Managing Director's Report

To Our Shareholders,

For the 12 months ended 30 June 2006, the Group recorded a turnover of HK$23.9 billion, up 22% year-on-year. Profit for the year attributable to the shareholders of the Company amounted to HK$1.1 billion as compared with HK$2.7 billion for last year. The decrease in profit is mainly due to the default in repayment of deposits and other amounts owing to New World TMT by the owners of the fibre optic backbone network totalling HK$2.1 billion in May 2006, a full provision has been made against the amounts due. The overall business of the Group achieved satisfactory results under the resilient economy. Segment results grew 43% to HK$4.9 billion. Net debt was slightly increased to HK$15.0 billion which translated into a comfortable gearing ratio of 21.6%. With the confidence in future, the board declared a final dividend of 20 HK cents per share, representing a full-year dividend of 33 HK cents per share.

In the past few months, the corporate structure of the Group has been further streamlined. The merger of New World PCS and Hong Kong CSL was completed on 31 March 2006. The merged group is known as the CSL New World Mobility Group, in which New World Mobile Holdings holds 23.6% interest.

Starting from the second half of 2005, the Hong Kong property market was lukewarm. However, it is gradually warming up primarily due to four favourable factors: (1) healthy economic growth; (2) low unemployment rate; (3) growing household income; and (4) declining mortgage rate.

GDP increased by a healthy 5.2% in real terms in the second quarter of 2006 over a year earlier. Unemployment rate of July to September 2006 was 4.7%, the lowest in last five years. Median monthly household income rose 9.5% in the second quarter of 2006 to HK$23,000. Mortgage rate offers have been changed from prime-minus to HIBOR-plus based, representing almost a one percentage point reduction.

The higher affordability and favourable environment should trigger the gradual release of the pent-up demand from the end users. The Group will gradually launch over 3,000 residential units and other high-value projects by phases in the coming months while also expanding our land reserve in a prudent manner.

Vigorous commercial activities pose strong demand of office spaces in prime districts. In effect, our office portfolio in Central and Tsim Sha Tsui is having positive rental reversion. At the same time, rising number of business travellers and tourists to Hong Kong benefits the Group's retail portfolio and hotel operations.

While enjoying the merits of Hong Kong, the Group is expanding our business in Mainland China which is now one of the key economies in the global village. Our property flagship, New World China Land, has speeded up the realization of our land reserve and has started to expand to second tier cities with a better margin outlook.

At the same time, NWS Holdings is actively looking for new infrastructure investment opportunities. The recent moves include participating in the China Rail Container Terminals Project (中國鐵路集裝箱中心站項目) across China; exploring new water business in Chongqing (重慶); and developing multi-purpose Wenzhou Zhuangyuan Ao New World International Terminals (溫州狀元嶴新創建國際碼頭).

New World Department Stores currently has around 710,000 sq. m. total store area under management. Since July 2006, three new stores have been opened in Chongqing (重慶), Changsha (長沙) and Wuhan (Hankou) (武漢漢口). The Group plans to open five new stores by the end of 2007.

The Group, together with Hong Kong, should not be just a gateway to Mainland China, but an engine to drive the growth of the country.

Dr. Cheng Kar-Shun, Henry
Managing Director
Hong Kong, 10 October 2006

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