



GROW UNDER GOVERNANCE

We understand our shareholders expect us to deliver the highest standards of integrity and transparency at all times and across all areas of our operations. At NWS Holdings, we continue to do everything possible to ensure our team's full and unhesitating compliance with all ethical obligations.

Chairman's Statement



THE ECONOMIES OF HONG KONG, MAINLAND CHINA AND MACAU ALL CONTINUE THEIR SOLID GROWTH. THE GROUP RECORDED SATISFACTORY PROGRESS ON MANY FRONTS IN FY2006. HIGHLIGHTS INCLUDED A 103% INCREASE OF AOP FOR OUR SERVICE & RENTAL DIVISION AND A 11% RISE IN AOP FOR OUR INFRASTRUCTURE DIVISION.

Dear shareholders,

On behalf of your Board, I am delighted to report the satisfactory performance of our two main business divisions during FY2006. Particularly noteworthy was our Service & Rental division which doubled its AOP over last year. The AOP of our Infrastructure division also achieved a healthy year-on-year growth of 11%.

You will note that the Group's profit attributable to shareholders has decreased by 43% over the previous financial year. This drop was solely attributable to the exceptional gain of around HK\$1.8 billion the Group made by divesting its interests in the Container Terminal No.3 and Container Terminal No.8 West in Hong Kong during FY2005. When this gain is excluded, the Group actually recorded fruitful respective increases of around 50% in net profit and 37% in AOP. As a result, the Board is pleased to recommend a final dividend of HK\$0.20 for shareholders.

One of the Group's key objectives is to enhance shareholder value.

To this end, our strategic focus is to seek long-term growth in our core businesses while maintaining a stable dividend policy and an optimal capital structure.

SUSTAINABILITY OF GROWTH

Mainland China's strong economic growth has continued to create excellent business opportunities for the Group. In October 2005, the Ministry of Communications published a plan to construct roads connecting all towns and cities with a population exceeding 200,000. Expanding Mainland China's existing road network to 85,000 km, the plan will involve the annual construction of an estimated 3,000 km of new roads for the next two decades. As a major investor in the Pearl River Delta's roadway network, the Group is ideally placed to develop opportunities in other high-growth regions in Mainland China.

Mainland China's rapid urbanization also offers excellent opportunities for our Water business. The Central

Government values water highly and is keen to conserve this precious natural resource. The Government's growing awareness of environmental protection offers still further growth potential for the Group. The Eleventh Five-Year Plan has reiterated Mainland China's need to further enhance efficiency and price structure for its water resources. By opening up Mainland China's sewage treatment industry to non-state-owned enterprises, the Central Government is now actively encouraging foreign companies to invest in its water sector. Leveraging its joint-venture partnership with Suez, the Group will continue to scrutinize projects in this area. In early 2006, we entered into a joint venture arrangement with Chongqing Water Holding (Group) Co. Ltd to explore water projects in the Chongqing region.

The Eleventh Five-Year Plan will also see the Ministry of Railways extend its existing rail network by some 17,000-kms and further enhance its electric rail system and high-speed train technologies. The Group has

just signed a joint venture agreement with certain independent third parties, which includes a subsidiary company of the Ministry of Railways, to establish a new company to be named as China United International Rail Containers Co., Limited. The 50-year joint venture will develop and operate large-scale pivotal rail container terminals in 18 major cities in Mainland China. At present, Mainland China's annual rail containerized cargo volume stands at around three million TEUs. Accounting for approximately 3% of all rail freight, this figure is far below the 30% figure achieved by rail networks in Europe and US. As a result, the Group anticipates that Mainland China's inter-modal transportation industry continues to offer enormous growth potential.

Last year's economic rebound leaves our Service & Rental business well placed to sustain its competitive edge. We remain cautiously optimistic that construction and infrastructure projects which are currently on hold will soon become active again. The atrium link expansion at the Hong Kong Convention and Exhibition Centre ("HKCEC") is underway and should be completed in the first half of 2009. The extension will add an additional 30% of exhibition space to HKCEC. To assess business opportunities outside Hong Kong, the Group has established Hong Kong Exhibition and Convention Venue Management China Limited. In May 2006, this subsidiary company formed a joint venture company with INTEX Shanghai Company Limited. The arrangement will see our convention and exhibition management team leverage its expertise at the 227,600-sq m Zhengzhou International Convention and Exhibition Centre which opened in October 2005. Our Sky Connection's Free Duty

tobacco and liquor operation will also expand its retail business with the opening of new outlets serving the KCRC Lok Ma Chau Spur Line in early 2007.

I am delighted to report that our Contracting segment successfully turned around its performance, generating a profit of HK\$163 million during FY2006. Leveraging excellent opportunities arising from Macau's flourishing gaming, entertainment and tourism industry, the Group has secured some HK\$11 billion worth of contracts for several prestigious hotel and casino projects. We expect that Macau will continue to be a significant source of income for this segment for the foreseeable future.

GOOD CORPORATE GOVERNANCE PRACTICE

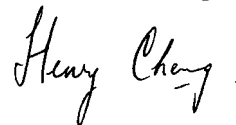
The Group has always been committed to the promotion of good corporate governance practices. To ensure our shareholders' interests are properly taken care of, we are now in the process of establishing a Corporate Governance Steering Committee which will identify and formalize best corporate governance practices. The Group has also issued *Guidelines on Internal Control Systems* to ensure member companies' full compliance with all relevant rules and regulations governing their operations. Our other activities in this area included distribution of a booklet entitled *Corporate Policy on Staff Responsibility* which provides guidelines and instructions on best management practices and personal integrity for all staff in September 2005. The Group has also set up a Risk Management Department providing risk management support for all member companies. The coming years will see us continue to do everything possible to maintain our high standard of corporate governance.

COMMUNITY ENGAGEMENT

I have been very impressed by the contribution of the more than 1,000 corporate volunteers who made up the NWS Volunteer Alliance (the "Alliance") during the past year. Since its formation in 2001, the Alliance's volunteers have contributed more than 23,800 man-hours to various needy groups such as the elderly, the underprivileged, new arrival children and psychiatric patients. I would like to mark the Alliance's fifth anniversary in November 2006, by thanking our volunteers for their selfless dedication in delivering such love and care. Following the establishment of the Corporate Social Responsibility Committee, we are now setting up an NWS Holdings Charities Foundation to further deepen our engagement with the local community.

NOTE OF APPRECIATION

A corporation can only ever be as strong as its management and employees. On behalf of the Board, I wish to convey my heartfelt gratitude to our 42,000-strong workforce for their outstanding contribution to our success during FY2006. The coming years will see us continually strive to promote a learning culture, nurture talented staff and reward dedicated employees. I remain confident that with the ongoing support and devotion of my fellow directors, our senior management and staff, NWS Holdings will continue to sustain its momentum and growth.



Dr Cheng Kar Shun, Henry
Chairman

Hong Kong, 9 October 2006