

| Operations Review

The Group's activities are focused on five core businesses— ports and related services; telecommunications; property and hotels; retail and manufacturing and energy, infrastructure, finance and investments.

The Group's turnover and earnings before interest expense and taxation ("EBIT") for 2003, including the Group's share of associated companies' and jointly controlled entities' turnover and EBIT, are shown by business segment on page 5 of this Report and also in Note 3 to the consolidated profit and loss account. Turnover for the year increased 31% to HK\$145,609 million, mainly due to the first full year of results of the Kruidvat health and beauty retail group which was acquired in October 2002, higher commodity prices of Husky Energy, increased container throughput in the ports and related services division and revenue from the 3G operations that started business during the year. Although 2003 proved to be a very challenging year with SARS in Hong Kong and the Mainland, the Iraq war and a slow global economy, all of the Group's operating business divisions reported EBIT ahead of last year, with the exception of the 3G operations which incurred start-up losses with the launch of services in the UK, Italy and Australia. The Group's EBIT for the year from its established businesses, excluding 3G start-up losses and exceptional profits (Note 3), was HK\$29,535 million, a 21% increase.

The Group's interest expense for the year, including its share of associated companies and jointly controlled entities' interest expense amounted to HK\$9,568 million, an increase of 35%, mainly due to the drawings during the year on bank facilities to finance the development of the 3G businesses in the UK and Italy, and also due to temporarily higher debt levels from the issuance of bonds throughout the year which were used to repay notes maturing in November last year and January 2004.

During the year, the Group adopted retrospectively, the revised Statement of Standard Accounting Practice 12, "Income Taxes" issued by the Hong Kong Society of Accountants, which became effective on 1 January 2003. As a result, the Group recorded a taxation credit of HK\$2,492 million, compared to last year's taxation charge of HK\$2,333 million, due to the recognition of net deferred taxation assets of HK\$5,250 million, mainly relating to the expected future tax benefits of 3G start-up losses.

The profit attributable to shareholders for the year was HK\$14,378 million, which is in line with last year's amount of HK\$14,362 million. This profit comprises HK\$16,236 million from the Group's established businesses and HK\$1,858 million of start-up losses from the 3G businesses, after a release of provisions of HK\$7,810 million.