MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

Over the course of the six-month period ended 31 December 2001, New World Infrastructure Ltd. ("NWI") continued to consolidate under-performing projects and commercialise technology projects. For the interim period, NWI recorded an attributable operating profit ("AOP") of HK$463.1 million, a decrease from HK$637.7 million and a net profit of HK$100.1 million, a decrease from HK$361.6 million when compared to the corresponding six month period in 2000.

A substantial increase in the provision for redemption premium of the 1% convertible bonds due 2003 ("1% CB") set aside in the period, along with a drop in the AOP, were the major factors in the net profit decline. According to a share redemption option in the terms of the 1% CB, the share price of NWI may vary the size of the provision of the redemption premium required. For this reason, the provision for the redemption premium increased by HK$75 million as compared to the prior interim period. The AOP reduction was primarily due to the Roads and Bridges Segment and the Energy Segment.

During the period, notable activity was registered in the Cargo Handling Segment. The Group effectively disposed of a 9.75% interest in Asia Container Terminals Limited, the developer of Container Terminal No. 9, for a capital profit of HK$135.5 million. The impairment loss of certain port facilities in Xiamen and the provision for diminution in value of certain investments reduced the total non-recurring gain for the period to HK$26.8 million, compared to HK$51.6 million for the prior interim period.

Cargo Handling Segment
Cargo Handling Segment AOP increased 13% during the interim period to HK$159.9 million, up from HK$141.3 million. This was mainly due to the improved results of the Group's portfolio of Mainland China ports.

The 9.11 Incident and its adverse impact on the global economy caused a significant slow-down across the cargo handling business. Despite difficult operating conditions, the Xiamen Xiangyu Container Terminal and Sea-Land Orient (Tianjin) Container Terminals Co. Ltd. saw throughput volume increased by 56% and 19% respectively compared to the prior corresponding period. The AOP of these two PRC port projects increased a total of HK$6.4 million.

In Hong Kong, the throughput volume at Kwai Chung's Container Terminal No. 3 decreased 30%. As a large part of this decrease was in throughput previously sent to other terminals which carried a much lower profit margin, the decrease in AOP was modest. This AOP decrease was partly offset by the reduction in overheads. As a result, AOP dropped by 2% to HK$66.2 million from HK$67.2 million for the first half of FY2001.

ATL Logistic Centre's average occupancy rate dropped 2% to a still satisfactory 91%.

Road Segment
The AOP of the Road Segment for the period was HK$121.7 million, a decrease of 20% as compared to HK$152.6 million for the FY2001 interim period.

Traffic flow for most projects in this segment continued to be stable. Projects in the expressway category registered healthy growth ranging from 8% to 26%, including such projects as Beijing-Zhuhai Expressway (Guangzhou-Zhuhai Section), Shenzhen-Huizhou Expressway, Tangjin Expressway and the Wuhan Airport Expressway. Only five of the total of 34 roads showed a noticeable decrease in traffic flow and all were minor roads, except for the Guangzhou City Northern Ring Road ("GNRR"). The average daily traffic flow of GNRR was affected by the diversion effect of Guangyuan East Road ("GER"). GNRR traffic flow decreased 13% to 121,800 vehicles from 139,500 vehicles per day. The AOP contribution of GNRR reduced by HK$24.1 million as a result of the traffic diversion and this key factor impacted the overall results of the segment.

One new road, Roadway No. 1906 (Qingyuan Section) commenced operation during the period.

Bridge Segment

The withdrawal of Guangzhou Three New Bridges in January 2001 caused the AOP of the Bridge Segment to decrease to HK$14.1 million from HK$60.4 million. Of the remaining four projects in this segment, three - including Wuhan Bridges - witnessed improvement in traffic flow. This increased AOP by 10.4% to HK$12.6 million. Only the traffic flow of the Yonghe Bridge was reduced and this was due to the opening of Tangjin Expressway Section II in January 2001.

Energy and Water Treatment Segment

The AOP of the Energy and Water Treatment Segment decreased 34% to HK$192.1 million from HK$289.5 million for the FY2001 interim period. A significant part of this decrease was due to the disposal in February 2001 of the investment in Beijing Datang Power Generation Co. Ltd., which registered an AOP contribution for the first half of FY2001 of HK$64.6 million.

Operationally, Zhujiang Power Station Phase I and II ("Zhujiang I" and "Zhujiang II") continued to perform well. The AOP of Zhujiang I was stable due to a profit guarantee and this was well supported by the actual result of the project. Zhujiang II witnessed an increase in electricity sales and tariff of 5% and 2.5% respectively and further improved AOP by HK$17.6 million.

