The excellent economic development of Mainland China was one of the key drivers behind the Group’s healthy 3% rise in AOP within its Infrastructure division.
The AOP of the Roads segment for FY2007 grew HK$97.3 million or 21% to HK$566.4 million in FY2007. Appreciation of RMB during the year has contributed to the increase in AOP.

Performance of projects within the Pearl River Delta Region continues to shine. Average daily traffic flow of Guangzhou City Northern Ring Road increased by 11% and toll income grew by RMB39.7 million in FY2007. Toll income of Beijing-Zhuhai Expressway (Guangzhou-Zhuhai Section) soared by RMB202.9 million or 28% in FY2007 as benefited by the strong economic development of the Pearl River Delta Region. The combined average daily traffic flow of Shenzhen-Huizhou Roadway and Expressway increased by 13% when compared to FY2006.

AOP of Guangxi Roadways Network increased slightly attributable to an increase in combined average daily traffic flow of 1% in FY2007.

AOP contribution from Shanxi Roadways Network increased 1% in FY2007. Continuous closure of small coal mines since late 2005 drove its average daily traffic flow, on a combined basis, down 9% in FY2007. The effect was offset by the decrease in repair and maintenance expenses and exchange gain on RMB shareholder’s loan recognized during the year.

The average daily traffic flow of Tangjin Expressway (Tianjin North Section) increased 19% and toll income rose by RMB69.9 million, as a result of economic development of the Bohai Rim region and renovation of a competing roadway network since mid-2006. However, result was partly affected by the increase in repair and maintenance expenses.

The increase in the utilization of Wuhan Tianhe Airport boosted the traffic flow of the Wuhan Airport Expressway. The average daily traffic flow increased by 11% in FY2007.

AOP from Tate’s Cairn Tunnel (“TCT”) grew slightly by 2% when compared to FY2006. The average daily traffic flow of TCT grew slightly by 1% in FY2007.

The newly acquired Guangzhou Dongxin Expressway that the Group owns 40.8% equity interest will become partially operational in mid-2008, while full operation is expected at the end of 2009. The expressway running from Fangcun District to Panyu District in Guangzhou connects to Guangzhou East-South-West Ring Road and Guangzhou City Nansha Port Expressway.

“We ensure smooth traffic.”

Cho Tak Kin
Traffic Supervisor
Tate’s Cairn Tunnel
Company Limited
Management Discussion and Analysis

Energy

AOP of the Energy segment reduced 17% or HK$85.0 million to HK$402.8 million in FY2007.

The combined AOP of Zhujiang Power Plants dropped by 24% during FY2007. The decrease was partly due to a one-off gain recognized in FY2006 and partly due to more new generation units coming into the market. Such adverse impact was partly compensated by the increase in average tariff of 5% arising mainly from the coal-link tariff adjustments during the current year.

AOP from Macau Power reported a decrease of 10% in FY2007 as its rate of permitted return had been revised from 14% to 12% retrospectively with effect from 1 January 2006 although its electricity sales grew satisfactorily by 16% on a year-on-year basis.

The Group acquired 35% interest in Chengdu Jintang Power Plant, a 2 x 600MW coal-fired power plant, which supplies electricity in Chengdu, Sichuan Province. The project commenced operation in June 2007.

In December 2006, the Group acquired a 9.45% interest in Guangdong Baolihua New Energy Stock Co., Limited, which mainly engages in the operation of a 2 x 135MW coal-fired power plant in Guangdong and its shares are listed on the Shenzhen Stock Exchange. In addition, two additional 300MW coal-fired power plants are being built and expected to commence operations in 2008.

“We power up the city.”

Ada Cheong
Customer Service Assistant Officer
Companhia de Electricidade de Macau-CEM, S.A.
Water

AOP contribution from the Water segment grew to HK$102.2 million, up HK$14.8 million or 17% when compared to last year.

Macau Water Plant reported a 10% increase in average daily water sales volume while performance of water projects in Mainland China is promising. Water sales revenue of Tanggu Water Plant in Tianjin increased as its tariff was raised since April 2006. The Chongqing Water Plant and Shanghai SCIP Water Treatment Plants had an impressive growth of 19% and 47% respectively in water sales volume. The newly-acquired Changshu Water Plant and Chongqing Tangjiatuo Waste Water Plant have also contributed to the increase in profit during the year.

Ports

AOP contribution of the Ports segment increased from HK$70.4 million to HK$79.0 million in FY2007.

