

Management Discussion and Analysis

BUSINESS REVIEW ●

Major Business Activities

The following are important events that took place during 2001:

1. Developments completed during 2001:

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
No. 1 Star Street	The Remaining Portion of Section A of Inland Lot No. 2837	9,320	100%
Villa Esplanada Phase III	Tsing Yi Town Lot No. 129	79,640	22.5%
The Metropolis - Hotel, Shopping Arcade and Office Tower	Kowloon Inland Lot No. 11077	97,180	Joint Venture
University Court	Section A of New Kowloon Inland Lot No. 2491	4,072	100%
Beijing Oriental Plaza Phase II Office Building and Phase III Hotel and Serviced Apartments	No. 1, East Chang An Ave., Dong Cheng District, Beijing	245,000	33.3775%
Laguna Grande, Laguna Verde	Kowloon Inland Lot No. 11056	121,280	Joint Venture
Ocean Vista, Laguna Verde	Kowloon Inland Lot No. 11056	65,390	Joint Venture
Harbourfront Landmark	Kowloon Inland Lot No. 11055	62,460	50%
Royal Garden, Blocks 2-5, Phase 1A	San Fang Qi Xiang, Fuzhou	87,430	89%
Belgravia Place	London	8,670	42.5%
Le Parc (Huangpu Yayuan) Phase 1	Futian, Shenzhen	105,450	50%
Seasons Villas Phases 2, 3A and 4	Pudong Huamu, Shanghai	35,690	50%
Horizon Cove Phase 1	Zhuhai	54,280	50%

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2. Developments in Progress and Scheduled for Completion in 2002:

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
Horizon Suites at Tolo Harbour	Sha Tin Town Lot No. 461	56,000	51%
Nob Hill	Kwai Chung Town Lot No. 474	52,040	50%
The Metropolis - Serviced Apartments	Kowloon Inland Lot No. 11077	35,030	Joint Venture
The Victoria Towers	The Remaining Portion of Kowloon Inland Lot No. 11086	96,530	42.5%
Caribbean Coast, Blocks 1-5	Tung Chung Town Lot No. 5	121,400	Joint Venture
Sites at Queen Street, Sheung Wan	Inland Lot No. 8897	60,970	Joint Venture
Laguna Verona Phases 1.3 and 1.4	Dongguan	19,380	47%
Beijing Oriental Plaza Phase III Office Building and Serviced Apartments	No. 1 East Chang An Ave., Dong Cheng District, Beijing	83,000	33.3775%
Royal Garden, Block 1, Phase 1A	San Fang Qi Xiang, Fuzhou	26,650	89%
Horizon Cove Phases 1 and 2	Zhuhai	104,200	50%
Seasons Villas Phases 5 and 6	Pudong Huamu, Shanghai	37,860	50%
Huasi Lu, Site 2, Phases 1A and 3	Pudong Huasi Lu, Shanghai	55,320	31%
Le Parc (Huangpu Yayuan) Phases 2 and 3	Futian, Shenzhen	207,150	50%
Sheraton Shenyang Lido Hotel	Shenyang	80,000	70%

