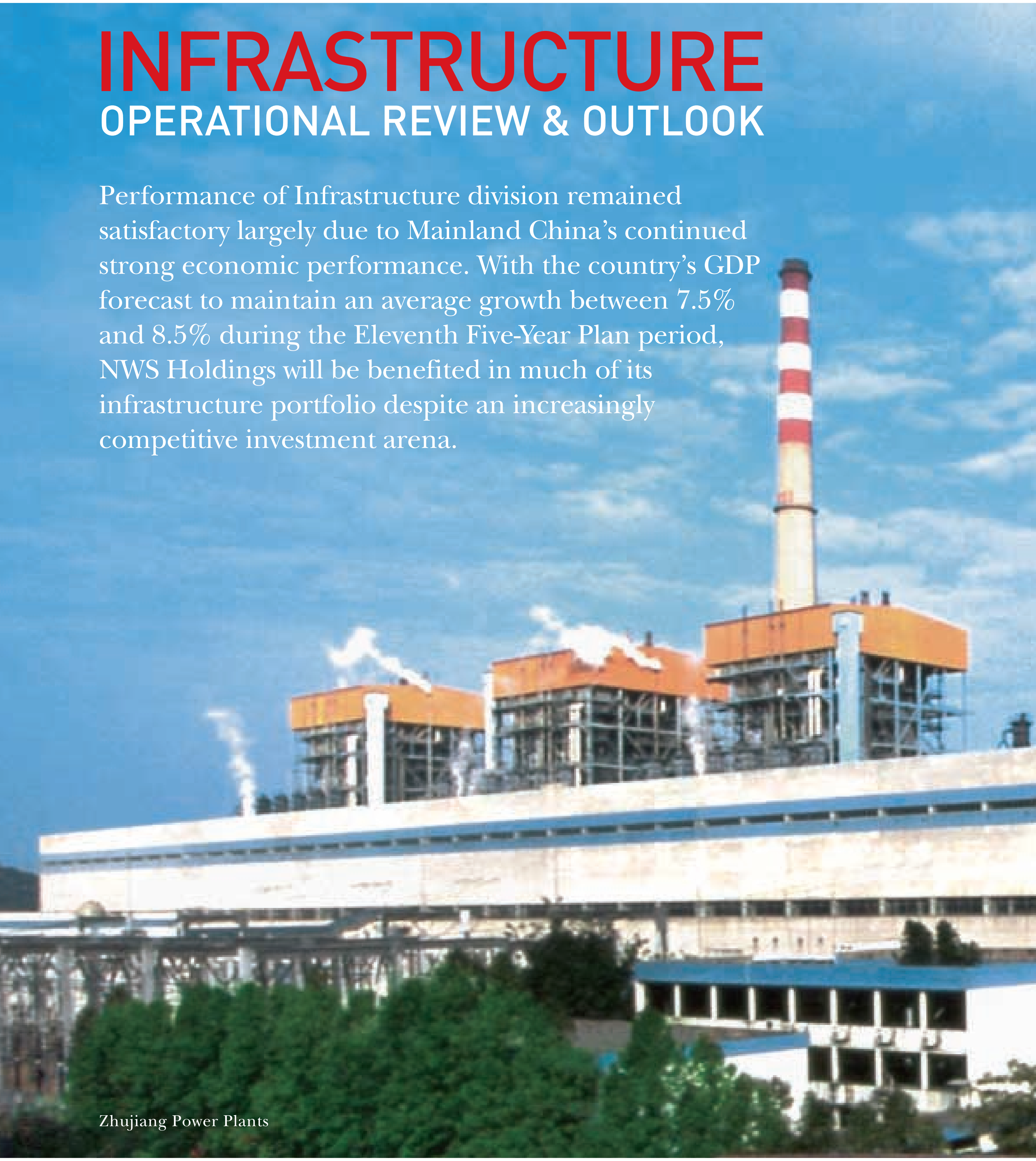
Management Discussion and Analysis

INFRASTRUCTURE

OPERATIONAL REVIEW & OUTLOOK

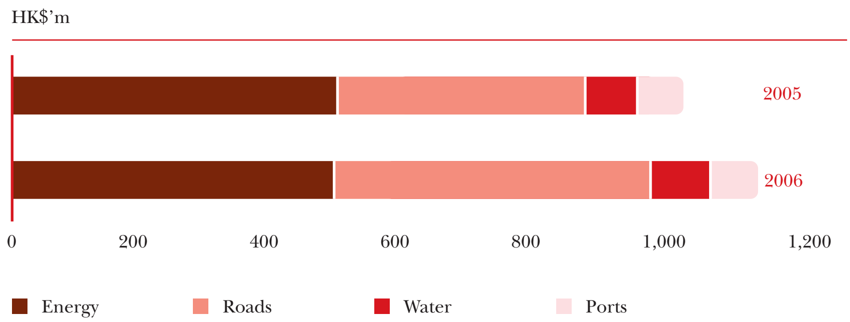
Performance of Infrastructure division remained satisfactory largely due to Mainland China's continued strong economic performance. With the country's GDP forecast to maintain an average growth between 7.5% and 8.5% during the Eleventh Five-Year Plan period, NWS Holdings will be benefited in much of its infrastructure portfolio despite an increasingly competitive investment arena.



Zhujiang Power Plants

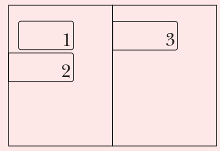
The performance of the Group's Infrastructure division remained satisfactory, largely due to Mainland China's continued strong economic performance. As a result, the division's AOP achieved a healthy growth of 11% to reach HK$1.116 billion during FY2006.

AOP Contribution by Segment



AOP Contribution by Segment For the year ended 30 June	**2006** **HK$'m**	2005 HK$'m (restated)	Change % Fav./ (Unfav.)
Energy	**487.8**	489.9	–
Roads	**469.1**	372.3	26
Water	**87.4**	80.6	8
Ports	**71.7**	64.8	11
Total	**1,116.0**	1,007.6	11

Management Discussion and Analysis
Infrastructure



1 Macau Power

2 Control room of Zhujiang Power Plants

3 Guangzhou City Northern Ring Road

ENERGY

ZHUJIANG POWER PLANTS' OVERALL PROFITABILITY SLIGHTLY IMPROVED.

Performance of the Group's Energy segment remained stable during FY2006, generating an AOP of HK$487.8 million (2005: HK$489.9 million).

Combined electricity sales from the Zhujiang Power Plants recorded a slight increase of 1% during FY2006. Aggregate sales revenue for the year also grew by 5%. The latter figure reflected not only a rise in electricity sales but also a tariff increment introduced in May 2005. In FY2006, the total fuel costs of Zhujiang Power Plants