

# MANAGEMENT DISCUSSION AND ANALYSIS

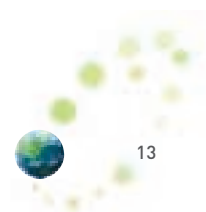
## BUSINESS REVIEW

### Major Business Activities

The following are important events that took place during 2003:

#### 1. Developments completed during 2003:

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
Banyan Garden Phase 1	New Kowloon Inland Lot No. 6320	73,490	Joint Venture
Hampton Place	Kowloon Inland Lot No. 11107	52,070	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
Rambler Crest and Commercial/Hotel Development	Tsing Yi Town Lot No. 140	155,200	30%
Seasons Villas	The Remaining Portion and The Extension thereto of Lot No. 815 in D.D. 110 Yuen Long	10,320	100%
Beverly Hills Phase 1	Chongqing	32,650	50%
Laguna Verona Phase B Stages 3 to 5	Dongguan	35,470	47%



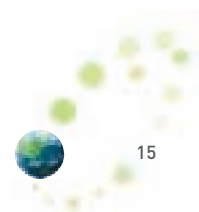
## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
Le Parc (Huangpu Yayuan) Phases 3 and 4	Futian, Shenzhen	198,700	50%
Regency Park Phase 1A	Pudong Huamu, Shanghai	13,650	50%
Seasons Villas Phases 6 and 6A	Pudong Huamu, Shanghai	20,270	50%
The Summit	Xuhui, Shanghai	63,960	50%
Costa del Sol Phase 1	Bayshore Road, Singapore	93,390	76%
Albion Riverside	London, the United Kingdom	29,090	45%

### 2. Developments in Progress and Scheduled for Completion in 2004:

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
Banyan Garden Phases 2 and 3	New Kowloon Inland Lot No. 6320	90,100	Joint Venture
The Cairnhill	Tsuen Wan Town Lot No. 395	76,890	50%
Caribbean Coast Albany Cove	Tung Chung Town Lot No. 5	96,790	Joint Venture
One Beacon Hill	New Kowloon Inland Lot No. 6277	72,480	100%
The Pacifica Phase 1	New Kowloon Inland Lot No. 6275	79,830	50%

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
Sky Tower	The Remaining Portion of Kowloon Inland Lot No. 4013	118,760	40%
Vianni Cove	Tin Shui Wai Town Lot No. 27	74,500	60%
Beverly Hills Phase 2	Chongqing	41,590	50%
Cape Coral Phases 1 and 2A	Panyu Dashi, Guangzhou	203,220	50%
The Center	Xuhui, Shanghai	87,200	50%
Dynasty Garden Phases 1 and 2	Baoan, Shenzhen	114,490	50%
Horizon Cove Phase 3A	Zhuhai	83,800	50%
Laguna Verona Phase B Stage 6 and Phase C	Dongguan	54,150	47%
Oriental Plaza Phase IV Serviced Apartments	No. 1 East Chang An Ave. Dong Cheng District, Beijing	47,000	33.3775%
Regency Park Phases 1C, 2, 3, 4, 5A, 5B and 6	Pudong Huamu, Shanghai	141,870	50%
Cairnhill Crest	Singapore	40,870	50%
Costa del Sol Phase 2	Bayshore Road, Singapore	45,560	76%

