

Management Discussion and Analysis

Financial Review

For the year under review, the Group recorded a profit attributable to shareholders amounted to HK\$2,988.1 million, compared to a loss of HK\$976.2 million in FY2004.

Turnover dropped 13% from HK\$25,653.0 million to HK\$22,270.8 million, mainly due to the reduction of contracting business and the sales volume of Hong Kong properties.

Consolidated Profit and Loss Account

	FY2005 HK\$m	FY2004 HK\$m
Turnover	22,270.8	25,653.0
Cost of sales	(17,229.9)	(20,151.5)
Gross profit	5,040.9	5,501.5
Other revenues	32.7	48.3
Other income/(charge)	1,823.1	(4,787.2)
Administrative and other expenses	(3,361.4)	(3,740.6)
Operating profit/(loss) before financing costs and income	3,535.3	(2,978.0)
Financing costs	(664.3)	(1,022.7)
Financing income	368.8	230.4
Share of results of associated companies & jointly controlled entities	2,025.7	2,341.3
Profit/(loss) before taxation and minority interests	5,265.5	(1,429.0)
Taxation	(897.6)	(980.2)
Minority interests	(1,379.8)	1,433.0
Profit/(loss) attributable to shareholders	2,988.1	(976.2)

Turnover — Breakdown by Business Segment

	FY2005 HK\$m	FY2004 HK\$m	Year-on- Year
Property sales	3,377.7	5,629.1	-40%
Rental	946.4	965.9	-2%
Service	8,972.3	10,818.3	-17%
Infrastructure	239.5	374.9	-36%
Telecommunications	2,605.1	2,623.8	-1%
Department stores	3,810.2	3,254.3	17%
Others	2,319.6	1,986.7	17%
Total	22,270.8	25,653.0	-13%

In FY2005, the Group's property sales revenues amounted to HK\$3,377.7 million, down 40%. During the year under review, the Group sold an effective share of approximately 475,000 sq. ft. GFA of residential and commercial use properties in Hong Kong against approximately 1.1 million sq. ft. GFA in FY2004. During the same comparison period, New World China Land Limited sold approximately 754,000 sq. m. GFA of properties against approximately 910,000 sq. m. GFA a year ago.

Rental turnover dropped a slight 2% to HK\$946.4 million. The growth in rental revenue in Mainland China was not able to compensate the decline in Hong Kong rentals caused by the residual effects of negative reversions in FY2004 and the change in rental sharing ratio in accordance with the agreement with the joint development partner.

The turnover of Service operations declined 17% to HK\$8,972.3 million in the year under review. The drop was caused by the shrinking of the contracting market in Hong Kong and following the reorganisation of the Citybus Ltd and New World First Holdings Ltd under NWS Transport Services Ltd, a jointly controlled entity which the Group holds 50%, turnover of the transport division was excluded in FY2005 for accounting purposes.

Infrastructure turnover reduced 36% to HK\$239.5 million due to the disposal of 13 Zhaoqing road projects in FY2004.

Total turnover of New World Department Stores amounted to HK\$3,810.2 million, up 17% year-on-year. During the year, the Group opened its fourth store in Shanghai and the second store in Ningbo to enhance its portfolio to 17 stores.

Analysis of segment results (including share of results of associated companies and jointly controlled entities)

	FY2005	FY2004	Year-on-
	HK\$m	HK\$m	Year
Property sales	1,459.9	1,577.4	-7%
Rental	764.1	725.3	5%
Service	390.7	1,157.7	-66%
Infrastructure	1,072.5	1,141.0	-6%
Telecommunications	88.3	53.1	66%
Department stores	120.4	103.5	16%
Others	273.7	(102.6)	N/A
Segment results	4,169.6	4,655.4	-10%

Property Sales

Property sales segment contributed HK\$1,459.9 million against HK\$1,577.4 million last year. The segment contribution from Hong Kong was mostly attributed to the sales of 33 Island Road, South Hillcrest and the remaining units of Bon-Point, Parc Palais, Caldecott Hill, Sereno Verde and 2 Park Road. Though the total volume sold in Hong Kong was lower than previous financial year, the average selling price of the projects had improved significantly due to the rising property prices of our projects.