increased approximately by 6% which was due to the increase in coal price and was in line with the growth in electricity sales. Increases in both sales volume and tariffs, together with tight cost control, led to a slight improvement in Zhujiang Power Plants' overall profitability. Second round of "coal-tariff adjustment" was made effective in July 2006 which helped relieve the pressure from the increase in coal price. A joint venture of the Group which involved in manufacturing and supplying aerated concrete for the Pearl River Delta region also contributed profit during FY2006.

With an 11% increase in electricity sales, the overall performance of Macau Power continued to be satisfactory but its contribution to the Group's profit remained stable as a result of profit control scheme restrictions.

ROADS

PERFORMANCE OF PROJECTS WITHIN THE PEARL RIVER DELTA REGION WAS OUTSTANDING. AVERAGE DAILY TRAFFIC FLOW OF GUANGZHOU CITY NORTHERN RING ROAD INCREASED BY 13%.

FY2006 saw the Group's Roads segment generate AOP worth HK$469.1 million, an increase of 26% when measured against the figure for FY2005.

Performance of projects within the Pearl River Delta region was outstanding. Average daily traffic flow of Guangzhou City Northern Ring Road increased by 13%, while toll income grew by RMB44.7 million during FY2006. Toll income of Beijing-Zhuhai Expressway (Guangzhou-Zhuhai Section) surged by RMB117.7 million or 20% in FY2006 as benefited by the strong economic development of the Pearl River Delta region and the opening of a connecting expressway in November 2005. The combined average daily traffic flow of Shenzhen-Huizhou Roadway and Expressway was up 14%.
In December 2005, Beijing-Zhuhai Expressway (Guangzhou-Zhuhai Northern Section) commenced operation and now carries approximately 6,450 vehicles per day.