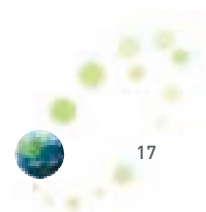


## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

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

- (1) March 2003:- The sale of the Group's entire interest in the property holding company of Royal Garden in Fuzhou was completed.
- (2) May 2003:- The Group, through its affiliate iBusiness Corporation, and the Commonwealth Bank Group announced the formation of a joint venture, namely AMTD Financial Planning Limited ("AMTD"). In co-operation with specialist suppliers and business partners, AMTD focuses exclusively on helping clients to meet their financial goals through professional and objective financial planning services.
- (3) June 2003:- The Group executed the land grant with the Government in respect of the Former Marine Police Headquarters Site at Kowloon Inland Lot No. 11161, Salisbury Road, Tsim Sha Tsui. The site has an area of approximately 12,300 sq. m. and is planned for the development of heritage tourism facilities which comprise a total gross floor area of about 11,500 sq. m.
- (4) July 2003:- The Group entered into agreements with respect to the sale of the Group's entire interest in five retail shopping malls in Hong Kong, namely The Metropolis Mall, Ma On Shan Plaza, The Household Center, Smartland and Jubilee Court Shopping Centre, to Fortune REIT, a Singapore unit trust. The disposal of interest in those shopping malls was completed on 12th August, 2003.
- (5) August 2003:- A wholly owned subsidiary of the Group subscribed for 129,685,000 units ("Units") of Fortune REIT at HK\$4.75 per Unit ("Offer Price") representing approximately 27.4% of the total Units of Fortune REIT in issue immediately following such subscription. The Units of Fortune REIT were listed on the Main Board of the Singapore Exchange Securities Trading Limited on 12th August, 2003. The closing price of the Units as at 10th March, 2004 was HK\$5.10, which represents an increase of approximately 7.4% as compared to the Offer Price.
- (6) October 2003:- A wholly owned subsidiary of the Group set up a HK\$10 billion Retail Note Issuance Programme (the "Programme") allowing the Group to issue notes ("Retail Notes") in series to retail investors. Three series of Retail Notes amounting to approximately HK\$1.3 billion have been issued under the Programme.
- (7) November 2003:- The Group executed the land grant with the Government for the exchange of Lot No. 2286 in D.D. 106, Yuen Long. Designated for residential purposes, the site has an area of approximately 20,500 sq. m. and a total developable gross floor area of about 8,200 sq. m.

- (8) November 2003:- A wholly owned subsidiary of the Group acquired Aberdeen Inland Lot No. 354, 41 Heung Yip Road, Wong Chuk Hang. The site has an area of approximately 2,000 sq. m. and is under planning.
- (9) November 2003:- CK Communications Limited, a wholly owned subsidiary of the Group, and Hutchison Global Communications Limited brought to Hong Kong a communications breakthrough with the launch of “Vfone” - a broadband-based video phone which offers video, voice and data communications. As the most advanced broadband on-premise communications device, “Vfone” is embedded with the latest open-system technology that allows cross-network communications.
- (10) January 2004:- The Group and CLP Telecommunications Limited (“CLPT”) entered into a conditional agreement with Hutchison Global Communications Holdings Limited (formerly Vanda Systems & Communications Holdings Limited) (“HGC Holdings”) to dispose of the respective entire interest of the Group (as to 81%) and CLPT (as to 19%) in PowerCom Network Hong Kong Limited (“PowerCom”) to HGC Holdings for a total consideration of approximately HK\$391 million, which was satisfied by the issue and allotment to the Group and CLPT of an aggregate of 488,572,636 new shares of HGC Holdings credited as fully paid at an issue price of HK\$0.80 per share. The completion of the disposal of interest in PowerCom took place on 12th March, 2004.
- (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 in terms of sale and leasing.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Property Sales

Turnover of property sales for the year, including share of property sales of jointly controlled entities, was HK\$12,971 million (2002 - HK\$7,638 million), an increase of HK\$5,333 million when compared to last year, and comprised mainly the sale of residential units of The Metropolis Residence which was completed last year and the sale of residential units of Queen's Terrace (Towers 1 and 2), Banyan Garden (Phase 1), Hampton Place and Rambler Crest in Hong Kong, Le Parc (Phases 3 and 4) in the Mainland, Costa del Sol (Phase 1) in Singapore and Albion Riverside in the United Kingdom which were all completed during the year. Approximately 90% of the residential units of these completed projects were sold as of the year end date.

Contribution from property sales, including share of results of jointly controlled entities, was HK\$1,660 million (2002 - HK\$635 million), an increase of HK\$1,025 million when compared to last year. Despite the lack of contribution from the property sales of The Metropolis Residence, Queen's Terrace and Hampton Place and the re-scheduling of the completion of One Beacon Hill and Vianni Cove in Hong Kong for 2004, the overall result from property sales for the year improved satisfactorily from last year.

Contribution from property sales for 2004 will mainly come from the sale of residential units of Banyan Garden (Phases 2 and 3), One Beacon Hill, Vianni Cove, The Cairnhill and The Pacifica in Hong Kong upon completion of these projects. During the year, the residential units of these projects were offered for presale and approximately 90% of all the units have been presold up to the year end date.