Rental

Rental business has a segment contribution of HK\$764.1 million, up 5% from HK\$725.3 million in the previous financial year. The higher contribution was coming from our Mainland China investment properties. The Group's major investment properties, Beijing New World Centre and Shanghai Hong Kong New World Tower, capitalised on the buoyant rental market in Beijing and Shanghai, provided growing contributions to the Group.

Service

The segment contribution from service operations plunged 66% to HK\$390.7 million. The decline was attributed to the contracting business which recorded a loss in FY2005 as compared to a profit in FY2004. The loss was mainly due to certain provisions made for two projects due to claims for liquidated damages. Apart from contracting operations, all other businesses in service operations achieved satisfactory results during FY2005.

Infrastructure

Infrastructure posted a segment result of HK\$1,072.5 million, down 6%. The overall performance of the infrastructure operations was satisfactory for FY2005. Energy, water and roads businesses were the key contributors to the Group. The decline was mainly due to the decline in contribution from Hong Kong port operations caused by the tough operation environment in Hong Kong and partly due to the disposal of CT3 in February 2005.

Telecommunications

Telecommunications segment contributed HK\$88.3 million, 66% increase from last year. Nonetheless, the Group's telecommunications business was facing keen competition. New World Mobile Holdings Limited reported a net profit of HK\$93.1 million, a drop of 43% from previous financial year. New World Telecommunications Limited struggled to transform itself to provide broadband and IP based services, while the IDD tariff and fixed-line service charge was declining.

Department Stores

Segment contribution from department stores business grew 16% to HK\$120.4 million on the back of booming consumer market in Mainland China.

Others

Others segment turned from a loss of HK\$102.6 million in FY2004 to a profit of HK\$273.7 million in FY2005. The Group's hotels in Hong Kong, namely Grand Hyatt Hong Kong, Renaissance Harbour View Hotel and New World Renaissance Hotel, had an occupancy of over 80% while their average daily room rate was up 20% year-on-year.

Financing Costs

The Group has reduced around HK\$7.6 billion net debt. Consequently, financing costs were down 35% to HK\$664.3 million.

Other Income/(Charge)

Other income/(charge) amounted to HK\$1,823.1 million. In the first quarter of 2005, the Group has disposed all its interests in CT8W and CT3 in Hong Kong for HK\$3 billion with a gain of approximately HK\$1.8 billion. In FY2005, the Group has also recognised the gain of approximately HK\$346

million on the sale of Wuhan Bridge. During the year under review, a net gain of approximately HK\$312 million was recorded for its property related provisions made and write-backs. The provisions against the Group's TMT assets amounted to approximately HK\$572 million. In particular, HK\$377 million was made against the Intellambda business.

