached 2.8 million cubic meters in FY2002. All projects were operational by October 2002 and contributed to AOP except for Lianjiang Water Plant and Shanghai SCIP Waste Water Plant. Other than the Macau, Tanzhou and Shanghai Spark water plants and Shanghai SCIP waste water plant, which are under concession agreements, all PRC plants have off-take agreements with a municipal supply company or are fixed return investments.

All operational PRC projects, with the exception of newly invested projects, experienced growth in water volume invoiced. For some plants this was a result of strong demand, for others it was the impact of a full year of operations or fixed invoice volume arrangements.

Of all projects, the greatest revenue contributor was the Macao Water Supply Co. Ltd. (SAAM), a utility operating under a 25-year concession agreement granted by Macau. Both the production volume and the tariff remained stable. However, SAAM net profit decreased by 4.7% due to a decrease in revenue from other sales and provisions for current assets.

Four water plants and one micro-filtration equipment plant serve Guangdong. These projects experienced solid growth in water production and net profit due to the prosperity of the region. The upgrade work at Zhongshan Tanzhou will be completed in 2002 and the daily capacity will rise by 80,000 cubic meters per day, up 33% over 2001. Zhongshan Dafeng and Quanlu witnessed a tariff rise during the year. Nanchang Water Plant was the only one to experience a drop in net profit, the primary factor being a downward adjustment in tariffs under an agreed-return model.

Among water plant projects, Shanghai Spark Water Plant started operations in January 2002. Xinchang Water Plant, which serves Zhejiang Province, has a total capacity of 40,000 cubic meters per day, though this will rise to 100,000 upon completion of the facility.

This was both a difficult and interesting year for Shenyang Public Utility Holdings in 2001. Despite an 8.9% increase in turnover the net profit dropped 33.8%. The reasons for this were a provision for doubtful receivables and a progressive water tariff scale introduced by government to conserve water in view of the drought in northeast and power grid reform. However, Shenyang Public Utility Holdings is cash rich after the disposal of its entire interest in Shenyang Water for Rmb900 million in June 2002.

Outlook

Given the factors noted above, the future for the water treatment segment looks promising. NWI is prepared for expansion based on the government's solid commitment to tariff reform, an influx of foreign investment and a growing market in water treatment related areas – such as environmental products and treatment plants. The acquisition of plants combined with growth in demand will drive AOP contribution.

One nationwide factor to affect the water treatment business is the high water leakage rate in the distribution network. Sino-French is assisting local water companies to revamp the network to improve the leakage rates substantially. The success of this initiative is expected to reduce water leakage and enhance profitability.

