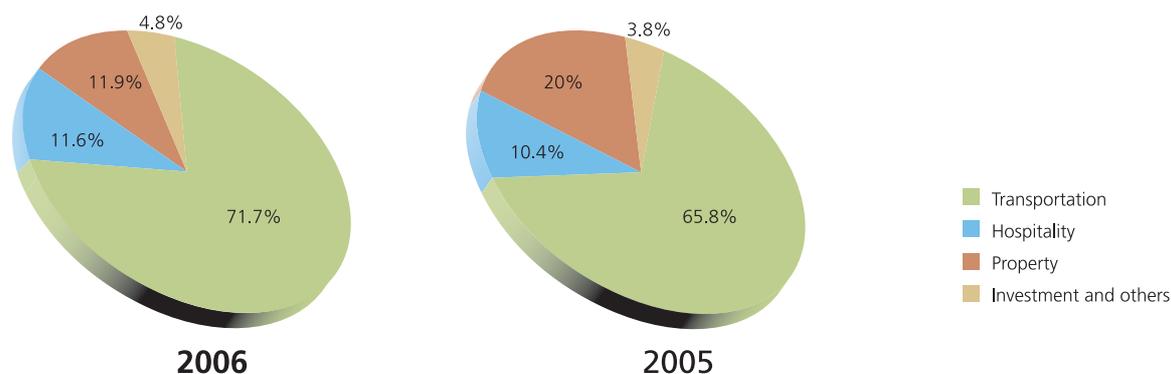


Group Financial Review

Turnover Analysis

Turnover by Division



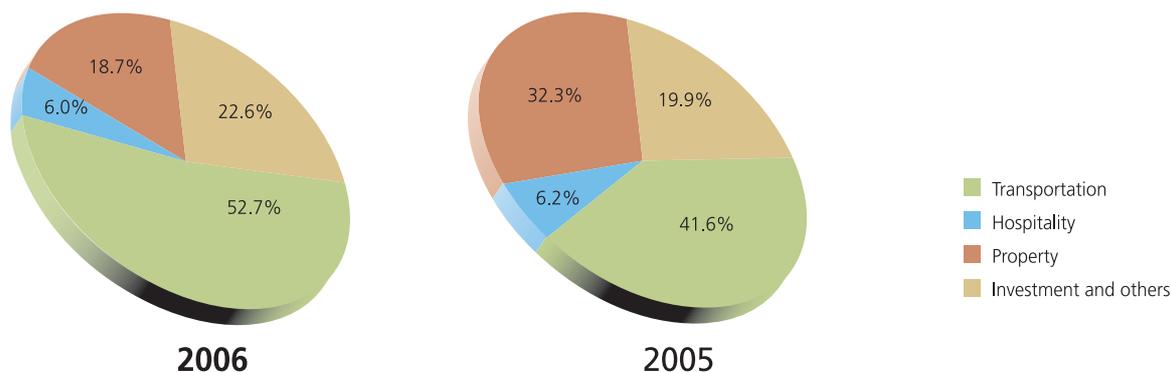
(HK\$ million)	2006	2005	Variance	%	Remarks
Transportation	1,798	1,638	160	10	The increase was primarily due to growth in passenger volume resulting from tourism growth in Macau.
Property	299	497	(198)	(40)	The decrease was mainly due to the declining number of residential units available for sale at The Belcher's.
Hospitality	291	258	33	13	The increase was mainly due to the growth in tourism related business in Macau.
Investment and others	121	96	25	26	The increase was mainly due to the increased dividend income from STD.M.
Total	2,509	2,489	20	1	

Turnover by Geographical Area

(HK\$ million)	2006	2005	Variance	%	Remarks
Hong Kong	1,270	1,450	(180)	(12)	The decrease was mainly due to less revenue from sales of residential units of the Group's Hong Kong properties but partly compensated by more ticket revenue from its transportation division.
Macau	1,059	886	173	20	The increase was mainly due to the growth in both the ticket revenue from the transportation division and revenue from tourism related business of the hospitality division.
Others	180	153	27	18	The increase mainly represented the rise in ticket revenue for the Hong Kong - Shenzhen route.
Total	2,509	2,489	20	1	

Profit and Loss Analysis

Operating Profit by Division



(HK\$ million)	2006	2005	Variance	%	Remarks
Transportation	237	188	49	26	The increase was largely attributable to growth in passenger volume resulting from surge of visitors to Macau.
Property	84	146	(62)	(42)	The decrease was mainly due to the reduction in revenue from sales of the remaining residential units at The Belcher's.
Hospitality	27	28	(1)	(4)	This division continued to report satisfactory result and the contribution remained stable.
Investment and others	102	90	12	13	The increase was mainly due to the increased dividend income from STD.M.
Unallocated net income	69	21	48	229	The favourable variance was largely due to the increase in bank interest income.
Fair value changes on investment properties	62	135	(73)	(54)	
Operating profit	581	608	(27)	(4)	

Group Financial Review

Profit and Loss Analysis (Continued)

Operating Profit by Division (Continued)

