

Management Discussion and Analysis

operational review

Service

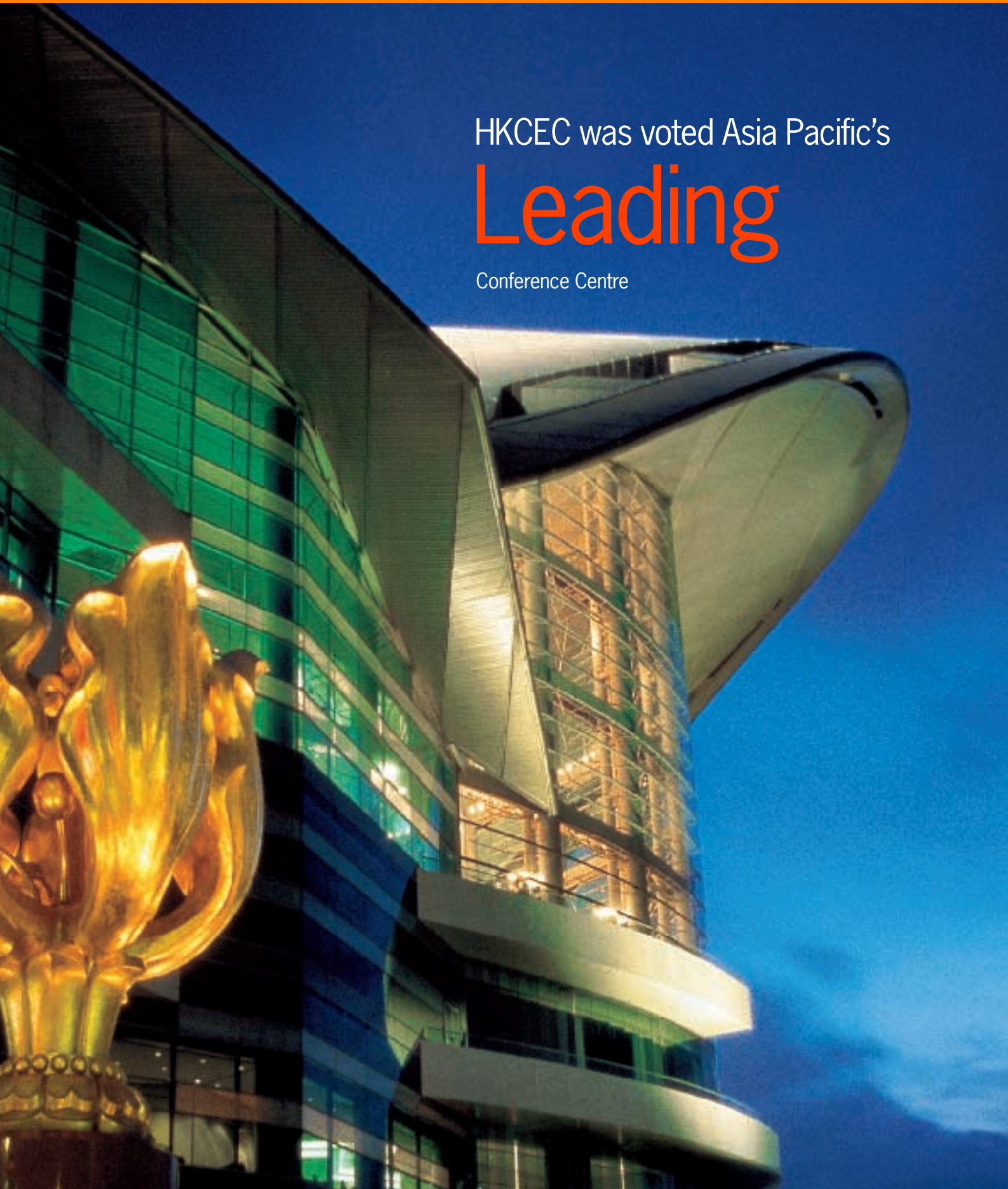
- ● ● Hong Kong's economy enjoyed a fast-paced recovery after SARS crisis. Benefited from economic revival and the strong support from the Central Government, the performance of NWSS for FY2004 was satisfactory. Particularly, the Facilities segment achieved significant improvement.



HKCEC was voted Asia Pacific's

Leading

Conference Centre



Management Discussion and Analysis

After the end of the SARS crisis, Hong Kong enjoyed a fast-paced recovery during the second half of 2003. With strong support from the Central Government - seen in measures such as the endorsement of CEPA and the lifting of travel restrictions on Mainlanders wishing to visit Hong Kong - the majority of business sectors have benefited from the ensuing economic revival.