The operating results of Shunde DeSheng Power Plant showed steady signs of improvement compared to the preceding six-month period, the first reporting period after the joint venture resumed operating the power plant upon the expiry of a five-year plant lease to Shunde Electric Power Group Co. Reflecting mainly this change, equity accounting was adopted for the results of the project in place of the fixed return basis adopted previously which caused AOP to decrease by HK$48.9 million.

Sino-French Holdings (Hong Kong) Ltd. ("Sino-French") remained a reliable source of AOP for this segment. In Sino-French's portfolio, power generation at the Macau Power Plant rose 2.7%, which led to an 8% increase in profit while the Macao Water Supply Co. Ltd. recorded lower profit due to factors which included the depreciation charge of newly commissioned facilities and a depressed Macau property market. Together with the results of 12 other water treatment plants, of which one came into operation during the period, the AOP of Sino-French was unchanged compared to the corresponding prior period.

Telecommunications, Media and Technology Segment

During this period, NWI dedicated substantial new resources to the Telecommunications, Media and Technology ("TMT") Segment with an increase in investment of over HK$1 billion. This investment was made to secure a first mover advantage in energy, technology and media by leveraging the Group's technology investment portfolio. In so doing, the Group can continue to build on the existing foundation of projects and establish new opportunities for generating AOP. The strengthening of the TMT portfolio positions the Group to take advantages of the opening of the market preceding China's recent accession to WTO and to benefit from the rapid growth of the Greater China marketplace. On top of the ongoing development of existing businesses NWI is exploring opportunities in the PRC telecommunication arena.

On the operational front, GWcom Inc., a specialist in data communication networks as well as a provider of content and applications for mobile devices, made progress in its discussions with China Unicom to deploy a nationwide two-way wireless data communication technology. LinkAir Communications Inc., a developer of LAS-CDMA technology, completed a LAS-CDMA field test in Shanghai and received endorsement from MII for its advanced technology. PrediWave Corp., the developer of an end-to-end solution for interactive digital TV that operates on existing one-way cable infrastructure, prepared the groundwork to follow its successful demonstration of One Way Interactive Digital TV technology in Beijing with a field trial on the Fujian Network in May 2002.

Outlook

The consolidation of operations and the restructuring of the NWI investment portfolio will continue during the coming period. The results of the Basic Infrastructure Segment are expected to stabilize at current levels with a slight improvement in some sectors. The TMT Segment will continue to evolve as companies within the segment strive to commercialise operations and begin to generate a consistent stream of revenues. Both segments should benefit from an improving global economy, which will result in better performance in the Hong Kong and China economies over the near-term.

The Cargo Handling Segment is directly affected by the downturn in the global economy and the reduction of trade flows. Any sign of a turnaround in the US and global economies will be good news for this segment as a whole. In addition, the impact of China's accession to the WTO should improve the situation at the Hong Kong and Mainland ports. These two factors combined should present a more positive outlook in the coming period.

The AOP in the Road Segment should stabilize, if not improve. While toll restructuring and diversion of traffic to new roads will continue to have an impact on GNRR AOP, the situation should stabilize at current levels. The diversion effect of GER, however, is expected to ease after December 2001 when GER starts to charge tolls to non-Guangzhou registered vehicles that were previously allowed to use GER toll-free. Meanwhile, as the NWI road network expands, linkages are formed between various roadways and economic growth stimulates traffic flows, the segment as a whole should benefit from improved AOP.

Though the Bridge Segment is much reduced in size, the majority of the remaining projects are expected to retain or increase traffic flows in the coming period.

The AOP of the Energy and Water Treatment Segment is also expected to stabilize or improve lightly given the current economic environment. The Energy sector has always been reliant on economic growth for expansion of output and if the economy experiences a new round of growth as expected the AOP should be positively impacted. In addition, the water treatment sector is expected to retain its business at current operating levels.

The TMT Segment is expected to be a driver for growth for the Company. All affiliated companies should benefit from this upturn in activity. On top of the ongoing development of existing businesses, NWI plans to explore new opportunities in telecommunications in Mainland China over the coming period.

Basically, as the US and global economy begins to improve the expansion in the TMT sector in Greater China is expected to follow suit. This bodes well for the development of the segment. Overall, the slowdown in the global economy in 2001 did not have a major impact on the internal expansion of China. The Mainland continues to have a strong appetite for new technology in all sectors. As the TMT Segment is built on a solid foundation of commercial applications designed to meet the needs of the current China market it is expected that affiliated businesses will make a major contribution to AOP in the coming fiscal years.

