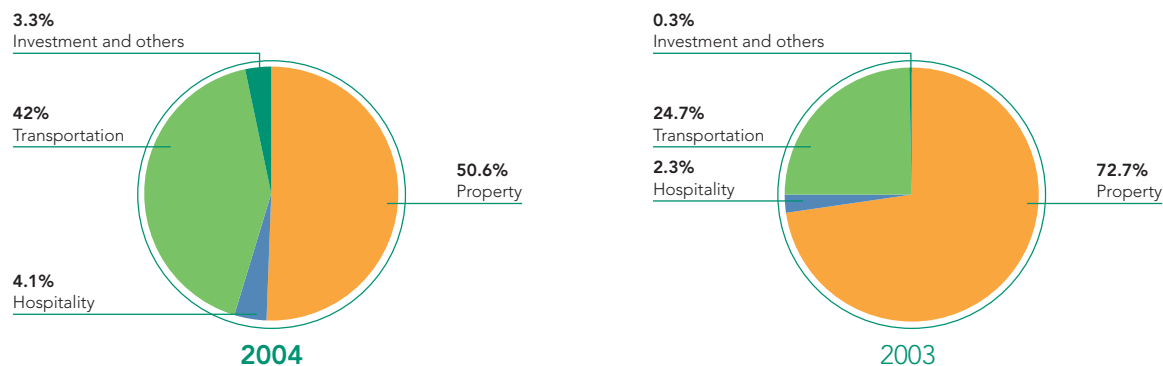


Group Financial Review

Turnover Analysis

Turnover by Division



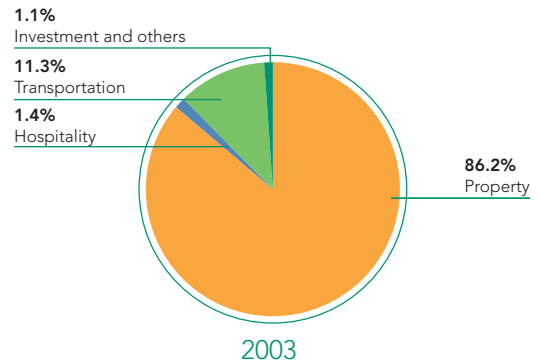
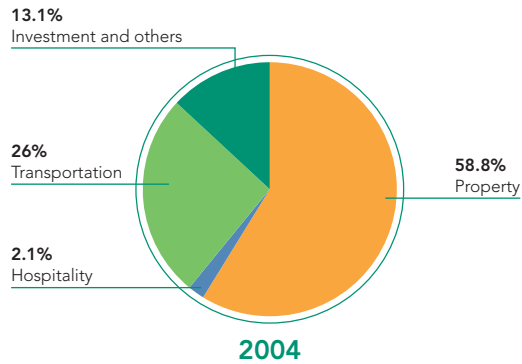
(HK\$ million)	2004	2003	Variance	%	Remarks
Transportation	1,577	1,273	304	24	The rise is mainly attributable to the increased ticket revenue resulting from the remarkable tourism growth in Macau.
Property	1,896	3,742	(1,846)	(49)	The drop is mainly due to the reduced revenue from sales of the remaining residential units for The Belcher's and Liberté during the year. The residential units of Liberté were completely sold while that for The Belcher's were 98% sold as at the year end with improved profit margin.
Hospitality	153	119	34	29	The increase is mainly due to the combined result of increase in revenue from travel agency services and management fee received from Macau hotels offset by the reduction in revenue following the closure of Greater China Club.
Investment and others	123	17	106	624	The variance is mainly due to the increase in dividend received from STDM.
Total	3,749	5,151	(1,402)	(27)	

Turnover by Geographical Area

(HK\$ million)	2004	2003	Variance	%	Remarks
Hong Kong	2,785	4,455	(1,670)	(37)	The decrease is mainly the combined result of the drop in revenue from sales of residential units for the Group's Hong Kong properties and the rise in ticket revenue for transportation division.
Macau	844	609	235	39	The rise is mainly due to the increase in the ticket revenue for transportation division and dividend received from STDM.
Others	120	87	33	38	The variance mainly represents the rise of ticket revenue for the Hong Kong - Shenzhen route.
Total	3,749	5,151	(1,402)	(27)	