Total toll revenue of the Guangxi Roadways Network increased 5% or RMB6.6 million during FY2006. An increase in revenue from passenger vehicles helped to offset the negative impact brought by the reduction of toll rate for larger trucks since January 2005. Average daily traffic flow across this network during FY2006 remained steady at their FY2005 levels.

Average daily traffic flow of Tangjin Expressway (Tianjin North Section) posted a growth of 3% and toll income increased by 4%. Average daily traffic flow along the Wuhan Airport Expressway increased by 14% during FY2006.

The average daily traffic flow of Tate's Cairn Tunnel ("TCT") was down by 8% during FY2006. The drop in traffic flow was mainly due to the increase in toll rate in August 2005 but its toll revenue increased by 7% when compared to FY2005. The opening of the Ma On Shan Rail and the increase in toll rate of the Eastern Harbour Tunnel also negatively impacted the traffic flow through TCT.

Management Discussion and Analysis
Infrastructure

WATER

KEY REASONS BEHIND THE INCREASE IN AOP INCLUDED THE COMMENCEMENT OF OPERATIONS OF TANGGU WATER PLANT AND SHANGHAI SCIP WATER TREATMENT PLANTS, AND THE STRONG PERFORMANCE OF CHONGQING WATER PLANT.

AOP of Water segment climbed to HK$87.4 million during FY2006, an increase of 8% over FY2005. Key reasons behind the increase in AOP included the commencement of operations of Tanggu Water Plant and Shanghai SCIP Water Treatment Plants in April 2005, and the strong performance of Chongqing Water Plant. The Chongqing Water Plant had a satisfactory growth of 12% in water sales revenue and also a substantial increase in income derived from water connection works. Performance of other water projects in Mainland China was satisfactory while contribution from Far East Landfill Technologies Limited grew by 4% in FY2006.

Average daily water sales volume of Macau Water Plant achieved a year-on-year increase of 6% over FY2005. This result was negatively impacted by an average increase of 16% in the raw water tariff and increase in operating costs due to the seasonal salinity problem in early 2006.

PORTS

AOP FROM XIAMEN NEW WORLD XIANGYU TERMINALS ACHIEVED A SATISFACTORY GROWTH OF 55%.

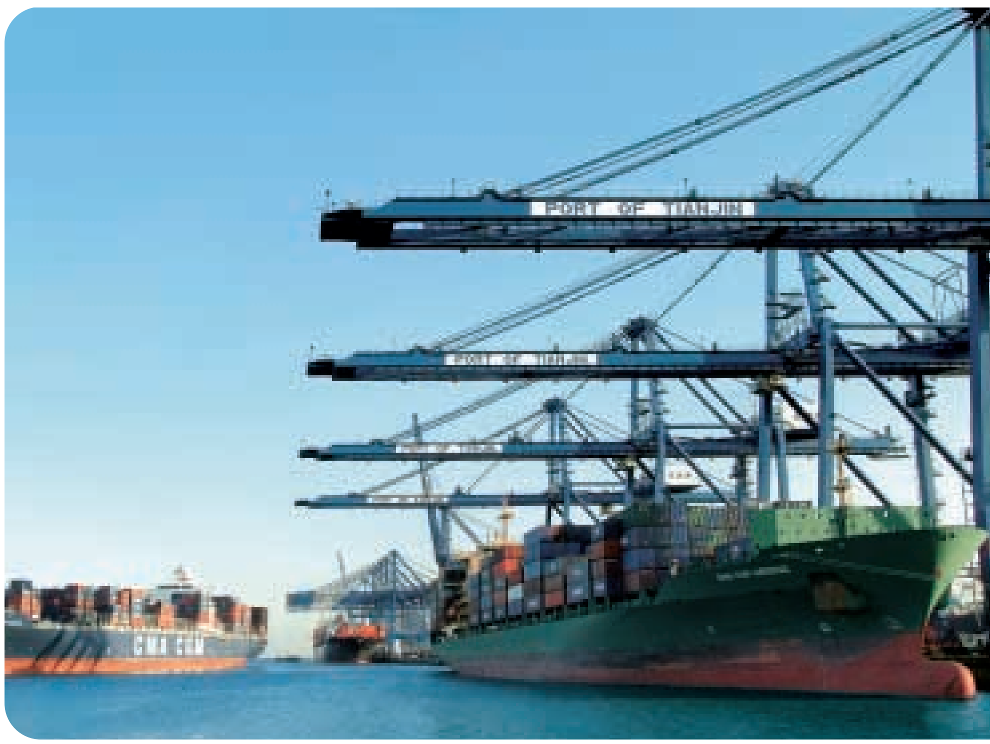
AOP of Ports segment was HK$71.7 million, an increase of 11% over FY2005.

