



Service

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The segment contribution from service operations was decreased. The reduction was mainly due to provisions of HK\$316 million made for construction operations. Apart from construction operations, all other businesses in service operations achieved satisfactory results during FY2005.

HKCEC achieved satisfactory result 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 economic recovery. While rallying for the local business recovery, the AsiaWorld-Expo as well as conference and exhibitions from the Mainland and other Asian countries 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 recognised reputation for successful international trade shows, HKCEC will continually improve customer services and its hardware facilities. An expansion plan will be commenced in 2006 and completed in 2009. After completion of the expansion, HKCEC will have additional space of 19,400 sq. m., making it in total of 83,400 sq. m.. With the leading market position of HKCEC in the region, it is expected to continuously provide to the Group with a stable profit and cash inflow.

Although there was sustainable economic recovery in Hong Kong during FY2005, the building and construction industry is 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 remains intense and gross profit margin of contracts continues to be slim.

However, the outlook of construction operations remains very encouraging. During FY2005, the Group secured contracts totalling HK\$10.4 billion, among which, HK\$5.5 billion was attributed to 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.

Whilst the construction market in Hong Kong is 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 fully operational subsidiary 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, we believe that our construction operations will move forward with better performance next year.

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

The performance of our two bus companies, New World First Bus Services Limited ("NWFB") and Citybus Limited ("Citybus"), has not benefited from the recovery of Hong Kong economy. During the year under review, competitions brought by the KCR West Rail and Tsim Sha Tsui Extension of East Rail and the higher operating costs due to surge of fuel price, increase in tunnel tolls and staff salaries have adverse impact on profitability. Thankfully, this negative impact was tempered to a certain extent by the savings achieved in the areas of resource integration and route rationalisation following the reorganisation of Citybus and NWFB under NWS Transport Services Limited.

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

The business environment of transport operations is believed to remain unfavourable 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. However, the oil price should 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 Disneyland bus service, the transport scene may not be as bleak as it may seem in the longer term.

Urban Property Management Group, despite tough market competitions, 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.

Free Duty shops 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.





Tricor Holdings Limited (“Tricor”), a leading professional provider of integrated business, corporate and investors services, 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 business in Singapore.