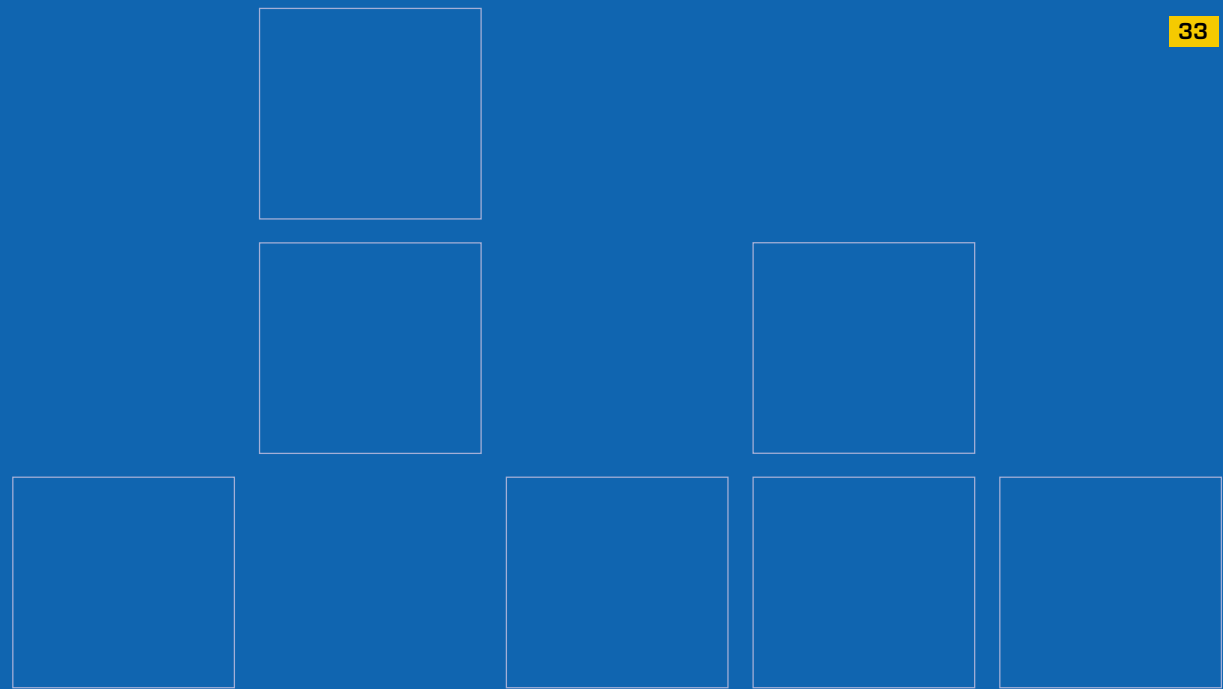
In Guangdong, the growth of the water treatment business continues. Sino-French water supply companies will extend distribution coverage to nearby areas and the surrounding townships through the acquisition of small private plants. These joint ventures show promise as they have a monopoly to supply and distribute water. In addition, Zhongshan Tanzhou will construct Phase II if demand remains strong.

In Macau, the water treatment business remains stable. The current production capacity of 255,000 cubic meters per day will be sufficient to fulfill demand for the next five years. The implementation of a cost savings plan remains a key driver for SAAM growth.



Serve China, Reach the World





With China's recent entrance into WTO all eyes are on the cargo-handling sector as the trade sector kicks into high gear.

SEGMENT OVERVIEW

China stands prepared for another era of major change, one fuelled by accession to the World Trade Organization (WTO). This phase will see the domestic economy merge with the global arena. In so doing, China will see a transformation in all aspects of its commercial life. At the forefront of this evolution is the trade sector. After all, the concept of the WTO is a world where trade flows in an orderly fashion. Pacific Ports Co. Ltd. (PPC) is positioned to benefit from this transition.

China continues to build momentum despite the slow recovery of the developed economies. Though most of Asia has suffered from the global recession, the Mainland has maintained a steady economic growth rate. This is primarily due to an unexpected surge in exports coupled with robust domestic demand. Above all, consumer demand is critical to power economic growth and the government hopes to stimulate more spending by an increase in investment.

Hong Kong is faced with major structural changes in its economy due to the downturn in US markets and other factors. However, Hong Kong is likely to emerge from recession in second quarter 2003 given a rebound in trade and tourism. In the near-term, the weak US dollar will assist the Greater China export-led economy. The most direct benefit is in exports to Japan and Europe as PRC products are more competitive against the yen and euro.

Growth Opportunities

The potential of the PRC import market is enormous. Presently, the nation's share of world imports is on an upward course. The total share of global imports should rise to 6% by 2005, up from 3.8% in 2001. Global imports totaled an estimated US\$6.4 trillion in 2001, according to WTO. If this grows at 4% per annum during 2001-2005, and China reaches the 6% benchmark, this will result in an import market of US\$450 billion.

One reason for this rise in imports is a growing interaction with the Asian economies. According to trade data, the share of imports that flow from Asia has fluctuated between 30% and 37% since 1993. Even if the Asian region manages to maintain a 35% level of imports, the aggregate size could be an additional US\$47 billion to US\$73 billion by 2005. This is on top of US\$85 billion of imports in 2001. Following this line of reasoning Asian imports to China could be 55% to 85% larger within four years.

