

# Management Discussion and Analysis

## | BUSINESS REVIEW |

### Major Business Activities

The following are important events that took place during 2002:

#### 1. Developments completed during 2002:

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
Caribbean Coast Monterey Cove	Tung Chung Town Lot No. 5	121,400	Joint Venture
Horizon Suite Hotel	Sha Tin Town Lot No. 461	56,000	51%
The Metropolis Residence	Kowloon Inland Lot No. 11077	35,030	Joint Venture
Nob Hill	Kwai Chung Town Lot No. 474	52,040	50%
Queen's Terrace Tower 3	The Remaining Portion of Inland Lot No. 8897	17,840	Joint Venture
The Victoria Towers	The Remaining Portion of Kowloon Inland Lot No. 11086	96,530	42.5%
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	26,600	89%
Sheraton Shenyang Lido Hotel	Shenyang	82,000	99%
Horizon Cove Phases 1 and 2	Zhuhai	119,100	50%
Laguna Verona Phase B, Stages 1 and 2	Dongguan	19,400	47%

## Management Discussion and Analysis (continued)

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
Le Parc (Huangpu Yayuan) Phase 2	Futian, Shenzhen	104,900	50%
Pacific Plaza Phase 2	Qingdao	24,200	15%
Seasons Villas Phase 5	Pudong Huamu, Shanghai	14,600	50%
Belgravia Place	London, the United Kingdom	2,130	42.5%

### 2. Developments in Progress and Scheduled for Completion in 2003:

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
Banyan Garden Phase 1	New Kowloon Inland Lot No. 6320	72,720	Joint Venture
Hampton Place	Kowloon Inland Lot No. 11107	52,070	100%
One Beacon Hill	New Kowloon Inland Lot No. 6277	72,480	100%
Princeton Tower	The Remaining Portions of Inland Lots Nos. 3999-4005	9,060	100%
Queen's Terrace Towers 1 and 2	The Remaining Portion of Inland Lot No. 8897	43,130	Joint Venture
Vianni Cove	Tin Shui Wai Town Lot No. 27	74,500	60%
A site at Shek Kong, Kam Tin	Lot No. 815 in D.D. 110	10,320	100%

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
A site at Tsing Yi	Tsing Yi Town Lot No. 140	155,200	30%
Oriental Plaza Phase IV Serviced Apartments	No. 1 East Chang An Ave. Dong Cheng District, Beijing	47,000	33.3775%
Dynasty Garden	Baoan, Shenzhen	68,700	50%
Jiangbei	Chongqing	34,590	50%
Laguna Verona Phase B, Stages 3 to 6	Dongguan	63,450	47%
Le Parc (Huangpu Yayuan) Phases 3 and 4	Futian, Shenzhen	191,790	50%
Panyu Dashi	Guangzhou	114,680	50%
Regency Park	Pudong Huamu, Shanghai	69,080	31%
Seasons Villas Phases 4A, 6, 6A & 6B	Pudong Huamu, Shanghai	22,670	50%
The Summit and The Center	Xuhui, Shanghai	148,650	50%
Costa del Sol	Bayshore Road, Singapore	138,950	76%
Albion Riverside	London, the United Kingdom	36,680	45%

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

- (1) In May 2002, a modification letter was executed by an associated company in which the Group has a 30% interest with the Government in relation to the lease modification of Tsing Yi Town Lot No. 140, Tsing Yi for construction of serviced apartments and a hotel. The site area is approximately 24,900 sq. m. and the total developable gross floor area is about 155,200 sq. m.
- (2) In May 2002, an associated company in which the Group has a 50% interest was awarded the tender for the hotel, shopping arcade and office towers of The Metropolis at Hung Hom. The hotel has commenced operations in June 2002.
- (3) In June 2002, the Group executed the land grant with the Government in respect of Kwai Chung Town Lot No. 467, 29-51 Wo Yi Hop Road, Kwai Chung. The site has an area of approximately 7,800 sq. m. and is planned for a composite development of serviced apartments and hotel which comprises a total developable gross floor area of about 74,300 sq. m.
- (4) In June 2002, the Group entered into a sale and purchase agreement for the acquisition of a 25% interest in each of two property holding companies which hold certain commercial units and car parking spaces at City One Shatin, Sha Tin and Waldorf Garden, Tuen Mun respectively. These commercial units and car parking spaces are currently for lease.
- (5) In July 2002, a 98.47% owned subsidiary of the Group executed the land grant with the Government in respect of Tin Shui Wai Town Lot No. 24, Tin Shui Wai, Yuen Long. With an area of approximately 32,800 sq. m., the site is designated for a mainly residential development with a total developable gross floor area of about 168,200 sq. m.
- (6) In July 2002, the spin-off and separate listing of the shares of the Group's subsidiary CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences") was successfully completed. The shares of CK Life Sciences were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 16th July, 2002 and CK Life Sciences has become the largest listed company on the GEM Board in terms of market capitalisation.

