



GROWING PERFORMANCE

FY2006 will go down in history as a good year for the economies of Hong Kong, Mainland China and Macau. At NWS Holdings, we remain both privileged and proud to be able to contribute to the successful ongoing development of the region.

Management Discussion and Analysis

GROUP OVERVIEW

The Group reported a profit attributable to shareholders of HK\$1.657 billion for FY2006, a decrease of HK\$1.229 billion or 43%, as compared to HK\$2.886 billion for FY2005. The Group's exceptional profit during FY2005 included a sum of HK\$1.777 billion generated by the disposal of its attributable interests in Container Terminal No. 3 and Container Terminal No. 8 West in Hong Kong. When the profits of these disposals were excluded, the Group's net profit for FY2006 increased by HK\$547.5 million, or 49% over last year. Attributable operating profit ("AOP") increased by 37% from HK\$1.412 billion in FY2005 to HK\$1.938 billion in FY2006. The Group's Infrastructure division maintained a steady growth of 11%, generating an AOP of HK\$1.116 billion, as compared to HK\$1.008 billion in FY2005. Service & Rental division also increased its AOP which rose 103% from HK\$404.3 million in FY2005 to HK\$821.6 million in FY2006. Apart from the operating results, a profit of HK\$152.5 million was recognized mainly for disposal of interests in

two roadways. While the Group progressively reduced its debts in FY2006, a surge in interest rates caused the Group's finance costs to increase.

Contributions from operations in Hong Kong accounted for 38% of AOP in FY2006 as compared to 33% in FY2005. Mainland China and Macau contributed 51% and 11% respectively, as compared to 58% and 9% respectively in FY2005.

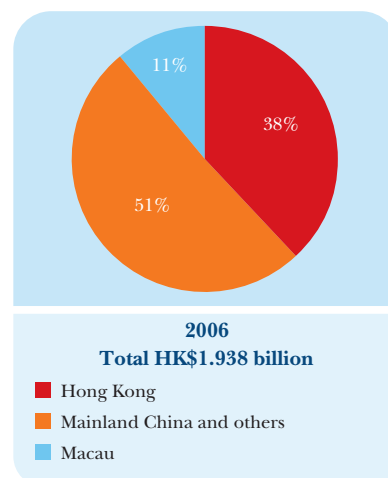
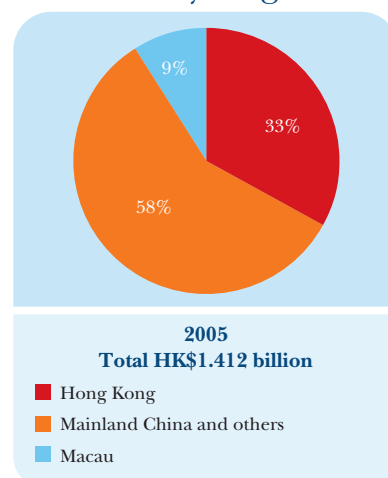
EARNINGS PER SHARE

Basic earnings per share for FY2006 stood at HK\$0.89 (2005: HK\$1.60). When the profits generated by the Group's disposal of its interests in ports in Hong Kong in FY2005 were excluded, earnings per share actually increased by 46%.

TREASURY MANAGEMENT AND CASH FUNDING

The Group's funding and treasury policy is designed to maintain a comprehensively diversified and balanced debt profile to minimize financial risks. Management of the Group's financing and treasury

AOP by Region



Contribution by Division For the year ended 30 June	2006 HK\$m	2005 HK\$m (restated)
Infrastructure	1,116.0	1,007.6
Service & Rental	821.6	404.3
ATTRIBUTABLE OPERATING PROFIT	1,937.6	1,411.9
<i>Head office and non-operating items</i>		
Net profit on disposal of infrastructure projects	152.5	2,030.2
Assets impairment loss	(30.0)	(57.8)
Net gain on redemption of convertible bonds	39.6	–
Other interest income	74.3	56.8
Other finance costs	(227.6)	(196.9)
Others	(289.8)	(358.1)
	(281.0)	1,474.2
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	1,656.6	2,886.1

activities are centralized at the corporate level. The Group's treasury function regularly reviews the funding requirements of its subsidiary companies in order to enhance the cost - efficiency of funding initiatives. With bank deposits and cash in hand as well as available banking facilities, the Group maintains strong liquidity position, and has sufficient financial resources to fund its recurring operating activities, present investments and future investment opportunities.

LIQUIDITY

As at 30 June 2006, the Group's total cash and bank balances amounted to HK\$2.548 billion, as compared to HK\$3.650 billion as at 30 June 2005. The Group's ongoing reduction of its debts led to a fall in Net Debt by 15% from HK\$2.334 billion at the end of FY2005 to HK\$1.981 billion at the end of FY2006. The Group's strong financial position was also reflected by the Gearing Ratio which decreased from 17% as at 30 June 2005 to 13% as at 30 June 2006. The capital structure of the Group was 23% debt and 77% equity as at 30 June 2006, as compared to 31% debt and 69% equity as at 30 June 2005.

DEBT PROFILE AND MATURITY

As at 30 June 2006, the Group's Total Debt had fallen to HK\$4.528 billion from HK\$5.984 billion as at 30 June 2005. Besides the zero coupon guaranteed convertible bonds due 2009 (the "Convertible Bonds"), long-term bank loans and borrowings increased from HK\$2.493 billion as at 30 June 2005 to HK\$2.792 billion as at 30 June 2006, with HK\$1.998 billion maturing in the second year and the remaining in the third to fifth year. No bank loans and overdrafts was secured as at 30 June 2006. All bank loans were denominated in Hong Kong dollars. With the exception of the Convertible Bonds, all debts were bearing interest at floating rate. The Group did not have any material exposure in exchange risk other than RMB during FY2006. As at 30 June 2006, no property, plant and equipment, investment properties nor leasehold land and land use rights was pledged.

COMMITMENTS

The Group's total commitments for capital expenditure were HK\$286.3 million as at 30 June 2006 as compared to HK\$22.0 million as at 30 June 2005, and the share of commitments for capital

expenditure committed by jointly controlled entities was HK\$1.303 billion as at 30 June 2006 as compared to HK\$166.2 million as at 30 June 2005. Commitments for capital expenditure were funded by internally generated resources and banking facilities.

The Group had contracted to provide sufficient funds in the form of capital and loan contributions to certain jointly controlled entities and associated companies to finance relevant projects. The Group's share of projected funds requirements of these projects was approximately HK\$928.1 million (2005: HK\$15.8 million) which represented the attributable portion of the capital and loan contributions to be made to the jointly controlled entities and associated companies. In addition, the Group had authorized to acquire interests in various projects in Mainland China. The estimated total relevant commitments as at 30 June 2006 were approximately HK\$2.824 billion (2005: HK\$829.2 million). Included in the above, an amount of approximately HK\$2.539 billion for a project of development and operation of rail container terminals and related businesses in Mainland China was contracted for on 28 September 2006, as detailed in note 38 to the financial statements.

CONTINGENT LIABILITIES

Contingent liabilities of the Group were HK\$1.141 billion as at 30 June 2006 as compared to HK\$1.122 billion as at 30 June 2005. These were composed of guarantees for credit facilities granted to associated companies, jointly controlled entities and a related company of HK\$11.9 million, HK\$1.074 billion and HK\$55.0 million respectively as at 30 June 2006 as compared to HK\$19.2 million, HK\$1.048 billion and HK\$55.0 million respectively as at 30 June 2005.

Debt Profile