Port Prosperity

Strong export growth, rising imports and consumer spending are catalysts for the cargo-handling sector. The sector benefits from trade flows as ports handle the majority of trade. Presently, ports handle over 80% of exports and 90% of imports. The 18,400 km coastline runs through 11 coastal provinces, cities and regions accounting for 40% of the population and over half the GDP. This drives the prosperity of the coastal region.

To support opportunities in the cargo-handling sector, the Tenth Five-Year Plan (2001-2005) focuses attention on container handling. The government goal is to achieve 20% growth per annum in this area and increase port-handling capacity to 60 million TEUs by 2005. This is an ambitious plan for a nation that has lagged behind in the containerisation of trade flows. However, this challenge is not insurmountable for a sector that has grown from strength to strength.

Hong Kong Port

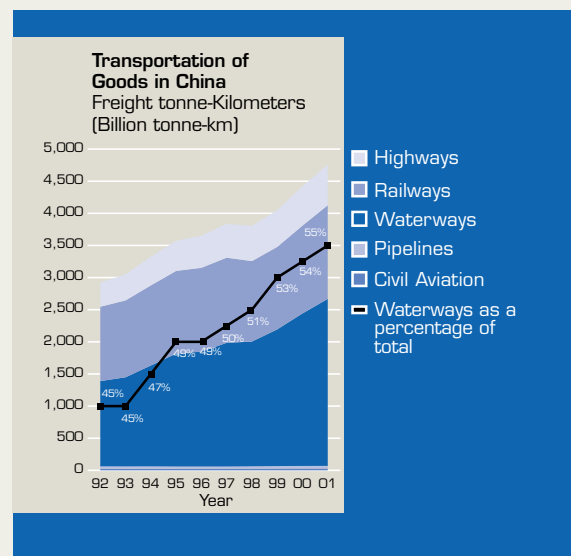
Turbulent economic conditions, a deflationary environment and a significant economic restructuring have had an impact on Hong Kong. Nonetheless, the SAR remains the gateway to Mainland and its ranking as the busiest container port in the world cannot be downplayed.

The Hong Kong port sector has escaped the recent global turmoil relatively unscathed when compared to other parts of the economy. Container throughput fell just 1.5% to 17.8 million TEUs in 2001, but the numbers rebounded by 1% in the first five months of 2002. This indicates that the global economic downturn and weak domestic demand are gradually improving in first half 2002. Due to a reputation for efficiency and trade numbers that marked a strong improvement in mid-2002, Hong Kong port will remain a dominant force.

China Ports

WTO presents opportunities and new doors are swinging open across the country. Within five years of accession, studies suggest GDP growth may rise by an additional 0.5% to 2% annually. If the figure is closer to the 2% mark it will translate into US\$20 billion, or the addition of the equivalent of the annual economy of Malaysia or Singapore.

WTO certainly benefits the PRC port industry. The only question is who will be the greatest beneficiaries. Export expansion will lead to throughput growth and an increase in the industrialization rate speeds restructuring in the port industry. Foreign investment rules will be further relaxed and this liberalization will attract investment in port facility construction. Finally, the port industry will benefit as new management methods and technology are introduced, thus narrowing the gap between international and domestic standards.



Source: China Statistical Yearbook 2002

OPERATIONAL REVIEW

Pacific Ports Company Ltd. (PPC) maintained its operating performance levels during the fiscal year. This was remarkable given a global trade climate marred by recession. Though declines were experienced in some business segments others picked up the slack. Hong Kong operations remained solid in a period of declining trade volumes while PRC operations performed well on the whole.

Attributable operating profit (AOP) for PPC reached HK\$360.8 million in FY2002, compared to AOP of HK\$319.3 million for the previous year. Though performance was mixed most segments produced positive results, with notable growth coming from Tianjin and Xiamen. In addition, the completion of the merger at Xiamen Port allows PPC to enhance AOP prospects.

Hong Kong Review

CSX World Terminals Hong Kong Ltd. (CSXWTHK), operator of Container Terminal No.3, handled 1.37 million TEUs in FY2002, down from 1.74 million TEUs in FY2001. This drop was mainly due to a throughput decrease in Hong Kong.

