

Management Discussion and Analysis

BUSINESS REVIEW

Major Business Activities

The following are important events that took place during 2004:

1. Developments Completed during 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
Caribbean Coast Albany Cove	Tung Chung Town Lot No. 5	91,790	Joint Venture
The Cairnhill	Tsuen Wan Town Lot No. 395	76,800	50%
One Beacon Hill	New Kowloon Inland Lot No. 6277	72,480	100%
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 Phase 1	Panyu Dashi, Guangzhou	111,180	50%
The Center	Xuhui, Shanghai	89,490	50%
Dynasty Garden Phases 1 and 2	Baoan, Shenzhen	114,450	50%
Horizon Cove Phase 3A	Zhuhai	82,950	50%
Laguna Verona Phase B Stage 6	Dongguan	27,690	47%
Oriental Plaza Phase IV Serviced Apartments	No. 1 East Chang An Ave. Dong Cheng District, Beijing	47,000	33.3775%
Albion Riverside	London, the United Kingdom	7,360	45%
Cairnhill Crest	Singapore	40,870	50%
Costa del Sol Phase 2	Bayshore Road, Singapore	45,560	76%

2. Developments in Progress and Scheduled for Completion in 2005:

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
Caribbean Coast Carmel Cove	Tung Chung Town Lot No. 5	122,250	Joint Venture
Caribbean Coast Caribbean Bazaar	Tung Chung Town Lot No. 5	5,000	Joint Venture
Harbourfront Horizon — All-Suite Hotel	Kowloon Inland Lot No. 11110	107,400	100%
Harbourview Horizon — All-Suite Hotel	Kowloon Inland Lot No. 11103	119,200	100%
The Pacifica Phases 1 and 2	New Kowloon Inland Lot No. 6275	144,260	50%
Seasons Palace	The Remaining Portion of Lot 2286 in D.D. 106 Kam Sheung Road, Kam Tin	8,200	100%
St. Paul's Terrace	No. 42A MacDonnell Road	820	100%
Cape Coral Phase 2 and Commercial	Panyu Dashi, Guangzhou	95,300	50%
Guangzhou International Toys & Gifts Center Phase 1	Guangzhou	105,030	30%
Horizon Cove Phase 3B	Zhuhai	83,800	50%
Laguna Verona Phase C, Phase E and Phase G Stage 1	Dongguan	134,310	47%
Regency Park Phase III	Pudong Huamu, Shanghai	31,810	50%
Seasons Villas Phases 4A and 6B	Pudong Huamu, Shanghai	2,300	50%

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

- (1) January 2004:- The Group and CLP Telecommunications Limited (“CLPT”) entered into a conditional agreement with Hutchison Global Communications Holdings Limited (“HGCH”) to dispose of the entire interest of the Group (as to 81%) and CLPT (as to 19%) in PowerCom Network Hong Kong Limited (“PowerCom”) to HGCH 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 HGCH credited as fully paid at an issue price of HK\$0.80 per share. The completion of the disposal of the interest in PowerCom took place on 12th March, 2004.
- (2) February 2004:- An 80% owned subsidiary of the Group settled the land premium with the Government in respect of Site B of the Tiu Keng Leng Station Development, Tseung Kwan O. Site B is planned for a residential development estimated to have a total developable gross floor area of about 130,300 sq. m.
- (3) March 2004:- The Group acquired a site at 880-886 King’s Road, Quarry Bay for a residential development. The site has an area of approximately 1,230 sq. m. and a developable gross floor area of about 9,840 sq. m.
- (4) May 2004:- The Group successfully bid for Sha Tin Town Lot No. 487, Area 77, Ma On Shan, Sha Tin at a Government auction. With an area of approximately 14,000 sq. m., the site is designated for a residential development estimated to have a developable gross floor area of about 70,000 sq. m.
- (5) August 2004:- The Group executed the particulars and conditions of exchange with the Government in respect of Lot No. 2081 in D.D. 109, Kam Tin Road. The site has an area of approximately 50,500 sq. m. and a developable residential gross floor area of about 19,400 sq. m.
- (6) August 2004:- The Group agreed to invest up to US\$34,200,000 in Al Islami Far Eastern Real Estate Fund Limited, an investment fund established by Dubai Islamic Bank PJSC, the Company and ARA Asset Management Limited in August 2004 for investment in Asian property markets.
- (7) October 2004:- The Group successfully bid for Kowloon Inland Lot No. 11124 (“KIL 11124”) at Sheung Shing Street, Homantin, Kowloon at a Government auction. The site has an area of approximately 17,700 sq. m. and is planned for a residential and commercial development estimated to have a total developable gross floor area of about 159,800 sq. m.
- (8) November 2004:- For the purpose of the development of KIL 11124 above, the Group disposed of 10% equity interests in its indirect wholly owned subsidiary to Nan Fung Development Limited. The indirect wholly owned subsidiary has entered into the land grant with the Government in respect of KIL 11124.