Wai Hong Cleaning & Pest Control Company Limited

The overall performance of NWSS for FY2004 was satisfactory, with an AOP of HK\$727.2 million based on a turnover of HK\$12.166 billion, as compared to an AOP of HK\$632.1 million in FY2003.

Significant improvement was achieved in the Facilities segment and the Transport segment. With the improved sentiment in the stock market, the Financial segment achieved a marked growth in profitability despite its relatively small contribution. The Contracting segment was suppressed as a result of the deflated construction market. The overall performance of NWSS was 15% above FY2003.

Facilities

The Facilities segment achieved outstanding results with an AOP of HK\$344.3 million for FY2004, an increase of 33% over FY2003.

Hong Kong Convention and Exhibition Centre ("HKCEC") achieved an excellent result by successfully capturing businesses that were deferred and rescheduled to the first quarter of FY2004 as a result of the SARS outbreak. The management of HKCEC carried out stringent cost-saving measures and successfully improved efficiency.

AOP Contribution by Segment

For the year ended 30 June			
	2004 HK\$'m	As restated 2003 HK\$'m	Change % Fav./Unfav.)
Facilities	344.3	258.1	33
Contracting	253.6	253.3	-
Transport	65.7	33.5	96
Financial, Environmental & Others	63.6	87.2	(27)
Total	727.2	632.1	15

service



Free Duty operated by Sky Connection Limited

Strong growth marked the performance of both Wai Hong Cleaning & Pest Control Company Limited ("Wai Hong") and Pollution & Protection Services Limited ("PPS"), which achieved growth of 38% and 29% in profit respectively as compared to FY2003. Wai Hong successfully secured new and prestigious contracts from quality clients such as Hong Kong International Airport while PPS retained important HKSAR Government cleaning contracts.

Kiu Lok Group focused on the market in Mainland China and grew turnover by 4% and profit by 8% as compared to FY2003. Urban Property Management Group, despite tough market competitions, continued to contribute a stable profit to the Group and successfully maintained a

clientele of over 180,000 residential units under management. Recovered from a loss in FY2003, New China Laundry Limited improved its performance significantly and delivered a profit in FY2004.

Sky Connection Limited is a newly acquired business and is the holding company of Free Duty. It sells duty free tobacco and liquor at Hong Kong International Airport as well as the ferry terminals in China Hong Kong City and Shun Tak Centre. Patronage of these retail outlets remains robust owing to the rebound in Hong Kong's tourism sector.

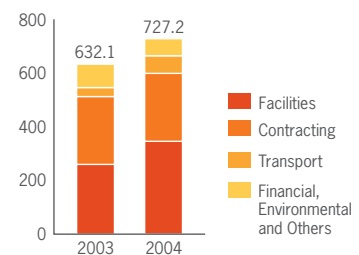
Contracting

The Contracting segment achieved an AOP of HK\$253.6 million for FY2004, a similar figure to FY2003. Apart from

the share of results from the investment in Wai Kee Holdings Limited, the major contributor to the Contracting segment was Hip Hing Construction Group ("Hip Hing"), which contributed over 25% of the segment's AOP for FY2004. NWS Engineering Group ("NWE") also contributed 10%.

AOP Contribution by Segment

HK\$m



Management Discussion and Analysis

As at 30 June 2004, the Contracting segment had total contracts-on-hand worth HK\$17.4 billion with HK\$11.4 billion representing the total value accruing upon completion of these projects. Despite the smaller contribution to the segment by Barbican Construction Company Limited, its success in bidding for civil engineering projects was evident from the increased value of contracts-on-hand, which stood at HK\$1.976 billion at the end of FY2004, as compared to HK\$1.886 billion in the previous year.

Recognizing that Mainland China is a vast potential market for our contracting business, Hip Hing and NWSE each has set up a wholly foreign owned enterprise ("WFOE") in Beijing to compete for local construction projects. Hip Hing also took a 10% interest in one of the largest construction groups in

Mainland China, namely 中建三局建築股份有限公司 (unofficial translation being China Construction Third Engineering Bureau Co., Ltd.). Apart from Mainland China, the Group is also tendering for construction projects in Macau and Dubai.

Transport

The Transport segment achieved an AOP of HK\$65.7 million for FY2004, 96% above FY2003. Yet, neither Citybus Limited nor New World First Bus Services Limited has regained its profitability back to pre-SARS level. The dramatic increase in oil prices and competition from other modes of transport have further affected their profitability.

Under a business reorganization carried out this year, CTF and the Company each holds 50% of the total issued share capital of Merryhill Group Limited ("Merryhill") that encompasses all the transport and related businesses of New World First Holdings Group and Citybus Group have made Merryhill a comprehensive transport services provider. The Group believes that this business realignment will allow Merryhill to improve operational efficiency through better deployment of resources and enhanced service quality.

