Management Discussion and Analysis

Consolidated Income Statement

	FY2006 HK$m	Restated FY2005 HK$m
Turnover	**23,910.2**	19,539.2
Cost of sales	**(17,708.2)**	(14,559.5)
Gross profit	**6,202.0**	4,979.7
Other income	**35.5**	32.7
Other (charge)/gains	**(1,763.9)**	1,823.1
Selling and marketing expenses	**(519.4)**	(463.7)
Administrative expenses	**(1,065.9)**	(934.3)
Other operating expenses	**(2,564.7)**	(2,214.2)
Fair value changes on investment properties	**1,462.9**	–
Operating profit before financing costs and income	**1,786.5**	3,223.3
Financing costs	**(1,115.0)**	(707.3)
Financing income	**541.2**	368.8
Operating profit	**1,212.7**	2,884.8
Share of results of		
Associated companies	**656.8**	402.8
Jointly controlled entities	**1,636.2**	1,229.0
Profit before taxation	**3,505.7**	4,516.6
Taxation	**(892.6)**	(515.3)
Minority interests	**(1,553.3)**	(1,298.6)
Profit attributable to shareholders	**1,059.8**	2,702.7

Turnover – Breakdown by Business Segment

	FY2006 HK$m	Restated FY2005 HK$m	YoY
Property sales	**5,325.5**	3,377.8	+58%
Rental	**1,096.4**	946.4	+16%
Infrastructure	**308.1**	239.5	+29%
Service	**11,052.4**	8,972.3	+23%
Hotel operations	**2,052.1**	1,845.8	+11%
Department stores	**1,357.1**	1,120.4	+21%
Telecommunications	**2,297.6**	2,563.2	–10%
Others	**421.0**	473.8	–11%
Consolidated	**23,910.2**	19,539.2	+22%

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

	FY2006 HK$m	Restated FY2005 HK$m	YoY
Property sales	**1,513.9**	1,190.9	+27%
Rental	**1,206.5**	740.9	+63%
Infrastructure	**1,086.7**	905.8	+20%
Service	**741.4**	363.4	+104%
Hotel operations	**425.5**	295.7	+44%
Department stores	**107.4**	104.3	+3%
Telecommunications	**(75.2)**	19.8	NA
Others	**(69.7)**	(157.1)	NA
Segment results	**4,936.5**	3,463.7	+43%

Financial Review

For the year under review, the Group recorded a profit attributable to shareholders amounted to HK$1,059.8 million, down 61% year-on-year. The decline is mainly due to the HK$1,763.9 million other charge in FY2006 against other gains of HK$1,823.1 million in FY2005.

All major business operations: property sales and rental, service and infrastructure, hotels and department stores achieved satisfactory contribution growth. Total segment results amounted to HK$4,936.5 million, up 43% year-on-year.

Turnover increased 22% from HK$19,539.2 million to HK$23,910.2 million, mainly due to the growth of contracting business and the sales volume of Hong Kong properties.

Property Sales

In FY2006, the Group's property sales revenues amounted to HK$5,325.5 million, up 58%. During the year under review, the Group sold an effective share of approximately 1.7 million sq. ft. of properties in Hong Kong against approximately 1 million sq. ft. in FY2005. Whereas, NWCL sold 765,774 sq. m. of properties in FY2006 against 754,474 sq. m. in last year.

Property sales segment contributed HK$1,513.9 million against HK$1,190.9 million last year. The segment contribution from Hong Kong was mostly attributed to the sales of The Merton, The Grandiose and 33 Island Road.

Rental

Rental turnover grew 16% to HK$1,096.4 million. Both Hong Kong and Mainland China had a healthy growth in rental revenue.

Rental business has a segment contribution of HK$1,206.5 million, up 63% from HK$740.9 million in the previous financial year. The higher contribution came from New World Centre, New World Tower and our Mainland China investment properties.

Infrastructure

The 29% growth of the infrastructure turnover was mainly contributed by the growth from the road operations.