Profit and Loss Analysis

Operating Profit by Division



(HK\$ million)	2004	2003	Variance	%	Remarks
Transportation	243	49	194	396	The favourable variance mainly represents the increase in ticket income.
Property	550	374	176	47	The increase is mainly due to the improvement in profit margin recognised from sales of residential units in The Belcher's resulting from the strong revival of the property market.
Hospitality	20	6	14	233	The variance is mainly attributable to the increase in management fee received from Macau hotels, closure of Greater China Club and rise in travel agency commission income.
Investment and others	122	5	117	2,340	The rise is mainly due to the increase in dividend received from STDM.
Unallocated net expenses	(49)	(70)	21	30	The variance is largely due to decrease in the head office expenses.
Operating profit	886	364	522	143	
Finance costs	(13)	(40)	27	68	The drop is the combined effect of reduced interest rates and borrowings.
Net investment loss	(48)	(38)	(10)	(26)	The net loss for the current year mainly represents the impairment loss on investment and impairment of goodwill of subsidiaries and a jointly controlled entity. The net loss for the last year mainly represents the combined results of profit on disposal of interest in City Centre of Shanghai and impairment loss on goodwill of a jointly controlled entity.
Share of results of associates	86	42	44	105	The variance is principally due to the continuous favourable contribution from Nova Taipa Gardens, Mandarin Oriental Macau and the Westin Resort Macau.
Share of results of jointly controlled entities	(1)	(7)	6	86	The improvement is mainly attributable to the contribution from the TurboJET Sea Express service operation between Hong Kong International Airport and key Pearl River Delta destinations.

Group Financial Review

Profit and Loss Analysis (Continued)

Operating Profit by Division (Continued)

(HK\$ million)	2004	2003	Variance	%	Remarks
Profit before taxation	910	321	589	183	
Taxation	(85)	(22)	(63)	(286)	
Profit after taxation	825	299	526	176	
Minority interests	(322)	28	(350)	(1,250)	This mainly represents the interests of minority shareholders in The Belcher's and the transportation division.
Profit attributable to shareholders	503	327	176	54	

Operating Profit by Geographical Area

(HK\$ million)	2004	2003	Variance	%	Remarks
Hong Kong	602	290	312	108	The variance is mainly the combined result of rise in ticket income, increased contribution from sales of residential units in The Belcher's offset by reduced profit from Liberté.
Macau	267	65	202	311	The variance is mainly attributable to the increase in ticket income and dividend received from STDM.
Others	17	9	8	89	The increase is largely due to improved result from ticket income offset by loss for other investment.
Total	886	364	522	143	

Analysis on Share of Results of Associates

(HK\$ million)	2004	2003	Variance	%	Remarks
Property	43	8	35	438	The increase is mainly due to the improved result from Nova Taipa Gardens.
Hospitality	41	32	9	28	Mandarin Oriental Macau and the Westin Resort Macau continuously recorded favourable operating results.
Investment and others	2	2	—	—	
Total	86	42	44	105	

Liquidity, Financial Resources and Capital Structure

At 31 December 2004, the Group's total net assets increased by 13% over last year to HK\$7,266 million. Cash flow and liquidity position remains strong and healthy. During the year, net cash generated from operating activities amounted to HK\$2,761 million. The cash inflow from investing activities was mainly attributable to HK\$664 million received from repayments of mortgage loans. Major cash outflow for financing activities consisted of HK\$1,082 million for repayments of loans and HK\$164 million for dividends paid to shareholders.

Cash Flow Variance Analysis

(HK\$ million)	2004	2003	Variance
Operating activities	2,761	2,199	562
Investing activities	779	361	418
Financing activities	(1,188)	(1,880)	692
Net increase in cash and cash equivalents	2,352	680	1,672

The bank balances and deposits amounted to HK\$3,873 million at 31 December 2004, representing a substantial increase of HK\$2,259 million from last year end date.

At 31 December 2004, total loan facilities and other financing available to the Group amounted to HK\$5,038 million, of which HK\$3,753 million remained undrawn. The facilities outstanding at the year end comprised HK\$1,280 million in bank loans and HK\$5 million in other loan.

It is the Group's policy to secure adequate funding to match with cash flows required for working capital and investing activities. The maturity profile of the Group's borrowings as at 31 December 2004 is set out below:

Maturity Profile

Within 1 year	1-2 years	2-5 years	Total
61%	11%	28%	100%

Based on a net cash surplus of HK\$2,588 million at the year end, the Group's gearing ratio (expressed as a ratio of net borrowings to shareholders' fund) was nil (2003: nil). The Group will continue with its financial strategy of maintaining a prudent gearing ratio and consider steps to reduce its finance costs.

During the year, 127,390,540 and 10,201,790 new shares were issued upon conversion of the convertible guaranteed bonds and exercise of share options respectively.

Pledge of Assets

At the year end, certain assets of the Group with an aggregate carrying value of HK\$515 million (2003: HK\$567 million) were pledged with banks for loan facilities.

Contingent Liabilities

There was no material contingent liabilities under the Group at the year end.

Group Financial Review

Financial Risk

The Group adopts a conservative policy in financial risk management with little exposure to foreign exchange and interest rate risks. It is the Group's policy not to engage in any speculative trading activity. The funds raised by the Group are on a floating rate basis. None of the Group's outstanding borrowings was denominated in foreign currency at the year end. The Group's principal operations are primarily conducted and recorded in Hong Kong dollars so that the exposure to foreign exchange fluctuations is minimal.

Human Resources

The Group, including subsidiaries but excluding associates and jointly controlled entities, employed approximately 2,100 employees at the year end. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on performance. Social activities are organised to foster team spirit amongst staff. Staff are encouraged to attend training classes that are related to the Group's businesses.