Liquidity and Financial Resources

As at 31 December 2001, total cash and bank balances of the Group amounted to HK$2.64 billion, compared to HK$4.95 billion at year-end FY2001 as part of the cash was used to repay the debt of NWI. Total Debt (total borrowings less loans from minority shareholders of subsidiaries) decreased from HK$11.53 billion at year-end FY2001 to HK$10.5 billion at 31 December 2001. Some 21% of Total Debt would be repayable within 1 year while 21% and 58% of the Total Debt would be repayable in 2003 and from 2004 to 2007 respectively. The NWI's US$350 million syndicated loan has been fully drawn down and was applied towards partial repayment of the US$650 million syndicated loan. Total Debt to Equity of the Group decreased from 95% at year-end FY2001 to 86% as at 31 December 2001.

Debt Profile

(HK$ million)

Facility Type	Facility Amount	Outstanding Amount Fixed Rate	Outstanding Amount Floating Rate	Repayment Within 1 year	Repayment Between 1 and 2 years	Repayment Onwards
As at 31 December 2001						
1% Convertible bonds	1,950.00	1,350.54	–	–	1,350.54	–
10% Notes	200.00	200.00	–	–	–	200.00
Floating rate notes	351.00	–	351.00	–	351.00	–
Short-term bank loan facilities	637.00	–	60.48	60.48	–	–
Short-term Rmb bank loan facilities	510.28	510.28	–	510.28	–	–
Long term Rmb bank loan facilities	975.42	975.42	–	46.95	96.26	832.21
Long-term bank loan facility	600.00	–	600.00	–	–	600.00
Syndicated loan revolving/term loan facility	5,070.00	–	1,534.65	1,534.65	–	–
Syndicated term loan facility	2,184.00	–	2,184.00	–	436.80	1,747.20
Syndicated term loan facility	2,730.00	–	2,730.00	–	–	2,730.00
Total amount	15,207.70	3,036.24	7,460.13	2,152.36	2,234.60	6,109.41

The net decrease of Total Debt was due to the redemption of the 5% convertible bonds of US$119.4 million in July 2001 and US$85 million of the US$650 million syndicated loan facility. US dollar debt amounted to US$1.04 billion and accounted for 78% of Total Debt as at 31 December 2001, compared to US$1.26 billion and accounted for 86% at year-end FY2001. Over half of the US dollar currency risk was eliminated with forward purchases of US$650 million against the Hong Kong dollar at an exchange rate below 7.80.

Except for the Rmb loan facilities, which accounted for 14% of Total Debt, all other debt is unsecured. The Rmb loans are secured by the Group's interest in certain joint ventures, a subsidiary in the PRC and a pledge of deposits.

Capital Structure

	31.12.2001 HK$'000	31.12.2001 Proportion	31.12.2001 Average rate of interest	30.06.2001 HK$'000	30.06.2001 Proportion	30.06.2001 Average rate of interest
Equity	12,221,258	50.7%	–	12,166,283	48.5%	–
5% Convertible Bonds	–	–	5.0%	931,593	3.7%	5.0%
1% Convertible Bonds	1,350,539	5.6%	4.2%	1,381,739	5.5%	4.2%
Fixed-rate debt	2,687,203	11.2%	10.0%	2,070,273	8.3%	10.0%
Floating-rate debt			5.1%			7.3%
LIBOR	6,799,650	28.2%		7,546,902	30.1%	
HIBOR	660,481	2.8%		600,000	2.4%	
Interest free debt	369,535	1.5%	–	388,112	1.5%	–
	24,088,666	100%		25,084,902	100%	

Total capitalisation of the Group at 31 December 2001 amounted to HK$24.09 billion, compared to HK$25.08 billion at year-end FY2001. The decrease was mainly due to a reduction of Total Debt. The proportion of Equity to Capitalisation remained fairly constant at 51%, compared to 49% at year-end FY2001.

The proportion of fixed-rate debt reduced slightly from 18% of total capitalisation to 17% and the proportion of floating-rate debt decreased from 33% to 31% of total capitalisation as at 31 December 2001. Decrease in proportion of fixed-rate debt and floating-rate debt were attributable to the redemption of the 5% convertible bonds and the repayment of US$85 million of the US$650 million syndicated loan facility during the period. The weighted average interest rate for floating-rate debt was 5.1% for the period, compared to 7.3% for FY2001 which was in line with the interest rate cut since January 2001.

Interest free debt, which was represented by non-interest bearing loans from minority shareholders of certain subsidiaries of the Group mainly located in the PRC, remained at 1.5% of the total capitalisation.

Capitalisation = Equity + Total Debt + Loans from minority shareholders of subsidiaries