AOP from Xiamen New World Xiangyu Terminals Co., Ltd. ("NWXY") achieved a satisfactory growth of 55%. The increase was mainly driven by a 16% volume growth in throughput to 736,000 TEUs in FY2006 as a result of the introduction of new shipping lines and the volume increase of existing major customers during the year. NWXY is dredging its turning basin and channel to increase its draft to -12m to accommodate larger vessels, construction of which is expected to be completed by the end of 2006.

Tianjin Orient Container Terminals Co., Ltd. ("TOCT") operates four container berths and one coal berth in Tianjin Xingang. While TOCT's contribution decreased 26% from FY2005, its throughput grew by 5% to 1.15 million TEUs in FY2006. The primary reason for the decline in TOCT's AOP was the cessation of its coal business in March 2005.

To improve its handling capacity and overall competitiveness, TOCT decided to invest approximately RMB170 million to convert the existing coal berth into a container handling facility. Major equipment and construction contracts have been signed and the conversion is expected to be completed by early 2007.

In November 2005, the Group invested 18% interest in Tianjin Five Continents International Container Terminal Co., Ltd. which handled 831,000 TEUs in its first few months of operation.



1 Laboratory of Macau Water Plant

2 Shanghai SCIP Water Treatment Plants

3 Operations at Xiamen New World Xiangyu Terminals

4 Tianjin Five Continents International Container Terminal

Management Discussion and Analysis
Infrastructure

BUSINESS OUTLOOK

ENERGY

Mainland China's electricity consumption growth in 2005 was 13.4% and slowed down to 12.0% in the first half of 2006 while supply shortages have been eased especially since the fourth quarter of 2005. New capacity coming on line in the next two years is estimated to be equivalent to one – third of current capacity, while the National Development and Reform Commission ("NDRC") anticipates a further fall in the growth of demand for electricity to around 11% in 2006.

Pressure on profit margin is slightly eased by the implementation of the second round of "coal-tariff adjustment" mechanism. Apart from the gradual rise in coal prices, profitability is also threatened by lower utilization hours and competitive tariff bidding as grids move to market-based pricing due to shortages are being overcome.

In light of energy price soaring and environmental concern, the recent Eleventh Five-Year Plan articulated by the Central Government promotes the efficient use of energy and alternative energy sources. More detailed government incentive programs aimed at promoting the development of renewable energy sources are likely to create attractive and diversified investment opportunities.

Macau Power will continue to increase electricity importation from Southern Grid of China as the Macau SAR Government ceased to expand local generating capacity and rising oil-fuel price gives pressure on self-production. Price reduction strategy will be introduced to enhance social development and investment opportunities in Macau without negatively impacting shareholders' returns or quality of service.

ROADS

Mainland China's GDP is forecasted to maintain an average growth between 7.5% and 8.5% during the Eleventh Five-Year Plan period. To facilitate a booming economy and the demand for better transportation systems, an additional 20,000 km of expressways is due to be built by 2010 and this forms part of the Central Government's long-term goal of constructing 85,000 km of expressways across Mainland China. Such plans offer ample investment opportunities for road investors. In addition to the vast investments planned for its road sector, the country is also expanding other transportation modes such as subways, light-rail systems and railways. As the most heavily utilized and flexible means of transportation for both passengers and goods, roads would seem to be quite robust and viable among these competing modes of transport.

By the end of 2005, the number of privately owned vehicles in Mainland China has reached 17 million, representing a staggering 100% growth within the past 5 years. This trend is expected to continue as people seek to improve their living standard and cars become available at more affordable prices. This is going to fuel the growth in traffic volume but current high oil prices might in the short run have adverse impact on people's motivation towards owning vehicles and their travelling patterns.

Government policies encouraging privately owned local enterprises to enter the toll road market have intensified competition between foreign investors and privately owned local enterprises.
This development has pushed up investment costs, negatively

impacting returns for investors. Unlike domestic joint ventures, sino-foreign joint ventures with investment cost over certain amount must be approved by the NDRC. In some cases, such approvals can take several years. State owned enterprises are now reluctant to enter into partnerships with foreign investors and hence, foreign investors are inevitably missing a lot of investment opportunities.