- (7) In November 2002, a 80% owned subsidiary of the Group entered into a development agreement with MTR Corporation Limited for a development at Tiu Keng Leng Station along the Tseung Kwan O Line. With an area of approximately 32,300 sq. m., the site is designated for a residential and commercial development estimated to have a total developable gross floor area of about 253,700 sq. m. Phase 1 of the project comprises an estimated developable gross floor area of about 123,400 sq. m. and is scheduled for completion in 2005. The remaining portion comprising an estimated developable gross floor area of about 130,300 sq. m. is under planning.
- (8) In December 2002, a wholly owned subsidiary of the Group acquired The Household Center and certain car parking spaces at Nob Hill, Lai King Hill Road, Kwai Chung, which are currently for lease.
- (9) Lease modification for the agricultural land in D.D. 109 and D.D. 110, Yuen Long is in progress. The site has a total area of about 46,900 sq. m. and is planned for residential purposes.
- (10) 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.
- (11) The Group's property projects in the Mainland are on schedule, both for sale and leasing.

### Property Sales

Turnover of property sales for the year, including share of property sales of jointly controlled entities, was HK\$7,638 million (2001 – HK\$6,212 million), an increase of HK\$1,426 million when compared to last year, and comprised mainly the sale of residential units at Laguna Verde, Harbourfront Landmark, Nob Hill, The Victoria Towers, Queen's Terrace, Monterey Cove of Caribbean Coast in Hong Kong and Le Parc Phase 2 in the Mainland. Nob Hill, The Victoria Towers, Queen's Terrace, Monterey Cove of Caribbean Coast and Le Parc Phase 2 were completed during the year and over 85% of the residential units were sold before the year end date.

Contribution from property sales, including share of results of jointly controlled entities, was HK\$635 million (2001 – HK\$1,896 million), a decrease of HK\$1,261 million when compared to last year. While property sales at Laguna Verde, Nob Hill, The Victoria Towers and Le Parc Phase 2 contributed to group profit for the year, the overall results from property sales were affected by lack of contribution from Harbourfront Landmark, Queen's Terrace and Caribbean Coast.

Contribution from property sales for 2003 will come from the sale of residential units at Banyan Garden Phase 1, One Beacon Hill and Gianni Cove in Hong Kong and certain projects in the Mainland, Singapore and the United Kingdom, all of which will be completed in 2003. During the year, residential units at Banyan Garden and various other projects were offered for presale. Responses have been satisfactory and over 90% of the residential units at Banyan Garden Phase 1 have been presold up to the year end date.

### Property Rental

Turnover of property rental for the year was HK\$806 million (2001 – HK\$746 million), an increase of HK\$60 million when compared to last year mainly as a result of accounting for the turnover of Kingswood Ginza, previously owned by a jointly controlled entity which became a subsidiary during the year. Three major investment properties of the Group, namely The Center, Kingswood Ginza and Ma On Shan Plaza, accounted for approximately 57% of the turnover of property rental for the year and the average occupancy rate during the year for the three investment properties was above 80% despite a gloomy local economy.

Contribution from property rental, including share of results of jointly controlled entities and unlisted associates, was HK\$816 million (2001 – HK\$681 million), an increase of HK\$135 million when compared to last year. During the year, the Group expanded the investment property portfolio by acquiring a further 25% interest in the office towers and shopping arcade of The Metropolis at Hung Hom, a further 25% interest in certain commercial units of City One at Sha Tin and Waldorf Garden at Tuen Mun, and a further 50% interest in The Household Center at Kwai Chung. Contribution from property rental will continue to grow in 2003.