ATL Logistics Centre Hong Kong Ltd. (ATL) recorded an occupancy rate of 93.6% in FY2002 which remains stable as compared to 92.7% in the previous year. Asia Container Terminals Ltd. (ACT), a co-developer of Container Terminal No.9 (CT9), is expected to commence operation in first half 2004.

Mainland Review

CSX Orient (Tianjin) Container Terminals Co., Limited reported a 15% rise in throughput volume to 884,000 TEUs in FY2002. Revenue rose by 20% to Rmb251.8 million and AOP rose 39% to HK\$21.2 million, compared to FY2001. This was mainly due to the addition of new customers and more business from existing clients.

Xiamen Xiangyu Quay Co., Ltd. (Xiangyu), operator of Berth No.12 in Xiamen Port, recorded an impressive year. Throughput rose to 320,000 TEUs in FY2002, up 52% from 210,000 TEUs in FY2001. Revenues rose to Rmb95 million in FY2002, up 28% over FY2001. The figures were boosted by the inauguration of new shipping services and more business from existing customers.

Xiamen Xiangyu Free Trade Zone Huijian Quay Co., Ltd. (Huijian), operator of Berths No.13 and No.14, completed quay structure construction of Berth No.14. In addition, Xiangyu entered into a merger agreement in June 2002 with Huijian and Xiamen Xiangyu Free Port Developing Co., Ltd. (Xiangyu Free Port). This merger consolidates the operations of Berths No.12 through 16 under one unified banner.

Xiamen Xinyuan Container Terminal Co., Ltd. saw an 18% fall in cargo consolidation to 11,325 TEUs in FY2002, though revenue only decreased 6% to Rmb9.2 million. New World Xiangyu Warehouse & Processing Zone Limited recorded revenues of Rmb2.7 million in FY2002, down 4% from FY2001 due to a drop in occupancy rates as non-renewal of some existing rental contracts is necessary to make room for the development of an advanced warehousing and logistics centre.

Outlook

All indications show a surge in the trade picture for FY2003. The Mainland recorded strong export numbers in mid-2002 and that will have a positive impact on AOP. Meanwhile, Hong Kong witnessed a turnaround on the back of regional trade growth. This is important given the scope of PPC's operations at Hong Kong Port.

Hong Kong will remain a major AOP contributor. Though South China ports are making a challenge, Hong Kong is the gateway to China and the world's largest container port. Hong Kong's competitive position will be maintained as no competitor can match its efficiency. PPC expects to enhance Hong Kong AOP with solid performances from CSXWTHK and ATL in FY2003. The completion of ACT in first half 2004 will improve earnings capacity.

Mainland Outlook

The strong growth rate of Tianjin and Xiamen ports is expected to continue in FY2003. The catalyst for an increase in trade volume is WTO accession and economic growth.

Tianjin Port will benefit from many positive developments. This trade and transportation hub is on Beijing's doorstep and will see an increase in trade due to hosting of the 2008 Olympics. The development of the western provinces will be an important catalyst for port expansion.

Xiamen Port benefits from its designation as one of the ports that can handle cross-straits trade with Taiwan. With the liberalization of China-Taiwan relations progressing under the Three Links Policy, more business will flow to Xiamen. In addition, with the completion of the Xiangyu, Huijian and Xiangyu Free Port merger, operating efficiency and productivity of Berths No.12 to 16 will be enhanced and the AOP contribution will increase.

This fiscal year, PPC will press ahead with plans in Hong Kong and China. Given a turnaround in the trade picture, the evolution of China under the WTO banner and the promise of economic growth, PPC expects to deliver another strong result in FY2003.



The Future is Now



From wireless innovations to an explosion of multimedia services and technology twists the TMT sector grows from strength to strength.

SEGMENT OVERVIEW

The Telecommunications, Media and Technology (TMT) sector is one of the fastest growing areas of the Mainland economy. The development of TMT infrastructure is critical for China to take the next step in the reform of its socialist market economy. For that reason, the modernization of wireless platforms, broadband networks and telecommunications systems is supported by all levels of government.