WATER

The outlook of the Shanghai Chemical Industry Park (the "Park") remains optimistic. Several new industrialists have confirmed their investments in the Park, and some have already mobilized their site construction works. Both our water treatment and waste water treatment plants have commenced operations in early 2005 and have contributed AOP to the Group since the first year of their operation. Due to large demand for waste water treatment services in the Park, the waste water treatment plant is expected to reach full capacity by the end of 2006. The joint venture company has already started the third phase of investment which aimed at satisfying further increases in demand. Besides, our hazardous waste incinerator project in the Park commenced operation in August 2006. Our projects will also be benefited once the Park's Phase II development is formally approved by the Central Government. The Phase II development includes a 10 million tonnes/year crude oil refinery project, an ethylene plant of production capacity of 1 million tonnes/year and other down stream ancillary facilities, with estimated total investment of US$4.2 billion and an area of 4 sq km.

In the National Conference with the Commissioners of the Price Bureau held in December 2005, NDRC indicated that it will implement water tariff reforms in 2006. Its proposed set of measures includes: 1) expanding the scope of fee charges for water resources; and 2) raising city water and sewage tariffs. Such steps are likely to provide our concessionary projects with a favourable climate when applying for an increase in water tariffs.

In addition, to cope with the increasing water demand, Macau Water Plant has scheduled an extension of its existing treatment capacity.