Infrastructure posted a segment result of HK$1,086.7 million, up 20%. The performance of the Group's infrastructure division remained satisfactory, largely due to Mainland China's continued strong economic performance. The growth was mainly driven by roads, water and ports businesses. Performance of the energy business remained stable during FY2006.

Service

Turnover of service operations increased 23% to HK$11,052.4 million in the year under review. It was mainly due to the turnaround of contracting operation from a loss in previous year to a profit this year. Other businesses in service operations also achieved satisfactory contribution.

Segment contribution from service operations hiked 104% to HK$741.4 million. In FY2006, contracting business achieved satisfactory results with a turnaround from a loss. The significant improvement in operating results is due to a combination of factors including effective cost control measures and increased volume of work. Contracting business has secured contracts of substantial size with total contract sum over HK$21 billion as at 30 June 2006.

Hotel Operations

Hotel operations contributed HK$425.5 million, surged 44% from last year. The visitor arrivals to Hong Kong in the first half of 2006 reached above 12 million, up 11.1% year-on-year. Our hotel operations benefited from the rising visitor number. The Group's hotels in Hong Kong, namely Grand Hyatt Hong Kong, Renaissance Harbour View Hotel and Renaissance Kowloon Hotel, recorded an average occupancy of 85% and a 20% growth in average room rate. Meanwhile, the occupancy rate of New World Mayfair Hotel Shanghai in Mainland China improved significantly.

Department Stores

Turnover of NWDS amounted to HK$1,357.1 million, up 21% year-on-year. During the year under review, four stores were opened in Lanzhou (蘭州), Wuhan (Wuchang) (武漢武昌), Shanghai (Minhang) (上海閔行) and Shenyang (Zhonghua Road) (瀋陽中華路) respectively.

Segment contribution from department stores business grew 3% to HK$107.4 million. New accounting principle is adopted to have payments made under operating leases charging to the profit and loss account on a straight-line basis over the lease periods. In effect, HK$50 million more was charged as expenses. Otherwise, the segment result should have been over HK$150 million.

Telecommunications

Telecommunications segment contributed a loss of HK$75.2 million against a gain of HK$19.8 million last year. The Group's telecommunications business, especially the fixed-line business, was facing keen competition. NWT has transformed itself to provide broadband and IP based services, while the IDD tariff and fixed-line service charge were declining.

Others

Others segment narrowed down the loss from last year's HK$157.1 million to HK$69.7 million in FY2006. During the year under review, NWCEP invested in Shinhint, a Hong Kong based integrated manufacturing service provider for ODM/OEM production of electro-acoustic consumer products; and Hembly, which is principally engaged in provision of supply chain services for its supply of apparel and accessories to international brand apparel makers. Shinhint and Hembly were successfully listed on the Hong Kong Stock Exchange since 14 July 2005 and 13 July 2006 respectively. NWCEP currently holds 5.438% of Shinhint and 12.08% of Hembly.

Finance Costs

Net financial expenses have increased to HK$573.8 million from HK$338.5 million last year. Though the Group's net debt has increased modestly to HK$15.0 billion from HK$13.9 billion in FY2005, the major borrowing reference rate HIBOR increased substantially to FY2006 average of 4.1% from FY2005 average of 1.4%.

Other (charge)/gains

Other (charge)/gains amounted to a net charge of HK$1,763.9 million in FY2006 against a net gain of HK$1,823.1 million last year.

Impairment and provision have been made on certain projects and receivables with reference to their recoverable amount.

Following the default in repayment of deposits and other amounts owing to NWTMT 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. Details are described in note 28(a) to the financial statements.

Due to changes in the technology, an impairment provision on NWT fixed line operating equipments has been made.