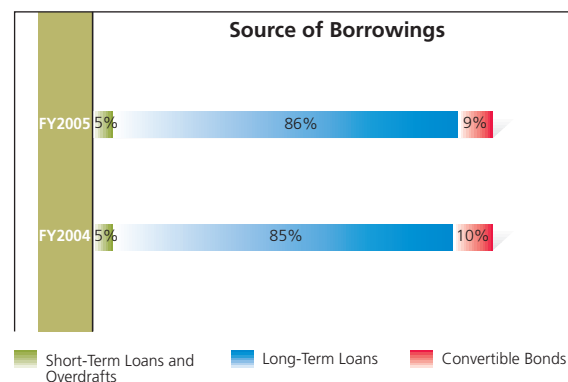
Shareholders' Funds

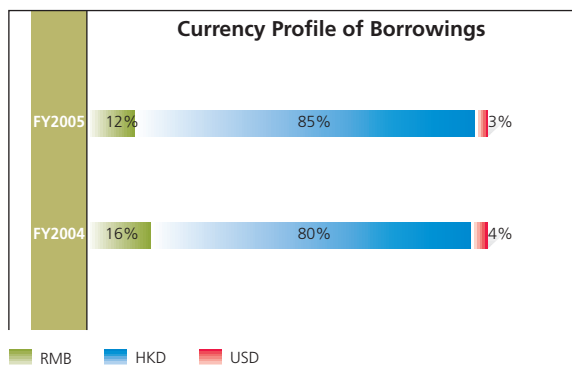
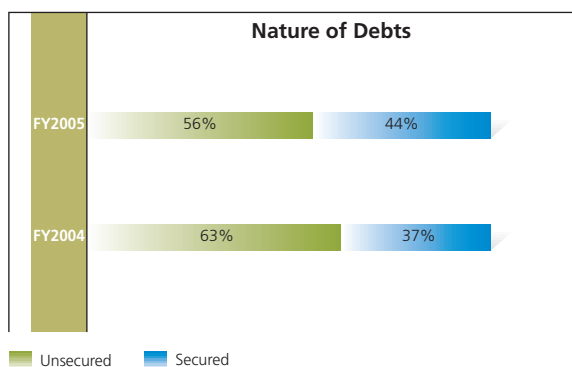
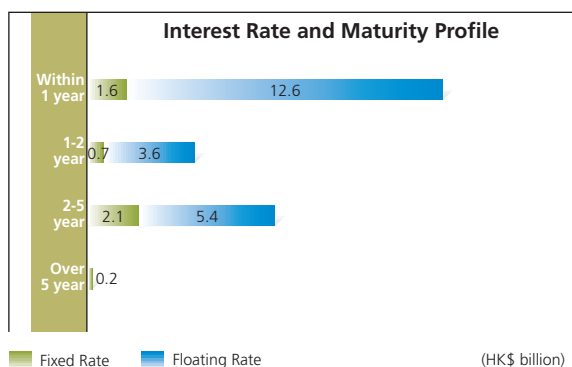
Shareholders' funds of the Group as at 30 June 2005 increased 13% to HK\$61,657.8 million from HK\$54,405.0 million.

Liquidity and Capital Resources

As at 30 June 2005, the Group's cash and bank balances stood at HK\$12,128.7 million (30 June 2004: HK\$6,630.0 million). Its consolidated net debt amounted to HK\$14,063.6 million (FY2004: HK\$21,613.3 million), a decrease of approximately 34.9% as compared with FY2004. Gearing ratio decreased from 39.7% as at 30 June 2004 to 22.8% as at 30 June 2005.

The appreciation of Renminbi in July 2005 should have a positive impact on future cashflow from our Mainland China operations, particularly Infrastructure and Property businesses.





Gross Debts	30.6.2005	30.6.2004
	HK\$m	HK\$m
Consolidated gross debts	26,192	28,243
— NWS Holdings	6,123	8,120
— New World China Land	5,322	5,770
— New World Mobile Holdings	103	373
— New World TMT	3,230	3,353
Gross debts excluding listed subsidiaries	11,414	10,627

Net Debts	30.6.2005	30.6.2004
	HK\$m	HK\$m
Consolidated net debts	14,063	21,613
— NWS Holdings	2,473	4,618
— New World China Land	(1,030)	4,878
— New World Mobile Holdings	(14)	278
— New World TMT	2,714	2,703
Net debts excluding listed subsidiaries	9,920	9,136

The Group maintained a balanced debt profile with adequate risk diversification through specifying the preferred mix of fixed and floating rate debt.

Nature of Debt

As at 30 June 2005, less than half of the total outstanding loans were secured by the Group's assets.

Interest Rate and Maturity Profile

Amount of debts due within FY2006 amounts to HK\$14,136.1 million. Our cash on hand as of 30 June 2005 was HK\$12,128.7 million.

The combination of cash on hand, together with cash inflow from operation and our remaining undrawn banking facilities, should enable the Group to satisfy its debt repayment commitments and working capital requirements.

Approximately 82.5% (FY2004: 78.6%) of the Group's total debts are on a floating rate basis, whilst fixed rate borrowings mainly related to the RMB loan facilities and convertible bonds.