3. New Acquisitions and Joint Developments and Other Major Events:

- (1) In March 2001, an associated company in which the Group has a 33.33% interest was awarded the tender for Land Parcel A (comprising Land Parcels A1 and A2) at Marina Boulevard, Singapore to be developed for commercial purposes. With a total site area of approximately 15,600 sq. m. and a developable gross floor area of approximately 152,000 sq. m., the proposed project is scheduled for completion in 2005.
- (2) In May 2001, the Group as developer obtained approval from the Town Planning Board for the planning application for the development of Junk Bay Town Lot No. 1 sB and the remaining portion, Shek Kok Road. The site has an area of approximately 19,480 sq. m. and is planned for a residential development comprising a total developable gross floor area of approximately 97,400 sq. m. Lease modification is in progress.
- (3) In May 2001, the Group executed the land grant with the Government in respect of Lot No. 815 in DD 110, Shek Kong, Yuen Long. Earmarked for a residential development with a total developable gross floor area of approximately 10,300 sq. m., the site has an area of about 25,800 sq. m.
- (4) In June 2001, a joint venture company equally owned by the Group and the Hutchison Whampoa Group entered into a joint venture for the development of a site at Panyu Dashi, Guangzhou. With an area of approximately 490,600 sq. m., the site is planned for a residential development estimated to have a total developable area of about 736,000 sq. m. Completion is scheduled between 2003 to 2007.
- (5) In July 2001, approval from the Town Planning Board was obtained for the planning application for various lots in DD 379, Siu Sau Tsuen, Tuen Mun for residential purposes. The project, a joint venture between the Group and another developer, has a site area of about 26,000 sq. m. Further design and planning are underway.
- (6) In July 2001, a 50/50 joint venture company of the Group and the Hutchison Whampoa Group entered into a joint venture for the development of a site at Chongqing Jiangbei for residential purposes. The site has an area of about 193,700 sq. m. and a total developable area of approximately 215,700 sq. m. Completion is scheduled between 2003 and 2005.

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- (7) In August 2001, the Group successfully bid for Kowloon Inland Lot No. 11110, Hung Hom Bay Reclamation area at a Government auction for commercial use. The site has an area of approximately 20,300 sq. m. and a developable gross floor area of about 107,400 sq. m.
- (8) In August 2001, a 50/50 joint venture company of the Group and the Hutchison Whampoa Group acquired a site at Gubei, Shanghai for commercial and residential purposes. The site has an area of about 50,700 sq. m. and a total developable area of approximately 156,300 sq. m. Completion is scheduled between 2003 and 2004.
- (9) In September 2001, the Group executed the land grant with the Government in respect of Inland Lot No. 8972, Tiger Balm Garden, Tai Hang for residential purposes. The site area is approximately 7,230 sq. m. and the developable gross floor area is approximately 47,300 sq. m. Completion is scheduled for 2005.
- (10) In October 2001, the Group successfully bid for Kowloon Inland Lot No. 11103, Hung Hom Bay Reclamation area at a Government auction. With an area of approximately 9,900 sq. m., the site is designated for a commercial development with a public car park estimated to have a total developable gross floor area of about 119,200 sq. m.
- (11) During the year under review, the Group continued to acquire agricultural land with potential for development. Some of these sites are under varying stages of design and planning applications.
- (12) The Group's property projects in the Mainland are on schedule, both for sale and leasing.
- (13) The Group is actively carrying out the research and development of biotech products under five categories – eco-agriculture, bioremediation, dermatological, nutraceutical and pharmaceutical.

Property Sales

During the year under review, turnover for property sales, including share of property sales of jointly controlled entities, was HK\$6,212 million (2000 – HK\$8,262 million) and contribution from property sales was HK\$1,896 million, a decrease of HK\$369 million from last year. Contribution for the year mainly came from Laguna Grande and Ocean Vista of Laguna Verde and Villa Esplanada Phase III in Hong Kong, Le Parc (Huangpu Yayuan) in the Mainland and Belgravia Place in the United Kingdom. Contribution from property sales for 2002 will mainly come from Nob Hill and The Victoria Towers which will be completed in 2002 and presales have been satisfactory, while Laguna Grande and Ocean Vista of Laguna Verde will continue to make contribution in 2002.

Due to the further decline in property prices during the year, a total provision of HK\$1,500 million was made for Caribbean Coast in Tung Chung and The Metropolis in Hung Hom.

Property Rental

Turnover for property rental during the year was HK\$746 million (2000 – HK\$593 million) and contribution was HK\$581 million, an increase of HK\$292 million from last year. Contribution from property rental increased, as a result of the Group's expanding investment property portfolio and satisfactory occupancy, and will continue to grow in 2002.