Xiamen New World Xiangyu Terminals Co., Ltd. reported an 8% volume growth to 794,000 TEUs in FY2007. Throughput of Tianjin Orient Container Terminals Co., Ltd. decreased slightly by 1% to 1,136,000 TEUs while there is an increase in average revenue per TEU as a result of more foreign cargo volume in FY2007. Tianjin Five Continents International Container Terminal Co., Ltd., in which interest was acquired in November 2005, produced positive AOP contribution to this segment and handled 1,988,000 TEUs during FY2007. In August 2006, the Group acquired 55% interest in Wenzhou Zhuangyuan Ao New World International Terminals Company Limited, which operates two multi-purpose berths in Zhuangyuanao, Zhejiang Province. The project is expected to be operational by 2008.
Management Discussion and Analysis

Business Outlook

Annual GDP growth rate of Mainland China for the Eleventh Five-Year Plan period (2006-2010) is forecasted in the range of 7.5%-8.5%. Actual GDP for 2006 and the first half year of 2007 are even higher, at 10.7% and 11.5% respectively. According to the latest forecast of State Information Centre, Mainland China’s 2007 GDP growth is expected to reach 11.3%, slightly higher than last year. More macroeconomic control measures are expected to be introduced to cool down the GDP growth and inflation.

In March 2007, the National People’s Congress passed the revised “Corporate Income Tax Law”. This legislation, which unifies the income tax policies for domestic and foreign invested enterprises (“FIEs”), will take effect on 1 January 2008. Income tax rate for FIEs will increase to 25% and the existing five-year tax holiday will be revoked. FIEs subject to a reduced income tax rate under the existing law will be eligible for a five-year transitional period during which the tax rate will gradually increase to the unified rate of 25%. Foreign investors’ tax burden will inevitably increase. The new law stipulates that encouraged basic infrastructure projects will continue to enjoy tax preferential policy but the details are yet to be announced.

Roads

According to The Ministry of Communications, at least 60% of the Mainland China’s economy is facilitated by road transportation. Roadways, being the mostly utilized and flexible means of transportation for passengers and goods, continue to play an important role to serve the booming economy of Mainland China. Under the national highway network plan of total length of 85,000 km, the total mileage of expressways in Mainland China will be increased by approximately 3,000 km annually up to 2010. This situation will create immense investment opportunities for road investors.

Mainland China economic prosperity leads to more frequent passenger and cargo flows which in turn generate enormous traffic demand. Sustained economic development has led to growth in personal income and purchasing new cars has become a major spending hotspot. Despite high oil prices, car ownership rate continues to surge which is advantageous to road business. Adoption of toll-by-weight policy for goods-carrying vehicles in some provinces or municipal cities has proved to be successful in reducing traffic accidents and damage to roadways caused by over-loaded trucks. Toll revenue will generally increase under this new mode of toll calculation. The policy has become more popular and is another growth momentum for road business.

The toll road market in Mainland China has been opened for overseas private investment for many years. However, the reserve of quality road with high investment value is diminishing. In recent years, the investment market has been joined by many competitive qualified local investors. In March 2006, the China Insurance Regulatory Commission published paper permitting insurance funds to invest in state-level infrastructure projects in areas such as transportation, energy and communications. The insurers can invest up to 15% of their total assets. As a result, competition for quality road investments is becoming more vigorous which leads to higher cost of acquisitions.

Energy

The operating environment for power industry in Mainland China remains challenging. Although the power producers are compensated by tariff increments in May 2005 and July 2006, utilization is under pressure across the country. Contract coal price is rising thereby narrowing its gap with spot price to reflect the higher
regulatory costs in coal market during the course of liberalization.

Electricity consumption growth in 2006 was 14.0% and further rose to 15.6% in the first half year of 2007, which has exceeded the expectation of the National Development and Reform Commission (“NDRC”). Installed capacity increased by 20.3% or 101GW to 622GW in 2006 while another 95GW is coming on-grid in 2007. In general view, utilisation rate in Mainland China is expected to decelerate starting from 2007 to early 2009. The extent of deceleration will depend on the capacity construction schedule for 2008 to 2010, which will be announced in later 2007.

At present, almost 24% of Mainland China’s thermal power is generated by small coal-fired units of capacity below 100MW. The NDRC planned to shut down small thermal power plants of 40GW from 2006 to 2010 and will allocate more on-grid quota to highly efficient and low emission units. Therefore, investment opportunities still exist for sizeable, low emission coal-fired power plants, although renewable energy continues to be accorded with favourable policy treatment by the Central Government.

Water
The development in the Shanghai Chemical Industry Park (the “Park”) is optimistic as most projects have commenced their commercial operations. The return from our water treatment project in the Park exceeded expectation. Due to large demand in the waste water treatment service in the Park, the waste water treatment plant had almost achieved its capacity at the end of 2006. The joint venture company has already started the third phase of investment which is expected to be operational around the end of 2007 so as to cope with the increasing demand. Also, our hazardous waste incinerator project in the Park has been in operation since August 2006.

