

Management Discussion and Analysis

BUSINESS REVIEW

Major Business Activities

1. Developments Completed during 2005:

| Name | Location | Total Gross Floor Area (sq. m.) | Group's Interest |
|-----------------------------------------------------------|------------------------------------|---------------------------------|------------------|
| The Pacifica Phases 1 and 2 | New Kowloon Inland Lot No. 6275 | 144,260 | 50% |
| 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 |
| Harbourview Horizon All-Suite Hotel | Kowloon Inland Lot No. 11103 | 119,280 | 100% |
| St. Paul's Terrace | No. 42A MacDonnell Road | 820 | 100% |
| Guangzhou International Toys & Gifts Center Phase 1 | Guangzhou | 99,040 | 30% |
| Horizon Cove Phase 3B | Zhuhai | 84,190 | 50% |
| Laguna Verona Phase C | Dongguan | 34,030 | 49.84% |
| Regency Park Phase III | Pudong Huamu, Shanghai | 32,700 | 50% |

Management Discussion and Analysis (continued)

2. Developments in Progress and Scheduled for Completion in 2006:

| Name | Location | Total Gross Floor Area (sq. m.) | Group's Interest |
|-------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------|------------------|
| Central Park Towers Phase 1 | Tin Shui Wai Town Lot No. 24 | 98,800 | 98.47% |
| Harbourfront Horizon All-Suite Hotel | Kowloon Inland Lot No. 11110 | 107,400 | 100% |
| The Legend at Jardine's Lookout | The Remaining Portion of Inland Lot No. 8972 | 47,300 | 100% |
| Metro Town Phase 1 | Tseung Kwan O Town Lot No. 73, Area 73b | 123,430 | Joint Venture |
| Seasons Palace | The Remaining Portion of Lot No. 2286 in D.D. 106 Kam Sheung Road Kam Tin, Yuen Long | 8,210 | 100% |
| Cape Coral Phase 2 and Commercial | Panyu Dashi, Guangzhou | 95,740 | 50% |
| Changchun Project Phase 1 | Jing Yue Tan, Changchun | 66,000 | 50% |
| The Greenwich Phase I | Yao Jia Yuan, Beijing | 213,800 | 50% |
| Horizon Cove Phase 4 | Zhuhai | 99,570 | 50% |
| Laguna Verona Phase E and Phase G Stage 1 | Dongguan | 146,000 | 49.84% |
| Maison d'artiste Phase 1 | Gubei, Shanghai | 9,770 | 50% |
| Nanan Project Commercial Phase 1 | Chongqing Nanan | 38,960 | 47.50% |
| Regency Park Phases IIA and IV to VII | Pudong Huamu, Shanghai | 94,870 | 50% |
| Huangsha Underground Railway Station Development Commercial | Guangzhou | 87,010 | 50% |
| Seasons Villas Phases 4A and 6B | Pudong Huamu, Shanghai | 2,310 | 50% |
| One Raffles Quay | Marina Boulevard Singapore | 148,530 | 33.33% |