Due to a decline in commercial property prices in Hong Kong during the year, the Group's investment property portfolio recorded an investment property revaluation deficit of HK\$825 million based on professional valuation at the year end date.

### Hotels and Serviced Suites

Turnover of hotels and serviced suites for the year was HK\$391 million (2001 – HK\$269 million), an increase of HK\$122 million when compared to last year mainly as a result of accounting for the turnover of Harbour Plaza Resort City, previously owned by a jointly controlled entity which became a subsidiary during the year.

Contribution from hotels and serviced suites, including share of results of jointly controlled entities and unlisted associates, was HK\$52 million (2001 – HK\$52 million), the same as last year. During the year, the Sheraton Shenyang Lido Hotel in the Mainland had its soft opening and the development of Horizon Suite Hotel in Hong Kong was completed for operation. The Group also acquired a further 25% interest in the Harbour Plaza Metropolis at Hung Hom which commenced operations in the second half of 2002 and achieved a satisfactory occupancy rate. These hotels were in their first year of operation and their results will improve in the coming years.

The outlook for the tourism industry in Hong Kong is encouraging and the contribution from hotels and serviced suites for 2003 should improve.

### Property and Project Management

Turnover of property and project management for the year was HK\$287 million (2001 – HK\$259 million), an increase of HK\$28 million when compared to last year. Contribution from property and project management, including share of results of jointly controlled entities and unlisted associates, was HK\$80 million (2001 – HK\$69 million), an increase of HK\$11 million when compared to last year.

While the contribution from property management is not significant, the Group is committed to providing top quality services to properties under our management. At the year end date, total floor area under the Group's property management was approximately 64 million square feet and this is expected to grow steadily following the gradual completion of the Group's property projects in the coming years.

### Major Associates

The associated Hutchison Whampoa Group recorded consolidated profit after tax for the year of HK\$14,288 million (2001 (restated) – HK\$11,980 million). 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.

In July 2002, CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences") was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited through a placing and public offer of new shares. As a result, the Group recognised a profit of HK\$1,001 million on the spin-off of CK Life Sciences. After the spin-off, the Group holds approximately 44% of the issued share capital of CK Life Sciences and CK Life Sciences becomes an associate of the Group.



## | FINANCIAL REVIEW |

### Liquidity and Financing

During the year, the Group issued notes in the total amount of HK\$1,460 million with three to five year terms and redeemed notes in the amount of HK\$1,250 million due February this year. At the year end date, outstanding bonds and notes issued by the Group amounted to HK\$9.1 billion.

Together with bank loans of HK\$12.8 billion, the Group's total borrowings at the year end date were HK\$21.9 billion, a decrease of HK\$2.5 billion from last year end date, and the maturity profile spread over a period of eight years with HK\$2.6 billion repayable within one year, HK\$17.1 billion within two to five years and HK\$2.2 billion within six to eight 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\$2.2 billion) over shareholders' funds, at 11.5% (2001 – 13.8%) at the year end date.

With cash and marketable securities in 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. At the year end date, approximately 94% of the Group's borrowings was in HK\$, with the balance in US\$, SGD and RMB mainly for the purpose of financing projects outside Hong Kong. While the Group derives its revenue and maintains cash balances mainly in HK\$, it ensures that its exposure to fluctuations in foreign exchange rates is minimised.

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 or exchange rate uncertainty or volatility, hedging instruments including swaps and forwards are used in the Group's management of exposure to interest rate and exchange rate fluctuations.

### Charges on Assets

At the year end date, certain assets of the Group with aggregate carrying value of HK\$852 million (2001 – HK\$1,133 million) were pledged to secure loan facilities utilised by subsidiaries and affiliated companies.

### Contingent Liabilities

At the year end date, 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 47 years amounted to HK\$4,582 million;
- (b) guarantees provided for bank loans utilised by jointly controlled entities and affiliated companies amounted to HK\$3,007 million (2001 – HK\$2,666 million) and HK\$25 million (2001 – HK\$58 million) respectively;
- (c) guarantee provided for the minimum revenue to be shared by the other party of a joint development project undertaken by a jointly controlled entity amounted to HK\$100 million (2001 – HK\$100 million).

## Employees

At the year end date, the Group employed approximately 5,900 employees for its principal businesses. Such employees' cost (excluding directors' emoluments) amounted to approximately HK\$1,037 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.