With the completion of the Zhuhai Ping Gang Project in December 2006, the seasonal salinity problem in Macau had been temporally resolved. In addition, to cope with the increasing water demand, Macau Water Plant has contracted to expand its existing treatment capacity and is to be completed by mid 2008.

Ports
Mainland China container throughput for the first half of 2007 reported a 24% growth and reached 52.5 million TEUs.

A 14.4% growth in container throughput was reported in Xiamen which reached 2.20 million TEUs in the first half of 2007. Xiamen municipal government has been actively liaising with Jiangxi and Hunan Provinces to secure cargoes from the hinterland, and the multi-modal container transportation between Jiangxi and Xiamen was launched in June 2007. The expansion of Dongdu port area’s navigation channel was completed in June 2007 and a total of RMB1.5 billion is planned to invest in developing channel during the Eleventh Five-Year Plan period.

A 21% growth in container throughput was reported in Tianjin which reached 3.36 million TEUs in the first half of 2007. Tianjin speeds up its port development in the Eleventh Five-Year Plan by increasing the total investment from RMB36.7 billion to RMB45.0 billion. Phase 1 of Dongjiang and 250,000 tonnes navigation channel are to be completed by the end of 2007. Tianjin has also entered into the Memorandum of Custom Co-operation with other 11 provinces (mainly inland provinces) to improve the custom clearance and secure Tianjin as their designated seaport.
“We Serve with Heart!

At NWS Holdings, we never forget that our partners and customers have a choice.”
Service & Rental

Hong Kong Convention and Exhibition Centre
Photo by Ms Tso Wai Han – NWSH Photo
Competition 2006
Service & Rental

Operational Review

Following the acquisition of additional shareholding in Taifook Securities and the Group’s subsequent restructuring of the business segments, our Service & Rental division continued to make encouraging strides in all directions.
Service & Rental division achieved an AOP of HK$1.141 billion. A significant increase of AOP by HK$317.8 million or 39% was mainly attributable to the continuing growth of businesses under different segments and increase in contribution from Taifook Securities after the completion of further acquisition of Taifook Securities’ shareholding to 61.29% on 8 June 2007.

After the further acquisition of the Taifook Securities’ shareholding, the management decided to reclassify the business of Service & Rental division into four segments, namely “Facilities Rental”, “Contracting”, “Financial Services” and “Other Services” to facilitate a better analysis of the performance of different business segments under this division.

### Facilities Rental

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$404.2 million for FY2007, an increase of 3% over FY2006.

Hong Kong Convention and Exhibition Centre (“HKCEC”) continued to achieve satisfactory result in FY2007 with more than 1,300 events held during the year serving over 4 million guests. AsiaWorld-Expo and other conference and exhibition facilities in Macau, Mainland China and other Asian countries have increased competition in this market. Construction works of the Atrium Link expansion in HKCEC has commenced in August 2006 and is due for completion in 2009. The new 19,400 sq m expansion will increase its available space for lease up to a total of 83,400 sq m.

ATL Logistics Centre (“ATL”) recorded a steady profit with average occupancy rate reaching 98% in FY2007. It has benefited from the growth of the local economy and the Mainland China’s market. Being Hong Kong’s largest multi-storey drive-in warehousing/container freight station complexes, ATL continues to provide professional warehousing and terminal services for 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 economy, increase in domestic consumption, improving job market and the buoyant stock market, which continue to fuel the strong growth in the warehousing business in Hong Kong.
Management Discussion and Analysis

Contracting

The Contracting segment recorded AOP of HK$255.9 million in FY2007, representing an increase of 57% as compared to HK$163.0 million in FY2006. The significant improvement in operating results is due to a combination of factors including effective cost control measures and increase in 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, Hip Hing Construction Company Limited (“Hip Hing”) has secured contracts of substantial size with a total contract sum of approximately HK$30.8 billion as at 30 June 2007. It was also among the most competitive and successful specialist builder in Macau’s rapidly expanding construction market. Notable among the number of large-scale projects for which Hip Hing secured in Macau were the Grand Lisboa Hotel, the MGM Grand Macau and One Central Macau.

Performance of the Group’s engineering business remained satisfactory during FY2007. Overall, the mechanical and electrical engineering industry remained competitive due to the financial risks arising from material price fluctuation and subcontractors’ repudiation. Contracts on hand as at 30 June 2007 amounted to HK$5.1 billion, while the contracts awarded for FY2007 amounted to HK$1.6 billion of which 59% was secured in Mainland China and Macau.