Over the course of the year, NWI made headway in the development and commercialization of new economy infrastructure. New technologies were introduced, contracts were signed with leading enterprises, financing arrangements were concluded and the media sector was consolidated. Given these factors, the TMT segment stands ready to contribute to AOP in the near future. The following is a brief overview of key products and applications in this segment.

Telecommunications

Wireless

Mobile communications, whether voice or Internet, is a tool that is rapidly growing in popularity. At the end of 2001, China had almost 150 million mobile phone users, compared to 175 million fixed-line users. The trend is moving towards mobile Internet services, such as data communication and multifunctional devices. For

example, i-mode of Japan's DoCoMo enables subscribers to access services with the touch of a mobile phone key. Some wireless services include games, banking, airline ticketing, e-mail, restaurant menus and other information.

SMS Messaging

The business of data communication encompasses multimedia messaging, from voice, text (SMS) to picture messaging, digital image input and mobile multimedia. Applications include mobile Internet or SMS and WAP, with GPRS and 3G networks for multimedia messaging. The service allows for the usage of multifunctional PDAs with Internet and stock trading functions. Wireless ICP includes SMS, WAP and STK.

The PRC SMS market was worth some Rmb2 billion in 2001, a figure that should reach over Rmb3 billion in 2002. People now transmit text messages via mobile phones, but a leap in technology is allowing them to send music, photographs, videos and games.

There are many reasons why SMS is popular in China. First, it is a low cost service, priced at Rmb0.1 per message and free of charge for those receiving messages. The easy availability of hardware makes it accessible for users and SMS offers security, privacy and personalization. It is efficient, convenient and easy to use, thus creating an "instant" culture with new communication styles.

Media**Multimedia**

One of the fastest growing components of the media sector is multimedia, which refers to a combination of text, sound and/or video. It is the driving force of all components in the TMT sphere. One attractive element of the multimedia world is interactivity. This includes voice-command, mouse-use, text entry, touch screen, video-capture or participation in real time presentations. Multimedia applications range from mobile Internet, video-on-demand (VoD), distance learning and e-commerce.

Information technology and mobile communications are poised for advances as China emerges as the largest IT market and a major exporter of related products. In response to the high-tech craze, China is experiencing a surge in demand for information platforms and services. Multimedia technologies create alternatives for anything from entertainment to practical applications. However, before expansion can be realized there are challenges to overcome, such as stringent bandwidth requirements, telecom charges and technology levels.

Television and Cable TV

The PRC television industry is growing rapidly and the potential seems endless in a market where 4,125 channels cover 92.47% of households. Meanwhile, cable TV, also known as Community Antenna Television (CATV), is a primary vehicle through which programs are broadcast to millions of people. The fundamentals of cable TV make the business a popular way to interact with the Internet and enjoy new forms of multimedia information and entertainment services.

With over 90 million users, China is the world's largest cable TV market. Viewers are offered basic multi-channel TV packages for a monthly fee of between Rmb8 and Rmb16. Presently, State Administration of Radio, Film and Television plans to set up a state-level Pay TV media giant to consolidate existing provincial and municipal cable networks. This will strengthen the sector, improve TV services and generate income. The unified platform offers value-added services on a revenue-sharing basis with regional players.

Value-added information services, including high-speed Internet access, VoD and interactive TV offer new revenue pools for broadcasters. However, competition will be intense as networks offer a variety of Internet-related services. Pay TV will provide specific

programs that cater to different tastes, adding further to the revenue pool enjoyed by the broadcast community.

VoD (Video-on-Demand)

VoD is the future of television. This convergence of television, personal computers and telephones is delivered by signals transmitted through a cable connected to a general network. Currently, minor technical problems need to be overcome to make VoD viable. These challenges include transmission speeds that are relatively slow, data loss and unstable image reception.

The much-anticipated VoD revolution offers practical applications, such as Information-on-Demand. Individuals can gain access to information sources and television programs, such as weather forecasts, travel guides, financial information, transportation conditions, flight and train schedules, media, breaking news, entertainment information and sports news. These are delivered on a real-time basis and cater to all needs, thus enriching lives without the need of a computer or phone.