### Property Rental

Turnover of property rental for the year was HK\$695 million (2002 - HK\$806 million), a decrease of HK\$111 million when compared to last year mainly due to the disposal of Ma On Shan Plaza, The Household Center, Smartland and Jubilee Court Shopping Centre to Fortune REIT, a Singapore unit trust, and a decrease in rental from commercial office properties during the year. The Group's existing investment property portfolio comprises mainly retail shopping malls and commercial office properties in Hong Kong which accounted for approximately 34 % and 35 % respectively of the turnover of property rental for the year.

Contribution from property rental, including share of results of jointly controlled entities and unlisted associates, was HK\$839 million (2002 - HK\$816 million), an increase of HK\$23 million when compared to last year. Increase in contribution was due to increase in share of profits of jointly controlled entities which more than offset the decrease in contribution as a result of the Group's disposal of various retail shopping malls and diminished rental from commercial office properties. Increase in share of profits of jointly controlled entities was mainly attributable to the Group's increase in interest in various investment properties in Hong Kong last year and the growth of rental income of investment properties, including the Beijing Oriental Plaza, in the Mainland.

At the year end date, the Group's investment property portfolio recorded an investment property revaluation deficit of HK\$784 million, based on professional valuation, due to a decline in rental rates of commercial office properties in Hong Kong.

## Hotels and Serviced Suites

Turnover of hotels and serviced suites for the year was HK\$452 million (2002 - HK\$391 million), an increase of HK\$61 million when compared to last year. Increase in turnover was mainly a result of full year operation of the Horizon Suite Hotel in Hong Kong and the Sheraton Shenyang Lido Hotel in the Mainland which commenced operation in the middle of 2002.

Contribution from hotels and serviced suites, including share of results of jointly controlled entities and unlisted associates, was HK\$83 million (2002 - HK\$52 million), an increase of HK\$31 million when compared to last year. Operating conditions for hotels and serviced suites in the first half year were difficult due to the SARS outbreak in Hong Kong and the Mainland. Operations were soon back to normal in the second half year after the virus was checked. The overall contribution from hotels and serviced suites increased from last year as Horizon Suite Hotel and Harbour Plaza Metropolis in Hong Kong and Sheraton Shenyang Lido Hotel in the Mainland made their first full year contribution to group profit.

The outlook for hotels and serviced suites operation in Hong Kong and the Mainland is good. Contribution from hotels and serviced suites is expected to be better in 2004.

## Property and Project Management

Turnover of property and project management for the year was HK\$218 million (2002 - HK\$287 million), a decrease of HK\$69 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\$74 million (2002 - HK\$80 million), a decrease of HK\$6 million when compared to last year. Decrease in turnover and contribution was attributable to the decrease in project management services rendered to joint development projects during the 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, the total floor area under the Group's property management exceeded 70 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\$14,378 million (2002 (restated) - HK\$14,362 million). All divisions of the Hutchison Whampoa Group (except the 3G business) reported EBIT growth.

The CK Life Sciences Group, another listed associate, reported profit attributable to shareholders amounted to HK\$928,000 for the year. Listed in July 2002 and achieving profitability in 2003, the CK Life Sciences Group made encouraging progress in business development as well as R&D.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### FINANCIAL REVIEW

#### Liquidity and Financing

During the year, the Group issued notes in the total amount of HK\$1,512 million with three to ten years terms and redeemed notes in the total amount of HK\$2,500 million when due. At the year end date, outstanding bonds and notes issued by the Group amounted to HK\$8.1 billion.

Together with bank loans of HK\$9.8 billion, the Group's total borrowings at the year end date were HK\$17.9 billion, a decrease of HK\$4 billion from last year end date, and the maturity profile spread over a period of ten years with HK\$1.6 billion repayable within one year, HK\$15.8 billion within two to five years and HK\$0.5 billion within six to ten 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\$5.2 billion) over shareholders' funds, at 7.3% (2002 (restated) - 11.7%) 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\$1,248 million (2002 - HK\$852 million) were pledged to secure bank loan facilities utilised by subsidiaries.

## 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 46 years amounted to HK\$4,538 million; and
- (b) guarantees provided for bank loans utilised by jointly controlled entities and affiliated companies amounted to HK\$2,721 million (2002 - HK\$3,007 million) and HK\$23 million (2002 - HK\$25 million) respectively.

## Employees

At the year end date, the Group employed approximately 6,600 employees for its principal businesses. The related employees' cost (excluding directors' emoluments) amounted to approximately HK\$968 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.