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

Hong Kong

- (1) February 2005: The acquisition of 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 by an indirect 50/50 joint venture company of the Group and the Hutchison Whampoa Group was completed on 1st February, 2005.
- (2) February 2005: A wholly owned subsidiary of the Group executed a development agreement with MTR Corporation Limited for the development at Area 86, Tseung Kwan O, Site F of Tseung Kwan O Town Lot No. 70. The land has an aggregate area of approximately 14,200 sq. m. and is planned for a residential and commercial development estimated to have a total developable gross floor area of about 139,800 sq. m.
- (3) April 2005: The Group acquired the site at 81 Broadcast Drive, New Kowloon Inland Lot No. 5099. With an area of approximately 4,200 sq. m., the site is designated for a residential development.
- (4) May 2005: An indirect 50/50 joint venture company of the Group and the Hutchison Whampoa Group executed the land grant with the Government for the exchange of Lot No. 2064 in D.D. 121, Hung Shui Kiu, Yuen Long. The site has an area of approximately 16,200 sq. m. with a total developable gross floor area of about 49,800 sq. m. for residential purposes.
- (5) May 2005: The Group acquired the site at 16-18 Conduit Road, Section A of Inland Lot No. 711. With an area of approximately 590 sq. m., the site is designated for a residential development.
- (6) June 2005: The Group implemented the joint development plan with the owner (the "Owner") of the site at 15-17 Oil Street, Section A and Extension of Inland Lot No. 7106, North Point. A lease modification letter has been executed by the Owner for the development of the site into hotel and commercial properties. The land has an area of approximately 6,800 sq. m. and a total developable gross floor area of about 43,100 sq. m.
- (7) August 2005: The Group acquired the site at Nos. 106-114 Kwok Shui Road and Nos. 61-69 Yau Ma Hom Road, Kwai Chung Town Lot No. 157. With an area of approximately 4,600 sq. m., the site is designated for a residential development.

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- (8) November 2005: The Group entered into sale and purchase agreements with respect to the sale of some of the Group's interests in seven commercial properties in Hong Kong, namely The Metropolis Tower, MLC Millennium Plaza, Harbourfront Landmark, Modern Warehouse, Trendy Centre, Prosperity Center and New Treasure Centre, to Prosperity Real Estate Investment Trust ("Prosperity REIT"), a unit trust established in Hong Kong. The disposal of interests in those commercial properties was completed on 16th December, 2005.
- (9) December 2005: A wholly owned subsidiary of the Group subscribed for 232,432,533 units of Prosperity REIT at the offer price of HK\$2.16 per unit in the initial public offering, representing approximately 18.58% of the total units of Prosperity REIT in issue immediately following such subscription. After exercise of the over-allotment options by the underwriters, this subsidiary reduced its unitholdings in Prosperity REIT to approximately 14.09% of the total units of Prosperity REIT in issue at the material time. The units of Prosperity REIT were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 16th December, 2005.
- (10) December 2005: The Group acquired the site at No. 3 Tsing Yung Street, Tuen Mun Town Lot No. 334. The site has an area of approximately 1,220 sq. m. with a total developable gross floor area of about 4,000 sq. m. for residential purposes.
- (11) February 2006: A wholly owned subsidiary of the Group executed a development agreement with MTR Corporation Limited for the development at Area 86, Tseung Kwan O, Site AB of Tseung Kwan O Town Lot No. 70. With an aggregate area of approximately 31,500 sq. m., the site is earmarked for a residential development with kindergarten estimated to have a developable gross floor area of about 310,000 sq. m.
- (12) 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.

The Mainland and Overseas

- (13) 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 two pieces of land located at Maqiao Town, Minhang District, Shanghai, the Mainland. The sites have an aggregate area of approximately 260,100 sq. m. and are planned to be developed into residential properties.
- (14) March 2005: A 50/50 joint venture company of the Group and the Hutchison Whampoa Group acquired a piece of land located at Wenjiang District, Chengdu, Sichuan Province, the Mainland. The land has an area of approximately 373,000 sq. m. and is earmarked for a residential and commercial development.
- (15) April 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 Wangcheng County, Changsha, the Mainland. The land has an area of approximately 556,000 sq. m. and is designated for residential purposes.
- (16) April 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 Jing Yue Tan Tourist Economic Development Zone, Changchun, the Mainland. The land has an aggregate area of approximately 827,000 sq. m. and is planned for a residential and commercial development.
- (17) May 2005: The Group and the Hutchison Whampoa Group established two 50/50 joint venture companies to own and develop two pieces of land located at Jiang Han District, Wuhan, the Mainland. With an area of approximately 31,900 sq. m. and 132,000 sq. m. respectively, the two sites will be developed into residential and commercial properties.
- (18) May 2005: A 50/50 joint venture company of the Group and the Hutchison Whampoa Group entered into an agreement to acquire the premises known as the Convoys Wharf located at Deptford, London, the United Kingdom. With an aggregate area of approximately 16 hectares, the site will be redeveloped into a mixed residential and commercial project.
- (19) May 2005: A 50/50 joint venture company of the Group and the Hutchison Whampoa Group entered into a sino-foreign co-operative joint venture with Tianjin Metro General Corp. for the development of the land located at Yingkou Dao, Tianjin, the Mainland. The land has an area of approximately 19,600 sq. m. and is planned for commercial and residential developments.
- (20) May 2005: A 50/50 joint venture company of the Group and the Hutchison Whampoa Group entered into an agreement to acquire the land in the Administrative Region of Bei Xin Village, Changping District, Beijing, the Mainland. The land has a buildable area of approximately 254,700 sq. m. and is earmarked for a residential development.