- (9) November 2004:- A wholly foreign-owned enterprise owned as to 50% by each of the Group and the Hutchison Whampoa Group acquired a piece of land with an area of about 690,900 sq. m. located at New South District, Chengdu, the Mainland for development into residential and commercial properties.
- (10) December 2004:- An indirect 50/50 joint venture company of the Group and the Hutchison Whampoa Group acquired the entire issued share capital of and the benefit of the debts owed by The Kowloon Hotel Limited, the registered owner of "The Kowloon Hotel" at Nathan Road, Tsim Sha Tsui, Kowloon. The acquisition was completed on 1st February, 2005.
- (11) December 2004:- The Group acquired the hotel portion of the development at the Remaining Portion of Kowloon Inland Lot No. 4013, No. 38 Sung Wong Toi Road, To Kwa Wan. The site has a total developable gross floor area of about 21,400 sq. m.
- (12) December 2004:- A new joint venture company equally owned by the Group and the Hutchison Whampoa Group was established to own and develop 6 pieces of land with an aggregate developable site area of approximately 485,000 sq. m., located at Xi'an Hi-Tech Industrial Development Zone, the Mainland for development into residential and commercial properties.
- (13) December 2004:- A joint venture company equally owned by the Group and the Hutchison Whampoa Group was successful in bidding for a piece of land located at Pinghu Town, Longgang District, Shenzhen, the Mainland. The land has an area of approximately 223,600 sq. m. and is designated for a residential and commercial development.
- (14) January 2005:- The Group was awarded the tender by MTR Corporation Limited for the development at Area 86, Tseung Kwan O, Site F of Tseung Kwan O Town Lot No. 70. With an area of approximately 14,200 sq. m., the site is designated for a residential and commercial development estimated to have a total developable gross floor area of about 139,800 sq. m.
- (15) February 2005:- A 50/50 joint venture company of the Group and the Hutchison Whampoa Group was established for the purpose of owning and developing the land located at Maqiao Town, Minhang District, Shanghai, the Mainland. The land has an aggregate area of approximately 260,100 sq. m. and is planned for development into residential and commercial properties.
- (16) 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.
- (17) The Group's property projects in the Mainland are on schedule, both in terms of sales and leasing.

Property Sales

Turnover of property sales for the year, including share of property sales of jointly controlled entities, was HK\$17,015 million (2003 - HK\$12,971 million), an increase of HK\$4,044 million when compared with last year, and comprised mainly the sale of residential units of Harbourfront Landmark completed in previous years and the sale of residential units of property projects completed during the year, including One Beacon Hill, Gianni Cove, Sky Tower, Banyan Garden (Phases 2 and 3), The Cairnhill and Albany Cove of Caribbean Coast in Hong Kong, of which approximately 98% of the residential units completed during the year were sold as of the year end date.

Contribution from property sales, including share of results of jointly controlled entities, was HK\$1,577 million (2003 - HK\$1,660 million), a decrease of HK\$83 million when compared with last year. Contribution margins for the property projects completed during the year were low as most of the residential units of these projects were presold during 2003 which was subject to various adverse economic conditions. However, the return of confidence and interest in the luxury residential property market in Hong Kong during the year has helped the sales of property projects, like the Harbourfront Landmark and One Beacon Hill, to achieve a better contribution than before.

Amid the gradual recovery of the Hong Kong economy during the year, the presales of residential units of The Pacifica and Carmel Cove of Caribbean Coast in Hong Kong were satisfactory with increasing prices. Up to the year end date, more than half of the residential units of these two property projects, scheduled for completion in 2005, have been presold.

Contribution from property sales for 2005 will mainly come from the sale of residential units of The Pacifica and Carmel Cove of Caribbean Coast in Hong Kong and a few other property projects in the Mainland which are scheduled for completion.