Another popular VoD application is Entertainment-on-Demand. Through this option people can enjoy content-rich entertainment programs such as movies, MP3 music, computer games, karaoke, sporting events, news and information from the comfort of their home. Finally, Distance Learning is a useful option that is gaining acceptance as an education conscious population considers the potential of this medium.

Technology

Technology is the all-encompassing component that binds the TMT sector. It takes technology to drive wireless innovation as well as to create the latest multimedia products and services. Yet, technology is much more than simply a support factor for telecom and multimedia. Encompassing such areas as biotechnology, software applications and computer innovation the technology arena is both diverse and in-depth.

China's commitment to developing all areas of technology is central to the future economic success of the nation. The ability to enhance productivity, increase efficiency and to compete on the global stage is difficult to achieve without a high level of technological prowess. With this challenge in mind, the government is highly supportive of industrial initiatives to bring China into a world leading position in terms of technology development, implementation and commercialization.

OPERATIONAL REVIEW

Telecommunications

GWcom Inc. (GWcom) specializes in data communications networks and provides content as well as applications for mobile devices. In mid-2002, the launch of GWcom's second generation PDA (mobile Broker Online – mBOL) received a satisfactory response from consumers in Shenzhen, Shanghai, Chengdu and Wuhan. GWcom commenced development on industrial applications for products and moved ahead on a mass-market two-way communications device. R&D on digital broadband broadcasting progressed well. On the operational front, GWcom instituted a cost reduction program to improve its business model. This model calls for the localization of product development and manufacturing.

Shenzhen New World Xianglong Network Technology (Xianglong), a telecom network operator and a provider of value-added services, has progressed in the development of its business. Xianglong's Guangdong-based call center operation succeeded in attracting new clients, most notably China Mobile. Xianglong completed the set-up of the Virtual Phone Network and a marketing initiative is underway.

LinkAir Communications, Inc. (Linkair), a developer of LAS-CDMA (Large Area Synchronized Code Division Multiple Access) technology, continues to focus on 3G and 4G wireless communications standards, license proprietary technology and manufacture ASICs. This year, Linkair took a major step forward in achieving government approval to introduce its technology as an industry standard. This approval process has entered the final stage. On the product front, Linkair proceeded to develop a handset and a new network system.

In the case of Integrated Telecom Express, Inc. (ITeX), an ADSL chip manufacturer, progress was made on the financial front. ITeX attracted a new investor in the latest round of its financing plan.

During the year, NWI committed a total of HK\$1.4 billion for the option to own 40% in an eight cores China-wide fiber optic backbone network with a capacity of 12.8 Tbps covering 32,085 km. Of this consideration HK\$787 million was paid on deposit before the end of the fiscal year. The remaining HK\$660 million was paid in September 2002. NWI has a further option to commit an additional HK\$1.1 billion for an option to own another 30% of the network. The network can be used for data and voice

services, interactive cable TV solutions, broadband IP and digital TV.

Media

NWI embarked on an initiative to consolidate media properties. The focus is to bring investments in Internet, advertising and content under one banner. NWI plans to integrate its stakes in china.com, hongkong.com and other investments. This restructuring will position NWI for growth in the media sector. Meanwhile, Prediwave, a developer of an end-to-end solution for interactive television, successfully completed a demonstration with Fujian cable TV and is negotiating for mass orders.

Technology

Activity in the technology sector revolves around biotech. NWI made investments in botanical drug products, human therapeutic antibodies, stem cell therapies and genetic engineering. Overall, biotech investments have 17 patents pending in the US. Presently, the biotech portfolio operates research and development laboratories in America and China. Investors from the US pharmaceutical industry, venture capitalists and Mainland universities are all part of the product development plan.

Outlook

The TMT business is poised for growth in the coming year. Telecommunications and media companies are maturing and many of them will be in a position to launch products on the market in FY2003. Technology investments are still in the developmental stages, and the commercialization process will proceed at full speed. Meanwhile, research and development across all segments will continue to deliver new products and services to a Greater China market with a large appetite for new technology.