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- (21) June 2005: A 50/50 joint venture company of the Group and the Hutchison Whampoa Group acquired a piece of land located at Douxi District of the Economic and Technological Development Park, New Northern Zone, Chongqing, the Mainland. Designated for residential and commercial purposes, the site has a buildable area of approximately 440,000 sq. m.
- (22) July 2005: A joint tender for certain parcels of land at Marina Boulevard/Central Boulevard, Singapore (“Marina Bay Land”) submitted by a 50/50 joint venture company of the Group and the Hutchison Whampoa Group together with two other consortium partners, each has a one-third interest, was awarded. Phase 1 of land parcel A of the Marina Bay Land is planned for the development of a business and financial centre.
- (23) August 2005: A wholly owned subsidiary of the Group launched an issue of Japanese Yen Bonds with a five years’ term in Japan in an aggregate principal amount of JPY33 billion which has been swapped into US\$.
- (24) September 2005: Four 50/50 joint venture companies of the Group and the Hutchison Whampoa Group entered into the agreements to acquire four pieces of land located at Zengcheng City, Guangzhou, the Mainland respectively. With an area of approximately 51 hectares, 49 hectares, 49 hectares, and 53 hectares respectively, the four sites will be developed into residential properties.
- (25) December 2005: A 25/25/50 joint venture company of the Group, the Hutchison Whampoa Group and Li Ka Shing (Overseas) Foundation was established for the purpose of owning and developing a piece of land located at Century Avenue, Pudong District, Shanghai, the Mainland. The land has an area of approximately 50,850 sq. m. and is planned to be developed into commercial, cultural and office properties.
- (26) February 2006: A new joint venture company equally owned by the Group and the Hutchison Whampoa Group was established to form another joint venture with a party in the Mainland to own and develop 4 pieces of land with an aggregate area of approximately 225,550 sq. m. at Jinkeng Village, Zhongxin Town (Zhenlong), Guangzhou, the Mainland for development into residential properties.
- (27) February 2006: An indirect 50/50 joint venture company of the Group and the Hutchison Whampoa Group acquired 50% of the issued share capital of, and the benefits of the debts owed by, Circadian (CH) Limited (“CCH”) and Circadian Limited (“CHL”) respectively. CCH is the owner and developer of a piece of freehold property on the north side of Chelsea Harbour Drive, Chelsea Harbour Estate, Fulham, London, England and CHL is the owner and developer of the land together with all buildings from time to time thereon situated at and known as the Lots Road Power Station, Lots Road, Chelsea, London, England.
- (28) During the year under review, the Group’s property projects in the Mainland and overseas 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\$12,904 million (2004 – HK\$17,015 million), a decrease of HK\$4,111 million when compared with last year, and comprised mainly the sale of residential units of Harbourfront Landmark, One Beacon Hill and The Portofino, all completed in previous years, and the sale of residential units of property projects completed during the year, including The Pacifica, Carmel Cove of Caribbean Coast and St. Paul's Terrace in Hong Kong. Approximately 82% 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\$3,306 million (2004 – HK\$1,577 million), an increase of HK\$1,729 million when compared with last year. Contribution margins increased significantly from last year, as the Hong Kong economy strengthened and growing demand for residential properties in Hong Kong during the year lifted the selling prices and profit margins of the Group's property projects. Selling prices for Harbourfront Landmark and Caribbean Coast in particular made a good recovery from their previously written down values.