“We build prestigious assets.”
Ryan Chan
Safety Officer
Hip Hing Construction Company Limited

Top: The Grandiose at Tseung Kwan O
Bottom: MGM Grand Macau
Financial Services

The Financial Services segment mainly comprises the results of Taifook Securities and Tricor Holdings Limited ("Tricor"). The contribution attributable to this segment has become more significant after the further acquisition of Taifook Securities shareholding and the benefit of buoyant stock market.

In view of Taifook Securities’ enviable reputation in financial services business and satisfactory growth history, the Group increased its shareholding in Taifook Securities to 61.3% on 8 June 2007 and thereafter Taifook Securities became a subsidiary company of the Group. Given the promising outlook of financial markets in Hong Kong and Mainland China, the Group is confident that the acquisition of Taifook Securities will enhance its long-term profitability and align with its balanced investment strategy.

Taifook Securities achieved excellent results in FY2007, setting a record for its operating history. Its major businesses benefited from the buoyant activities across different investment markets, including equities and their derivatives, foreign exchange, bullion and other commodities. The brokerage service together with the margin finance services made up for a dominant part of Taifook Securities’ earnings. The bull market run continued throughout the year, in particular, the investment sentiment towards China stocks was extremely hectic despite the macro economic control on the Mainland China. Significant growths were witnessed in other areas such as trading and investment, asset management and wealth management, which have emerged as solid earnings contributors to Taifook Securities on our increased commitments.

Also benefited from the booming stock market, Tricor achieved excellent results with a growth of 31% during FY2007. Tricor had successfully expanded into the Mainland China and Singapore markets following the opening of offices in Shanghai and Beijing and the acquisition of Singapore business.

“We show our dedication and professionalism.”

Nick Tang
Customer Service Manager
Taifook Securities Group Limited
Management Discussion and Analysis

Other Services

This segment comprises various service businesses including the transport and other general services such as retail, property management, cleaning and security guarding.

The Group’s transport business achieved an AOP of HK$101.4 million in FY2007, an 18% increase as compared with FY2006. The increase was mainly attributed to a rise in patronage in the local bus businesses and the investment in Kwoon Chung Bus Holdings Limited. Although the gains from the growth of bus patronage were eroded by the rising operating costs such as fuel costs, staff wages and insurance payments, this was compensated by the reduction in interest expenses resulting from repayment of borrowings and a decrease in asset depreciation charges. Despite the 5% growth in fare revenue, the local ferry business recorded a loss due mainly to the rising staff costs and higher fuel prices. The Macau ferry services achieved a satisfactory growth of 14% in patronage but, also due to the high fuel costs, were unable to exceed the guaranteed profit from Chow Tai Fook Enterprises Limited under the current vessel leasing arrangement.

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 sector made a major contribution to the company’s excellent performance during FY2007. 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 in August 2007, it is expected that Free Duty will continually deliver steady revenues for the Group.

The property management business contributed a stable profit to the Group despite tough market competitions and maintained a clientele of over 134,000 residential units under management. The Group continued to explore new market opportunities in Mainland China.

“We drive safely and environmental-friendly.”

Left: Choi Nga Kei
Bus Captain
Citybus Limited

Right: Li Wai Pang
Bus Captain
New World First Bus Services Limited
Business Outlook

The Hong Kong economy continues to show above-trend growth with real GDP rising by 6.9% in the second quarter of 2007 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 the 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.

Benefiting from the steady growth in the local economy, the Facilities Rental segment is expected to 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 will continue to enhance its service quality, facilities and equipment.

The overall operating environment of the Contracting segment has improved during FY2007. Although the recovery of the construction industry in Hong Kong is still lagging behind, it has shown clear signs of a bottom-out. In Mainland China, we are still cautious and selective in tendering new projects and the contribution thereof is stable. The business in Macau is very encouraging with contracts awarded or to be tendered are usually of mega size. In addition to the Macau market, the Group also expand its contracting business to the Middle East.

The Group will continue to strengthen Financial Services business. Both market activity and Taifook Securities’ overall business showed a rising trend. The impending influx of capital from the Mainland China will certainly be a driver for local market activity. The Mainland China has expanded the scope of overseas investments by its qualified institutional investors, which are expected to target mainly on Hong Kong equities initially, and individual investors will be allowed to invest directly into Hong Kong equities. Taifook Securities has solidly established its platforms in the past several years, focusing primarily on the Mainland China market, enabling us to capture future opportunities that come forth.

For the transport business, the overall business environment continues to be volatile and challenging. The lingering high fuel prices, the impending merger of MTR Corporation Limited and Kowloon-Canton Railway Corporation, the proposed new rail lines on Hong Kong Island and the bus fleet replacement programme are some of the major issues which the management has to contend with in the next few years. Therefore, further streamlining in bus utilization through route rationalisation programmes and greater overall cost control will continue.