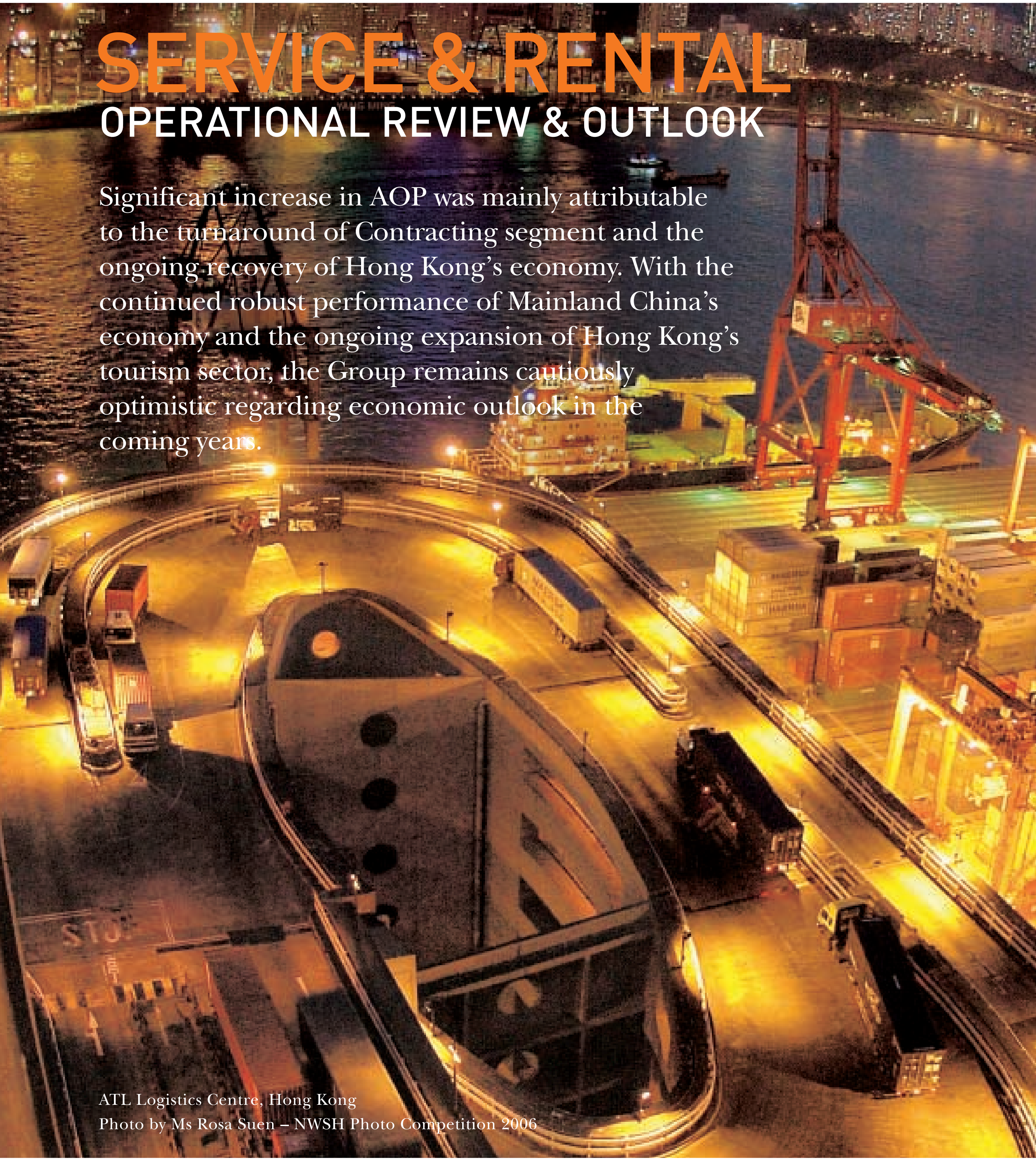
PORTS

Despite the Central Government's macroeconomic control policy, Mainland China's GDP grew by approximately 11% during the first half of 2006. Container throughput growth for the same period was 22%. Despite the pressure of trade dispute and appreciation of RMB, the foreign trade growth is expected to maintain at a relatively high growth rate in the second half of 2006.

Xiamen port reported a 16% growth in container throughput and handled 1.9 million TEUs in the first half of 2006. Under the Eleventh Five-Year Plan, Xiamen port will focus on expanding its overall handling capacity by developing new port zones in Haicang, Songyu and Liuwudian. Xiamen port's ultimate aim is to replace Kaohsiung port as the region's key transhipment hub. Meanwhile, Xiamen Government has commenced construction of six berths in Haicang which are targeted to become operational in 2009.

Tianjin port reported a 23% growth in container throughput and reached 2.8 million TEUs in the first half of 2006. The growth of Tianjin port has been constrained by the terminals' limited handling capacity. As a result, the port is accelerating container terminal developments in North Basin and Man-made Island.

Management Discussion and Analysis



SERVICE & RENTAL

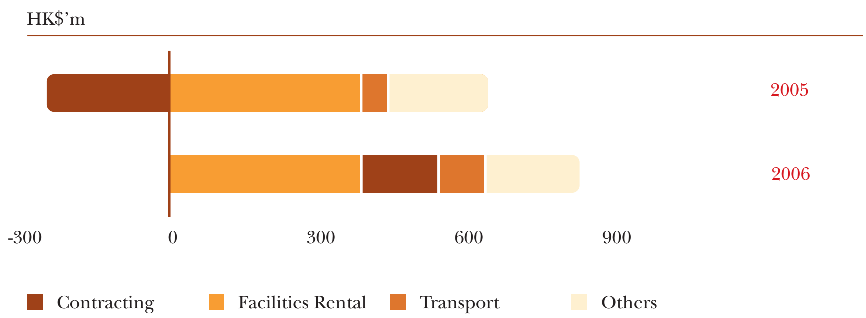
OPERATIONAL REVIEW & OUTLOOK

Significant increase in AOP was mainly attributable to the turnaround of Contracting segment and the ongoing recovery of Hong Kong's economy. With the continued robust performance of Mainland China's economy and the ongoing expansion of Hong Kong's tourism sector, the Group remains cautiously optimistic regarding economic outlook in the coming years.

ATL Logistics Centre, Hong Kong
Photo by Ms Rosa Suen – NWSH Photo Competition 2006

FY2006 saw AOP from the Group's Service & Rental division double, growing from HK$404.3 million in FY2005 to HK$821.6 million. This significant increase in AOP was mainly attributable to the turnaround of Contracting segment and the ongoing recovery of Hong Kong's economy.

AOP Contribution by Segment



AOP Contribution by Segment For the year ended 30 June	**2006 HK$'m**	2005 HK$'m (restated)	Change % Fav./ (Unfav.)
Facilities Rental	**390.7**	384.0	2
Contracting	**163.0**	(252.7)	165
Transport	**85.6**	64.4	33
Others	**182.3**	208.6	(13)
Total	**821.6**	404.3	103

FACILITIES RENTAL

FACILITIES RENTAL SEGMENT CONTINUED TO BE A STEADY SOURCE OF PROFIT AND CASH INFLOW.

