

# Chairman's Statement



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During 2003, the Group was not immune from the adverse effects of the outbreak of Severe Acute Respiratory Syndrome (SARS) on travel-related businesses in the region. We promptly faced this unforeseen and serious development in the first half of the year with rigorous cost containment measures, promotional initiatives, and, in September 2003, the launch of a cross-boundary ferry service from the SkyPier at the Hong Kong International Airport which extended our shipping network significantly.

In the second half of 2003, with the collaborative efforts of our staff and creative alliances with strategic partners, the Group swiftly rebounded from the economy downturn since SARS. By the year-end, the Group's overall performance rebounded to pre-SARS level and some divisions outperformed their previous year's results in the latter half-year. The outcome by year-end was a strengthening of our position as a leading provider of travel and hospitality services in the Pearl River Delta region.

The Group's profit attributable to shareholders for the year ended 31 December 2003 was HK\$327.2 million, a decrease of 13.4% from 2002 profits of HK\$378 million. Turnover amounted to HK\$5,151.2 million, an increase of 2.7% over HK\$5,014.7 million in the previous year. Basic earnings per share was HK 16.8 cents (2002: HK 20.5 cents).

Subject to approval by our shareholders at the Annual General Meeting on 3 June 2004, the Directors recommend a final dividend of HK 3.5 cents per share (2002: HK 3.5 cents). In addition to the interim dividends of HK 1.5 cents per share previously paid (2002: HK 3.5 cents), the total dividends for the year amounted to HK 5 cents per share (2002: HK 7 cents).

The Group's shipping investment arm, Shun Tak-China Travel Shipping Investments Ltd. (STCTS), maintained its longstanding market leadership on the Hong Kong-Macau route. Despite

the SARS outbreak which dramatically reduced passenger volume on its routes in the second quarter of 2003, the shipping division reported an operating profit for 2003 with over 9 million passengers carried. STCTS responded promptly to the serious impact of SARS by rationalizing sailing schedules and vessel deployment to contain operating costs. Upon the lifting of travel advisories to Hong Kong and Guangdong in late May, the shipping division immediately launched a series of promotional campaigns for the Hong Kong-Macau route in co-operation with the Macau SAR Government. The program successfully encouraged travelers to resume visits to Macau in the latter half-year. Furthermore, with the relaxation of travel restrictions in Guangdong, Shanghai and Beijing from July 2003, passenger arrivals from mainland China to Macau increased significantly during the latter half-year. During that period, passenger traffic rebounded and overall load factor improved gradually to pre-SARS level by year-end.

In a major initiative to strategically expand its existing route network, the shipping division launched the new TurboJET Sea Express service from the Hong Kong International Airport in late September linking the airport to Macau and Shenzhen. The new air-sea transit service is a milestone for the Group in promoting its shipping network from a regional to an inter-regional traffic platform for service of international air passengers between major international airports in the Pearl River Delta. The new routes have received a positive response since their launch and the shipping division intends to add Guangzhou to the TurboJET Sea Express network in 2004. The new airport route network will enable the shipping division to capture a more diversified and international traveler base.

Despite a tourism market that was devastated by SARS, both Mandarin Oriental Macau and Westin Resort Macau recorded increased net profits in 2003 due largely to the significant

rebound of Macau tourism in the latter half of 2003. During that period, both hotels reported increased average room rates and occupancy rates as compared with the same period last year.

Over the past year, the Macau Tower Convention & Entertainment Centre, under professional management by the Group, has evolved into a prominent tourist landmark and a choice venue for major public and corporate events. In 2003, Macau Tower attracted approximately one million visitors and hosted a number of significant public events.

In January 2003, the Group completed an agreement signed in late 2002 to transfer to Sociedade de Turismo e Diversões de Macau, S.A.R.L. (STDM) a 20% interest in the development rights of a 99,000-square-metre hotel and commercial site in Taipa, Macau. With this new strategic joint venture with STDM, the largest operator in Macau's leisure and tourism sector for many years, the Group will further explore and develop promising expansion opportunities in Macau.

To maximize sales and marketing opportunities, the Group is establishing a sales network to consolidate and synergize sales and marketing efforts. Sales offices have been opened in Hong Kong, Macau and other major cities in the People's Republic of China (PRC) to promote travel and hospitality-related products of the Group, as well as to provide hotel reservation and travel services.

In April 2003, the Group formed a 42.86%-owned joint venture with Yichang Port Group Company Limited to construct and operate a commuter terminal and a cruise terminal on the Yangtze River in Yichang of Hubei Province, PRC. This joint venture will facilitate the Group's strategic engagement in complementary shipping and hospitality businesses.

Phases I and II of Liberté in West Kowloon were successfully completed in September and December, respectively. In Macau, with nearly all the saleable units in Nova Taipa Gardens Phase I sold, the Group intends to commence superstructure works for Phase II by mid-2004. Phase II of the development, comprising 13 luxury residential towers, is scheduled for completion by 2008 in stages, with several towers to be completed by 2006.

The property management division, which provides value-added property services to a range of multi-functional developments, expanded its portfolio to over 10 million square feet in Hong Kong and Macau with the newest addition of Liberté to its portfolio during the year.

The Group will continue to review and restructure its operations in order to strategically redeploy its resources in the core

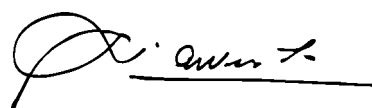
shipping and hospitality businesses. In April 2003, the Group disposed of a 15% minority interest in a non-core property investment, the City Center of Shanghai, for HK\$342 million, with a profit of HK\$29.7 million. The Group has taken a conservative approach to make a provision for its technology-related investments during the period, in recognition of the global downturn in the technology sector.

To meet its general corporate funding requirements and enhance its financial flexibility, the Group signed a HK\$2,500 million revolving credit and term loan facility agreement with a syndicate of seven international and local banks in February 2003.

During the year, the Group generated substantial cash flow from the sale of its quality property developments, The Belcher's and Liberté. The Group's financial position turned from a gearing of 25.6% at the end of 2002 into a net cash position by 31 December 2003. With a sound financial position, together with its expertise in the travel and hospitality sectors, the Group is well-poised to pursue new business opportunities which will create synergy with its existing core businesses.

In view of the rapid economic development in the Pearl River Delta, together with continuous relaxation of the travel policy on individual tourists in mainland China, the Board is optimistic that tourism growth in the region will benefit the long-term future development of the Group's existing core businesses. With a focus on its shipping and hospitality businesses and further exploration of premium expansion opportunities, the Group will pursue its goal to become the leading travel and hospitality operator in Macau and the Pearl River Delta.

I deeply appreciate the co-operation, creativity and stamina of the Group's staff and strategic partners over the past year. Their perseverance and teamwork in the face of the SARS peril was instrumental in sustaining the Group's positive performance in a challenging year.



**Stanley Ho**

Group Executive Chairman

2 April 2004