

Management Discussion and Analysis

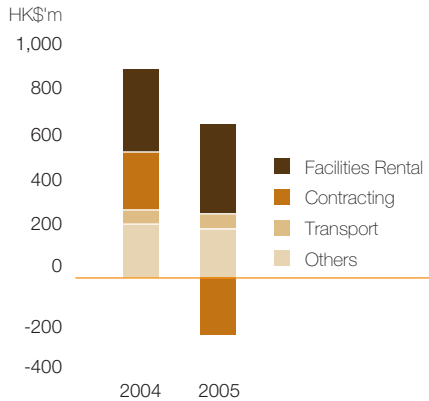
Service & Rental

Operational Review



With a new streamlined structure, Service & Rental division achieved satisfactory results during the year. The recovering of the property market in Hong Kong, the opening of Disneyland and contributions from Macau construction projects are among several positive factors contributing to stable growth prospects.

AOP Contribution by Segment



Service & Rental division achieved an AOP of HK\$404.8 million based on a turnover of HK\$10.019 billion. A significant reduction of AOP by HK\$492.3 million was mainly due to certain provisions made for the Contracting segment, which lagged behind in the recovery process. Apart from Contracting segment, the Service & Rental division achieved satisfactory results in FY2005.

During FY2005, management streamlined the existing businesses into the following segments, namely "Facilities Rental", "Contracting", "Transport" and "Others". ATL Logistics Centre Hong Kong Limited which was originally grouped under Ports business, was reclassified into the Facilities Rental segment.

Facilities Rental

The Facilities Rental segment comprises Hong Kong Convention and Exhibition Centre ("HKCEC") and ATL Logistics Centre ("ATL"). Facilities

AOP Contribution by Segment

For the year ended 30 June

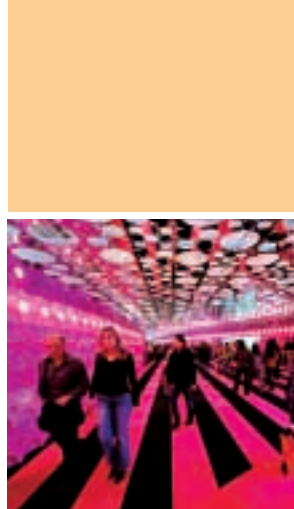
	2005 HK\$m	2004 HK\$m	Change % Fav./(Unfav.)
Facilities Rental	384.0	353.0	9
Contracting	(253.2)	253.6	(200)
Transport	65.6	65.7	-
Others	208.4	224.8	(7)
Total	404.8	897.1	(55)

Rental segment continued to contribute a stable profit and cash inflow to the Group. This segment recorded an AOP of HK\$384.0 million for FY2005, an increase of 9% over FY2004.

HKCEC achieved satisfactory results in FY2005 with profit increased by around 11%. Although HKCEC's average occupancy rate was slightly down to 53% from 55% last year, the profit margin from this year's event activities improved following local

HKCEC achieved satisfactory results in FY2005 with profit increased by around 11%. The profit margin from this year's event activities improved following local economic recovery.

Prestigious events held at Hong Kong Convention and Exhibition Centre



Management Discussion and Analysis

Service & Rental – Operational Review

ATL recorded a stable profit in FY2005 with its average occupancy rate increased slightly from 91% to 93%. It is expected that ATL will benefit from the improvement of the Hong Kong economy.

economic recovery. While rallying for the local business recovery, the AsiaWorld-Expo as well as conference and exhibitions from Mainland China and other Asian countries would pose increasing competitions in the market. In order to maintain HKCEC's leading position and sustain its branding as a proven venue choice in Hong Kong, with a long standing and recognized reputation for successful international trade shows, HKCEC will continually improve its customer services and hardware facilities. It is expected that its expansion plan will commence in 2006 and be completed in 2009. After completion of the expansion, HKCEC will have additional space of 19,400 square metres, creating total exhibition space of 88,300 square metres.

ATL recorded a stable profit in FY2005 with its average occupancy rate increased slightly from 91% to 93%. ATL is one of the largest multi-storey drive-in warehousing/container freight station complexes in the world and provides premier warehousing and terminal services to its clients and maintains a leading market position in the industry. In order to maintain its premier position and increase competitiveness, ATL keeps upgrading both hardware and software to enhance the quality of customer service. It is expected that ATL will benefit from the improvement of the Hong Kong economy as a result of the continued relaxation of restrictions on personal travel for Mainlanders, robust property market and increase in local consumer spending.



ATL Logistics Centre



Contracting

The Contracting segment reported an AOL of HK\$253.2 million, as compared to an AOP of HK\$253.6 million in FY2004. Although there was sustainable economic recovery in Hong Kong during FY2005, the building and construction industry was still lagging behind due to the consistently low level of government capital expenditure and the cautious investment attitude in the private sector. As a result, competition among major contractors remained intense and gross profit margin of contracts continued to be slim. The



Projects of Hip Hing Construction Group

results of the Contracting segment for the year were mainly affected by the performance of the construction business. After thorough review of all potential risks of its project portfolio, additional provisions of approximately HK\$316.0 million were made for two major projects due to claims for liquidated damages and foreseeable losses to be incurred. Apart from these provisions, the Contracting segment would have recorded a profit of HK\$62.8 million.

However, the outlook is very encouraging. During FY2005, the

Group secured contracts totalling HK\$10.4 billion, among which HK\$5.5 billion was attributable to the booming Macau market. Contracts on hand as at 30 June 2005 stood at HK\$17.7 billion, of which remaining works to be completed amounted to HK\$13.3 billion.