Management Discussion and Analysis

Service & Rental

Predominantly comprised of Hong Kong Convention and Exhibition Centre ("HKCEC") and ATL Logistics Centre ("ATL"), the Group's Facilities Rental segment continued to be a steady source of profit and cash inflow to the Group. This segment recorded an AOP of HK$390.7 million for FY2006, an increase of 2% over FY2005.

HKCEC continued to achieve satisfactory result in FY2006 with more than 1,300 events held during the year serving over 4.9 million guests. Its average occupancy rate achieved a record high of 58%, up by 5% due to the positive impact of the Sixth WTO Ministerial Conference held in December 2005. New venues such as the AsiaWorld-Expo and other conference and exhibition facilities in Mainland China and other Asian countries have increased competition in this market. Construction works of the atrium link expansion has commenced in August 2006 and is due for completion in 2009. The new 19,400 sq m expansion will increase HKCEC's available space up to a total of 83,400 sq m.

ATL had also benefited from the ongoing recovery of local economy and the growth of Mainland China's market. It recorded a steady profit with average occupancy rate reaching 96% in FY2006. Being one of the largest multi-storey drive-in warehousing/container freight station complexes, ATL continues to provide professional warehousing and terminal services to a demanding global clientele. As such, it remains as the market leader in the industry. The Group expects that ATL will continue to deliver stable profits as a result of the continuous growth of Hong Kong's economy following the relaxation of personal travel restrictions on Mainlanders and increased local consumer spending.

CONTRACTING

EFFECTIVE COST CONTROL MEASURES AND INCREASED VOLUME OF WORKS SIGNIFICANTLY IMPROVED OPERATING RESULTS.

In FY2006, Contracting segment achieved satisfactory results with a turnaround from a loss of HK$252.7 million in FY2005 to a profit of HK$163.0 million. The significant improvement in operating results was due to a combination of factors including effective cost control measures and increased volume of works.

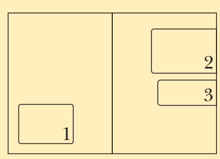
Leveraging its proven expertise in managing mega-sized and high quality construction projects and following the recent recovery of the private property development sector, our Construction group had secured contracts of substantial size with total contract sum over HK$21.0 billion as at 30 June 2006. The Group was also among the most competitive and successful specialist players in Macau's rapidly expanding construction market. Notable among a number of large-scale projects Hip Hing Construction Company Limited secured in Macau were the Grand Lisboa Hotel and the MGM Casino projects.

Performance of the Group's Engineering business remained satisfactory during FY2006 given a market whose prevailing conditions included material price fluctuations and tender price war. Contracts on hand as at 30 June 2006 amounted to HK$4.6 billion, while the contracts awarded for FY2006 amounted to HK$2.3 billion in which 64% was secured in Mainland China and Macau.

TRANSPORT

MANAGEMENT CONTINUED TO RESTRUCTURE AND STREAMLINE MANPOWER AND OPERATIONAL REQUIREMENTS AND ACHIEVED NOTABLE SAVINGS.

The Group's Transport segment achieved an AOP of HK$85.6 million in FY2006, a 33% increase compared with FY2005. However, excluding the impact of impairment provisions made in FY2005 which were not required to be made in FY2006, the result of FY2006 actually compared unfavourably to that of FY2005 by 20%. The unfavourable result was mainly attributed to the vast increase in fuel costs by nearly 30% over the



1 HKCEC

2 The Peak Tower, a project of Hip Hing

3 Citybus
Photo by Ms Au Chi Lan – NWSH Photo Competition 2006

Management Discussion and Analysis
Service & Rental

previous year. Other negative factors including the rise in interest rates, tunnel tolls and vessel maintenance costs also played a part in reducing profitability. The AOP of local bus businesses recorded a drop of 12%. Despite a fare increase, the local ferry operation registered a loss of HK$3.5 million. New World First Ferry Services (Macau) Limited saw a patronage growth of 9% but was merely able to maintain the guaranteed profit from Chow Tai Fook Enterprises Limited under the current vessel leasing arrangement.