Property Rental

Turnover of property rental for the year was HK\$568 million (2003 - HK\$695 million), a decrease of HK\$127 million when compared with last year mainly due to the Group's disposal of various retail shopping malls to Fortune REIT, a Singapore unit trust in August last year. The Group's existing investment property portfolio comprises mainly retail shopping malls and commercial office properties in Hong Kong which accounted for approximately 30% and 36% respectively of the turnover of property rental for the year.

Contribution from property rental, including share of results of jointly controlled entities, was HK\$852 million (2003 - HK\$839 million), an increase of HK\$13 million when compared with last year. Contribution from the Group's investment property portfolio was reduced following the disposal of various retail shopping malls last year and was made up by an increase in contribution from jointly controlled entities as rental income from investment properties, including The Metropolis Tower in Hong Kong and Oriental Plaza in the Mainland, continued to grow at high occupancy rates.

At the year end date, the Group's investment property portfolio recorded an investment property revaluation surplus of HK\$678 million, based on professional valuation, reflecting a recovery of rental rates of commercial properties in Hong Kong.

Hotels and Serviced Suites

Turnover of hotels and serviced suites for the year was HK\$605 million (2003 - HK\$452 million), an increase of HK\$153 million when compared with last year mainly because turnover during last year was affected by the SARS outbreak in Hong Kong and the Mainland.

Contribution from hotels and serviced suites, including share of results of jointly controlled entities, was HK\$256 million (2003 - HK\$83 million), an increase of HK\$173 million when compared with last year. Operating conditions during the year, in the absence of SARS, were significantly better than that of last year and helped to lift the contribution from hotels and serviced suites both in Hong Kong and the Mainland. The results of the Group's hotel and serviced suite operations during the year were satisfactory with good occupancy and room rates.

In February 2005, the Group completed the acquisition of The Kowloon Hotel at Tsim Sha Tsui in Hong Kong. The Group has a 50% interest in the hotel, which will make a contribution to group profit in 2005.

The prospects for hotel and serviced suite operations in Hong Kong and the Mainland are good and the Group's hotel and serviced suite operations will continue to make a good contribution.

Property and Project Management

Turnover of property and project management for the year was HK\$243 million (2003 - HK\$218 million), an increase of HK\$25 million when compared with last year. Contribution from property and project management, including share of results of jointly controlled entities, was HK\$88 million (2003 - HK\$74 million), an increase of HK\$14 million when compared with last year. The increase in turnover and contribution was in line with the increase in property and project management services rendered by the Group 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 was approximately 74 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\$16,128 million (2003 (restated) - HK\$11,677 million). All of the Hutchison Whampoa Group's established businesses achieved strong operating performances as well as solid financial performances.

The CK Life Sciences Group, another listed associate, reported profit attributable to shareholders of HK\$1,929,000 (2003 - HK\$928,000) for the year. The CK Life Sciences Group has made solid progress in its environmental and health-related businesses on all fronts in 2004 — from financial results, corporate expansion to research and development.

FINANCIAL REVIEW

Liquidity and Financing

During the year, the Group issued notes in the total amount of HK\$300 million with five years terms and redeemed notes in the total amount of HK\$1,603 million. At the year end date, outstanding bonds and notes issued by the Group amounted to HK\$6.8 billion.

Together with bank loans of HK\$14.2 billion, the Group's total borrowings at the year end date were HK\$21 billion, an increase of HK\$3.1 billion from last year end date, and the maturity profile spread over a period of six years with HK\$3.1 billion repayable within one year, HK\$17.6 billion within two to five years and HK\$0.3 billion beyond five 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\$4 billion) over shareholders' funds, at 9.4% (2003 (restated) - 7.4%) 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 95% of the Group's borrowings was in HK\$ with the balance in US\$ and SGD 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\$1,227 million (2003 - HK\$1,248 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:

- (1) 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 45 years amounted to HK\$4,526 million; and
- (2) guarantees provided for bank loans utilised by jointly controlled entities and investee company amounted to HK\$3,597 million (2003 - HK\$2,721 million) and HK\$21 million (2003 - HK\$23 million) respectively.

Employees

At the year end date, the Group employed approximately 6,900 employees for its principal businesses. The related employees' cost (excluding directors' emoluments) amounted to approximately HK\$978 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.