Breakdown of other (charge)/gains	FY2006 HK$m
Provisions of fibre optic network & other TMT investments	**(2,439.2)**
Gain on CSL/New World Mobility merger	**957.0**
Fixed-line assets impairment	**(200.0)**
Others (net)	**(81.7)**
Total	**(1,763.9)**

Total Equity

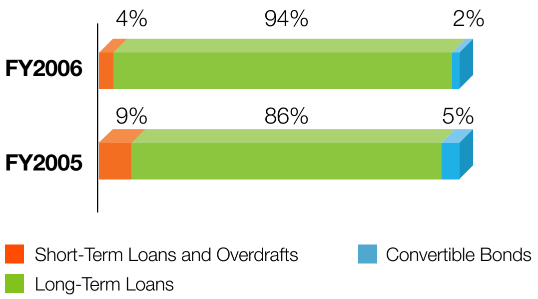
Total equity of the Group as at 30 June 2006 increased 5.5% to HK$69.4 billion from HK$65.8 billion.

Liquidity and Capital Resources

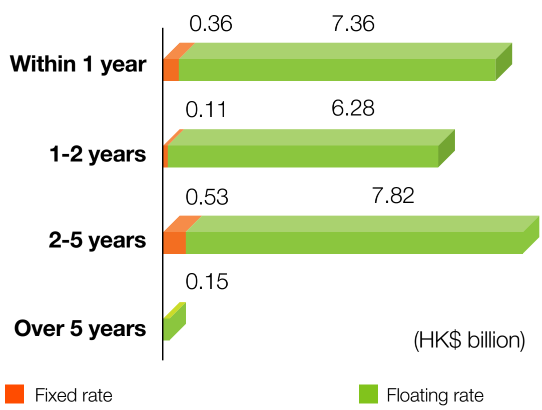
As at 30 June 2006, the Group's cash and bank balances amounted to HK$7,642.9 million (30 June 2005: HK$12,128.7 million). Its consolidated net debt amounted to HK$14,963.8 million, an increase of HK$1,041.9 million as compared with 30 June 2005. Gearing ratio was at 21.6% as at 30 June 2006 (30 June 2005: 21.2%).

During the year, 107,000,000 shares of HK$1.00 each were issued at HK$11.50 per share for cash to repay part of the Group's bank loans and to strengthen the capital base and the financial position of the Group.

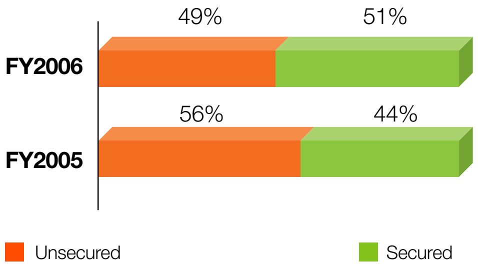
Source of Borrowings



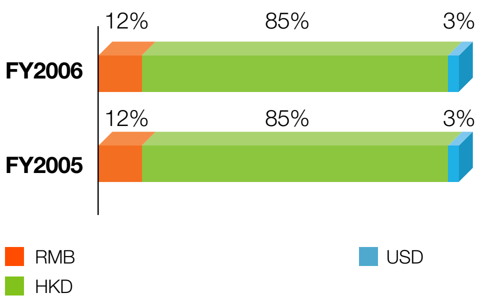
Interest Rate and Maturity Profile



Nature of Debts



Currency Profile of Borrowings



Gross Debts	30.6.2006 HK$m	Restated 30.6.2005 HK$m
Consolidated gross debts	**22,606.7**	26,050.6
NWS Holdings	**4,528.3**	5,983.5
New World China Land	**5,950.3**	5,319.3
New World Mobile Holdings	**–**	102.5
Gross debts excluding listed subsidiaries	**12,128.1**	14,645.3

Net Debts	30.6.2006 HK$m	Restated 30.6.2005 HK$m
Consolidated net debts	**14,963.8**	13,921.9
NWS Holdings	**1,980.6**	2,333.6
New World China Land	**3,098.4**	(1,032.6)
New World Mobile Holdings	**(27.7)**	(14.0)
Net debts excluding listed subsidiaries	**9,912.5**	12,634.9

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 2006, around half of the total outstanding loans were secured by the Group's assets.

Interest Rate and Maturity Profile

Amount of debts due within FY2007 amounts to HK$7,722.9 million. Our cash on hand as of 30 June 2006 was HK$7,642.9 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 95.6% 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.