In face of these adversities, management continued to restructure and streamline manpower and operational requirements and achieved notable savings. This in some way acted as a relief to a very unfavourable situation.

1

1 Free Duty at Hong Kong International Airport

OTHERS

ROBUST PATRONAGE ARISING FROM THE REBOUND IN HONG KONG'S TOURISM CONTRIBUTED TO FREE DUTY'S EXCELLENT PERFORMANCE.

The Group's Others segment comprises various service businesses which reported an AOP of HK$182.3 million. The 13% decrease in AOP was a result of the closure of certain subsidiary companies and keen competition of the local market.

Free Duty engaged in retail business selling duty free tobacco and liquor at Hong Kong International Airport and the ferry terminals in China Hong Kong City and Shun Tak Centre. Robust patronage arising from the rebound in Hong Kong's tourism contributed to Free Duty's excellent performance during FY2006. Following the increasing trend in spending per passenger and the opening of its new retail outlets totaling approximately 28,000 sq ft at the Lok Ma Chau KCRC Station, it is expected that Free Duty will continually deliver steady revenues to the Group.

Tricor Holdings Limited ("Tricor") achieved excellent results with a year-on-year growth of 40%. Tricor had successfully expanded into the Mainland China and Singapore markets following the opening of offices in Shanghai and Beijing and the acquisition of a Singapore business. Both Taifook Securities Group Limited (formerly known as Tai Fook Securities Group Limited) and New World Insurance Management Limited reported stable results for FY2006.

The property management business contributed a stable profit to the Group despite tough market competitions and maintained a clientele of over 165,000 residential units under management. The Group continued to explore new market opportunities in Mainland China.

BUSINESS OUTLOOK

Notwithstanding the surging oil prices and increasing interest rates, Hong Kong's economy continues to show above-trend growth with real GDP rising by 5.2% in the second quarter of 2006 on a year-to-year basis. Thriving external trades, resilient consumer spending and escalating investor confidence have fuelled growth of the local economy and benefited the Service & Rental division of the Group. Given the continued robust performance of Mainland China's economy and the ongoing expansion of Hong Kong's tourism sector, the Group remains cautiously optimistic regarding economic outlook in the coming years.

While focusing on enhancing returns from its existing business interests, the Group is also actively but meticulously seeking out exciting new business opportunities with which to drive its future growth in Mainland China, Macau and other potential markets for all segments in the Service & Rental division.

Benefiting from steady growth in the local economy, Facilities Rental segment is expected to continuously deliver consistently stable contributions as a result of HKCEC's and ATL's market leadership positions across the region. To consolidate its position as Asia's foremost international exhibition centre and Hong Kong's premier venue of choice, HKCEC intends to continually enhance its service quality, facilities and equipment.

The outlook for the Group's Contracting segment is slightly more mixed. Although the expenditure on public works looks set to fall slightly in this fiscal year, the Government remains firmly committed to building new infrastructure and improving Hong Kong's public facilities. To this end, the Government has reiterated that it will continue to allocate an average allocation of HK$29.0 billion annually in the next five years for infrastructure projects. The Government has also resolved to accelerate its planning and consultation process with the public over major development projects such as the development of Kai Tak, the Central Wanchai Bypass and the new Central Government offices at Tamar. Such huge Government infrastructure projects are sure to provide many exciting opportunities for the Contracting segment in the coming years.

The Group's attitude towards tendering for new projects in Mainland China remains cautious and selective. As a result, our involvement in this market looks set to remain stable. Our business performance in Macau continues to be encouraging, with all projects we have tendered for, or been awarded, being predominantly sizable ones. The potential high yields from entertainment and gaming business enable the employers to pay a premium for high quality works we deliver. As a result, it is expected that Macau will continue to be a major driver of the Group's profitability during the next two to three years.

Rising fuel prices and Government policies favouring railway operators mean the operation of the Group's Transport segment remains difficult. Throughout the year, the management has consistently implemented cost reduction measures through better resources allocation and utilization between the two bus companies so as to minimize the adverse impacts of escalating fuel price and intensified market competition arising from the proposed merger of MTR Corporation Limited and Kowloon-Canton Railway Corporation. Facing the challenges ahead, the Group will continuously strive to control costs, while further enhancing service levels. We will also continue our ongoing commitment to further improve our performance by seeking out suitable business development opportunities in Mainland China and overseas.