Performance of NWS Engineering Group was satisfactory with an increase in average gross profit margin from 5% in FY2004 to 6% in FY2005. The contracts awarded for FY2005 were HK\$1.5 billion in which 60% was secured in Mainland China.

Competition among major contractors remained intense and gross profit margin of contracts continued to be slim. However, the outlook is very encouraging. During FY2005, the Group secured contracts totalling HK\$10.4 billion, among which HK\$5.5 billion was attributable to the booming Macau market.

Management Discussion and Analysis

Service & Rental – Operational Review



Citybus, New World First Bus and New World First Ferry

Competition from new railways and higher operating costs made a significant negative impact, which was tempered to a large extent by the savings achieved in the areas of management alignment, resource integration and route rationalizations following the reorganization of Citybus Limited and New World First Holdings Limited.

Transport

The Transport segment achieved an AOP of HK\$65.6 million in FY2005, which was consistent with that of FY2004. The AOP was maintained merely due to the cessation of amortization of goodwill in FY2005 after the adoption of the new HKFRS during the year and the improved contribution from Kwoon Chung Bus Holdings Limited.

The performance of our two bus companies did not benefit from the recovery of Hong Kong economy. During the year, competition from the Ma On Shan Rail Link and the new Tsim Sha Tsui rail extension as well as higher operating costs arising mainly from the surge of fuel price and the increase in tunnel charges and staff

salaries made a significantly adverse impact on the companies' profitability. Thankfully, this negative impact was tempered to a large extent by the savings achieved in the areas of management alignment, resource integration and route rationalization following the reorganization of Citybus Limited and New World First Holdings Limited under NWS Transport Services Limited.

New World First Ferry Services Limited, conducting ferry business in the Hong Kong waters, incurred a loss for FY2005 mainly due to high fuel costs. New World First Ferry Services (Macau) Limited providing ferry services between Hong Kong and Macau continued to benefit from the guaranteed profit from Chow Tai Fook Enterprises Limited for FY2005.

Others

The Others segment comprises various service businesses. For FY2005, this segment achieved an AOP of HK\$208.4 million, slightly decreased by 7% compared with that of last year.

Urban Property Management Group continued to contribute a stable profit to the Group and successfully maintained a clientele of over 169,000 residential units under management. Kiu Lok Property Management Group focused on the market in Mainland China and its existing service networks have been successfully extended to 13 cities in Mainland China.

Free Duty 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 due to the rebound in Hong Kong's tourism sector.

Tricor Holdings Limited ("Tricor") achieved excellent results with a growth of 94% during FY2005. Tricor has expanded into Mainland China and Singapore markets through the establishment of offices in Shanghai and Beijing and acquisition of Singapore business from PricewaterhouseCoopers. Tai Fook Securities Group Limited and New World Insurance Management Limited both reported stable results during the year.

Urban Property Management Group continued to contribute a stable profit to the Group. Patronage of Free Duty retail outlets remains robust due to the rebound in Hong Kong's tourism sector. Tricor Holdings Limited achieved excellent results with a growth of 94% during FY2005 and has expanded into Mainland China and Singapore markets.



Diversified services ranging from property management, free duty sales to financial services



Management Discussion and Analysis

Service & Rental

Business Outlook



HKCEC atrium extension expected to be completed in 2009

With the gradual improvement in the Hong Kong economy, booming construction markets in Macau and Mainland China, together with the effort spent in improving operational efficiency, the Group believes that the construction business will move forward with better performance next year.

The Hong Kong economic rebound continues to favour business recovery in many of the service sectors of Hong Kong. The notable growth momentum of the Hong Kong economy continued into the first quarter of 2005, with Gross Domestic Products growing solidly further by 6.0% in real terms, following a strong 8.1% growth in 2004. However, the escalating oil price and the increasing interest rate will impede the momentum of growth.

While continuing to manage the service businesses in Hong Kong carefully, the Group is seeking new business opportunities in Mainland China, Macau and other potential markets for all segments in the

Service & Rental division. This push for expansion will also strengthen the operations going forward.

The Facilities Rental segment is expected to continue providing the Group with a stable profit and cash inflow with the leading market position of HKCEC and ATL in the region.

The building and construction activities in Hong Kong turned around to a modest growth in the first half of 2005. Although the construction market in Hong Kong has yet to pick up, the construction market in Macau has been booming since last year with the growth of the tourism and entertainment industries. It is

expected that the Macau market will continue to grow in the next few years and the Group is well positioned, with our experienced and professional human resources, management and technical expertise, to tap on the business opportunities there, and contribute to the overall profitability. With establishment of a fully operational subsidiary company in Mainland China, the Group is actively seeking business opportunities and aims to diversify its construction operations in the Mainland China market.

With the gradual improvement in the Hong Kong economy, booming construction markets in Macau and Mainland China, together with the effort spent in improving operational efficiency, the Group believes that the construction business will move forward with better performance next year.

The business environment for transport is believed to remain difficult in the coming year. The record high fuel cost, now showing no signs of abatement, will continue to plague the profitability of the Group's transport business. New and proposed railways will further intensify the market competition in Hong Kong. However, should the oil price return to a moderate level as predicted by some analysts, and with the possible increase in patronage by visitors to Hong Kong using our new Disney bus service, the transport scene may not be as bleak as it may seem in the longer term. Besides, management continues to implement cost reduction measures through further resource integration between the two bus companies and is also actively looking for investment opportunities in Mainland China and overseas.

Should the oil price return to a moderate level as predicted by some analysts, and with the possible increase in patronage by visitors to Hong Kong using our new Disney bus service, the transport scene may not be as bleak as it may seem in the longer term.



Expanding into transport business in Mainland China and contracting business in Macau