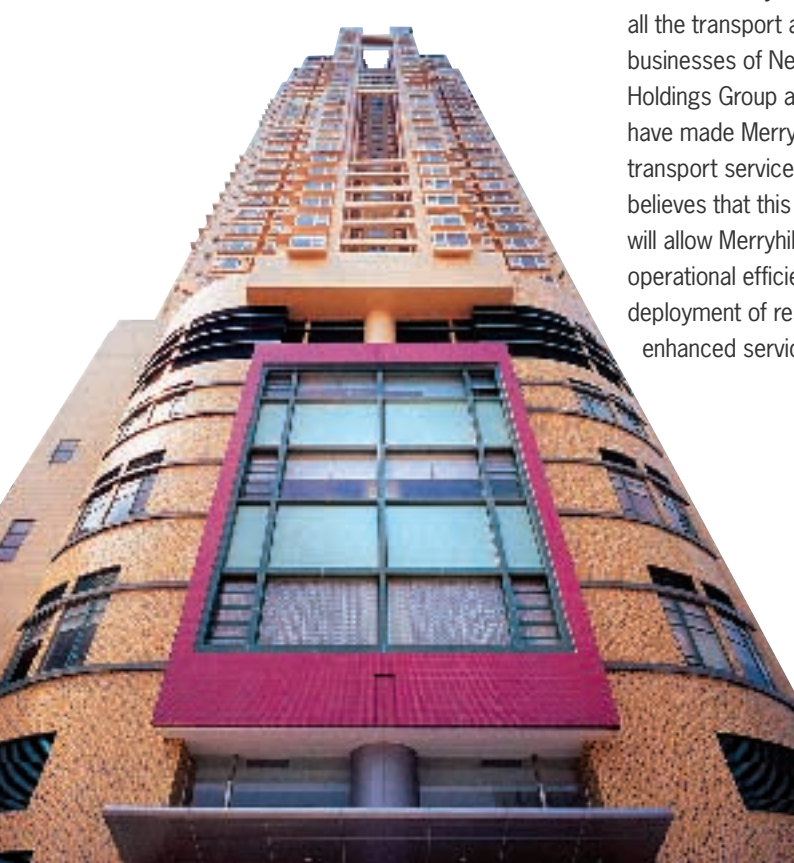
The FY2004 results for the bus operation after the realignment suffered from additional costs arising from a staff voluntary exit scheme implemented. While the scheme resulted in costs that had a short-term negative effect on profitability, it is expected to deliver cost savings in the long term.

The Group's investment in a bus operation in Kunming, which commenced business in January 2004, made an immediate profit contribution.

New World First Ferry Services Limited, a provider of ferry services in Hong Kong, contributed a small profit in FY2004. Supported by a vessel reorganization arrangement undertaken in conjunction with CTF in March 2003, the guaranteed profit from CTF ensured the profitability of New World First Ferry Services (Macau) Limited.

Financial, Environmental and Others

The Financial segment and Environmental segment together with other investments, posted an AOP of HK\$63.6 million for FY2004, 27% below FY2003. The contribution from Tai Fook Securities Group Limited for



Jolly Place built by Hip Hing Construction Company Limited won Quality Building Award 2004

service

FY2004 marked a substantial improvement which was in line with the more positive stock market sentiment. Operating results from Tricor also improved.

Business Outlook

The Hong Kong economic rebound continues to favour business recovery in many of the service sectors of Hong Kong. However, the escalating oil price, the start of a new interest-rate cycle in the US, and the cooling off of Mainland China's economy as a result of the macro-economic realignment measures mandated by the Central Government, have had a distinct dampening effect on market sentiment in Hong Kong.

Despite these pressures, the Group believes that NWSS, as a diversified organization with multi-faceted service businesses, is well-positioned to withstand the often volatile movements in Hong Kong's economy. Synergies in the Transport segment following the business merger are also expected to enhance profit.



Citybus Limited and New World First Bus Services Limited

While continuing to manage the service businesses in Hong Kong carefully, the Group is seeking new business opportunities in Mainland China for all segments in the Service Division. This push for expansion will also strengthen the operations going forward.

In Contracting, the setting up of WFOEs in Beijing and the strategic investment in a major construction company in Wuhan, are both excellent steps

forward in this context. In Transport, the direct investment in a public transport operation in Kunming underlines the Group's determination to invest across the border. With transportation between provinces providing major opportunities in the future in Mainland China, the Group is also actively bidding for construction projects related to mass transit railway development in Southern China.

The Facilities segment is likewise penetrating the Mainland China market. Initiatives include provision of landscaping and plantation services, laundry services as well as property management and agency services.



Chateau Regalia Beijing managed by Kiu Lok Property Services (China) Limited