(HK\$ million)	2006	2005	Variance	%	Remarks
Operating profit	581	608	(27)	(4)	
Excess of interest in fair value of net assets acquired over cost of acquisition of a subsidiary	23	—	23	n/a	This arose from the acquisition of a subsidiary which indirectly holds the right of a land concession in respect of the property site located at Lot B, District B2, Zone B, NAPE in Macau.
Finance costs	(48)	(34)	(14)	(41)	The increase was principally due to rising interest rates during the year.
Share of results of associates	400	71	329	463	The significant increase was mainly due to the contribution from sales of Nova City Phase I recognised during the year. Mandarin Oriental Macau and the Westin Resort continued to report satisfactory results.
Share of results of jointly controlled entities	(17)	(1)	(16)	(1,600)	The residential and retail portion of the joint venture project, One Central, are scheduled for completion in 2009. Although pre-sale of the residential portion recorded remarkable success, contribution from this project could not be reflected in 2006 under current accounting standards.
Profit before taxation	939	644	295	46	
Taxation	(57)	(63)	6	10	
Profit after taxation	882	581	301	52	
Profit attributable to minority interests	(218)	(217)	(1)	—	This mainly represented the interests of minority shareholders in transportation and property divisions.
Profit attributable to equity holders of the Company	664	364	300	82	

Profit and Loss Analysis (Continued)

Operating Profit by Geographical Area

(HK\$ million)	2006	2005	Variance	%	Remarks
Hong Kong	281	349	(68)	(19)	The variance mainly represented reduced profit from The Belcher's and gain from fair value changes on investment properties. This was partially offset by increased profit from transportation division.
Macau	237	216	21	10	The variance was mainly attributable to the increase in both profit from transportation division and dividend income from STDM.
Others	63	43	20	47	The increase was largely due to the favourable fair value change on investment property in China.
Total	581	608	(27)	(4)	

Analysis on Share of Results of Associates

(HK\$ million)	2006	2005	Variance	%	Remarks
Property	348	12	336	2,800	The significant increase was mainly due to the contribution from sales of Nova City Phase I recognised during the year.
Hospitality	50	57	(7)	(12)	The decrease was attributable to the deferred tax credit of Mandarin Oriental Macau last year.
Investment and others	2	2	—	—	
Total	400	71	329	463	

Liquidity, Financial Resources and Capital Structure

At 31 December 2006, the Group's total net assets increased by 20% over last year to HK\$10,737 million. Cash and liquidity position remains strong and healthy. During the year, net cash used in operating activities amounted to HK\$276 million which included payment of a deposit of HK\$500 million for acquiring interest in a property development site in Nam Van, Macau. The cash inflow from investing activities was mainly attributable to HK\$369 million dividends received from associates. Major cash outflow for financing activities included HK\$420 million for repayments of loans.

Cash Flow Variance Analysis

(HK\$ million)	2006	2005	Variance
Operating activities	(276)	348	(624)
Investing activities	341	597	(256)
Financing activities	(490)	(998)	508
Net decrease in cash and cash equivalents	(425)	(53)	(372)

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The Group's bank balances and deposits amounted to HK\$3,505 million at 31 December 2006, representing a decrease of HK\$359 million from last year end date.

It is the Group's policy to secure adequate funding to match with cash flows required for working capital and investing activities. At 31 December 2006, total loan facilities available to the Group amounted to HK\$8,825 million, of which HK\$7,898 million remained undrawn. The loan facilities outstanding at the year end amounted to HK\$927 million. The maturity profile of the Group's borrowings is set out below:

Maturity Profile

Within 1 year	1-2 years	2-5 years	Over 5 years	Total
10%	84%	<1%	6%	100%

Based on a net cash surplus of HK\$2,578 million at the year end, the Group's gearing ratio (expressed as a ratio of net borrowings to equity attributable to equity holders of the Company) was nil (2005: nil). The Group will continue to maintain a prudent gearing ratio and consider to reduce its finance costs.

During the year, 15,078,870 new shares were issued upon exercise of share options and 694,000 shares were repurchased and cancelled. In June 2006, 94,110,954 shares were issued as purchase consideration for the acquisition of Built City Investments Limited, a company holding 51% interest in a joint venture project with Hongkong Land Holdings Limited to develop One Central in Macau. At 31 December 2006, the Group had commitment of approximately HK\$2,260 million to finance this development project.

Capital expenditure commitments of the Group amounted to HK\$859 million, a major portion of which was related to the Hong Kong SkyCity Marriott Hotel project at the Hong Kong International Airport.

Pledge of Assets

At the year end, certain assets of the Group with an aggregate carrying value of HK\$545 million (2005: HK\$465 million) were pledged with banks for loan facilities.

Contingent Liabilities

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

Financial Risk

The Group adopts a conservative policy in financial risk management with minimal exposure to currency and interest rate risks. 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. The Group engages in fuel hedging activities to minimise its exposure to fluctuations in fuel prices in accordance with the Group's approved treasury policies. It is the Group's policy not to engage in any speculative trading activity.

Human Resources

The Group, including subsidiaries but excluding associates and jointly controlled entities, employed approximately 2,400 employees at the year end. The Group adopts competitive remuneration packages for its employees. Promotion and salary increment are 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.