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Hotel Operation

Turnover for hotel operation during the year was HK\$269 million (2000 – HK\$166 million) and contribution was HK\$57 million, an increase of HK\$53 million from last year, as a result of increased occupancy and full year operation at Harbour Plaza North Point in Hong Kong and Sheraton Chengdu Lido Hotel in Chengdu. Contribution from hotel operation is expected to increase when Horizon Suites at Tolo Harbour in Ma On Shan and Sheraton Shenyang Lido Hotel in Shenyang commence operations in 2002.

Property and Project Management

Turnover and contribution from property and project management during the year were not significant.

Major Associated Company

The associated Hutchison Whampoa Group recorded profit after tax of HK\$12,088 million (2000 – HK\$34,118 million).

A provision was made by the Hutchison Whampoa Group against its portfolio of equity investments and certain property developments according to its prudent accounting policy during the year. The Hutchison Whampoa Group remained the major profit contributor to the Group, with all of its core businesses continuing to perform well in a very competitive world economic environment.

FINANCIAL REVIEW ●

Liquidity and Financing

During the year, the Group issued bonds and notes in the total amount of HK\$900 million due 2004 and redeemed notes in the amount of HK\$334 million due January this year. At 31st December, 2001, outstanding bonds and notes issued by the Group amounted to HK\$8.9 billion.

Together with bank loans of HK\$15.5 billion, the Group's total borrowings as at 31st December, 2001 was HK\$24.4 billion, an increase of HK\$3.3 billion over last year, and the maturity profile spread over a period of nine years with HK\$5.7 billion repayable within 1 year, HK\$17.3 billion within 2 to 5 years and HK\$1.4 billion within 6 to 9 years.

The Group continued to maintain a low gearing ratio, calculated on the basis of the Group's net borrowings (after deducting cash and bank balances of HK\$1.6 billion) over shareholders' funds (before deducting proposed final dividend), at 13.8% (2000 – 11.5%) at the year end date.

With cash and marketable securities on hand as well as available banking facilities, the Group's liquidity position remains strong and the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Treasury Policies

The Group maintains a conservative approach on foreign exchange exposure management. The majority of the Group's borrowings, approximately 87% of the total at the year end date, was in HK\$ with the balance mainly in US\$. While the Group derives its revenue and maintains cash balances mainly in HK\$, it holds sufficient liquid investments denominated in US\$ to cover its exposure to fluctuations in foreign exchange rates.

The Group's borrowings are principally on a floating rate basis. For the fixed rate bonds and notes issued by the Group, interest rate swaps arrangements have been in place to convert the rates to floating rate basis. When appropriate and at times of interest rate uncertainty or volatility, hedging instruments including swaps and forwards are used in the Group's management of interest rate exposure.

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Charges on Assets

As at 31st December, 2001, certain assets of the Group with aggregate carrying value of HK\$1,133 million (2000 – HK\$813 million) were pledged to secure loan facilities utilised by subsidiaries and affiliated companies.

Contingent Liabilities

As at 31st December, 2001, the Group's contingent liabilities were as follows:

- (a) share of contingent liabilities of jointly controlled entities in respect of guaranteed return payments payable to the other party of a co-operative joint venture in the next 48 years amounted to HK\$4,592 million;
- (b) guarantees provided for loan financing as follows:
 - (i) bank loans utilised by jointly controlled entities – HK\$2,666 million (2000 – HK\$2,184 million)
 - (ii) bank loans utilised by associates – Nil (2000 – HK\$118 million)
 - (iii) bank loans utilised by affiliated companies amounted to HK\$58 million (2000 – HK\$37 million)
- (c) guarantees provided for the minimum revenue to be shared by the other parties of joint development projects undertaken by jointly controlled entities amounted to HK\$100 million (2000 – HK\$125 million).

Employees

The Group, including its subsidiaries but excluding associates, employed approximately 5,460 employees at the year end date. Employees' cost (excluding directors' emoluments) amounted to approximately HK\$1,048 million for the year. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group does not have any share option scheme for employees.