Contribution from property sales for 2006 will mainly be derived from the sale of residential units of Seasons Palace, The Legend at Jardine's Lookout, Metro Town Phase 1 and Central Park Towers Phase 1 upon their completion in Hong Kong, together with several other property projects in the Mainland which are scheduled for completion.

During the year, the presale of residential units of Seasons Palace, The Legend at Jardine's Lookout and Metro Town Phase 1 was launched. The results were very successful and as at the year end, more than 80% of the residential units of these projects have been presold.

Property Rental

Turnover of the Group's property rental for the year was HK\$590 million (2004 – HK\$568 million), an increase of HK\$22 million when compared with last year mainly due to increases in rental rates in Hong Kong during the year, the effect of which had been partly offset by the disposal of some minor rental properties during the year. The Group's existing investment properties comprise mainly retail shopping malls and commercial office properties in Hong Kong which accounted for approximately 31% and 37% respectively of the turnover of the Group's property rental for the year.

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Contribution from property rental, including share of results of jointly controlled entities, was HK\$901 million (2004 – HK\$852 million), an increase of HK\$49 million when compared with last year. Contribution from jointly controlled entities continued to increase as good occupancy and rental rates were reported by various investment properties in Hong Kong and in the Mainland, despite the divestment of commercial units at Waldorf Garden and City One Shatin in Hong Kong during the first half year.

Prior to the year end, seven industrial/office properties in Hong Kong owned by the Group and jointly controlled entities were sold to Prosperity Real Estate Investment Trust. The divestment of these properties had no material impact on the Group's turnover and contribution from property rental for the year.

At the balance sheet date, the Group recorded an increase in fair value of investment properties of HK\$1,776 million based on professional valuation, and shared an increase in fair value of investment properties of HK\$1,165 million of jointly controlled entities.

Hotels and Serviced Suites

Turnover of the Group's hotels and serviced suites for the year was HK\$642 million (2004 - HK\$605 million), an increase of HK\$37 million when compared with last year. This increase in turnover was mainly driven by improved economic conditions in Hong Kong and an increased number of tourist arrivals.

Contribution from hotels and serviced suites, including share of results of jointly controlled entities, was HK\$275 million (2004 (restated) – HK\$121 million), an increase of HK\$154 million when compared with last year. Operating results of hotels and serviced suites, both in Hong Kong and in the Mainland, improved from last year with good occupancy and room rates being achieved which helped to offset the effect of depreciation charges on hotel and serviced suite properties following a change in accounting policy.

During the year, the acquisition of The Kowloon Hotel, of which the Group has a 50% interest, was completed and the new Rambler Garden Hotel, of which the Group has a 30% interest, had its grand opening. The operating results of these two hotels, located in Hong Kong, were satisfactory and were instrumental in the significant increase in contribution from jointly controlled entities during the year.

Prior to the year end, the Harbourview Horizon All-Suite Hotel was completed, while the Harbourfront Horizon All-Suite Hotel was completed in early 2006. Both hotels are located in Hong Kong and will make contribution to group profit in 2006.

Benefiting from the improving economic conditions in Hong Kong and in the Mainland, 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\$222 million (2004 – HK\$243 million), a decrease of HK\$21 million when compared with last year mainly due to a decrease in project management services rendered by the Group upon completion of various joint venture projects.

Contribution from property and project management was HK\$98 million (2004 – HK\$88 million), an increase of HK\$10 million when compared with last year. This increase in contribution was mainly attributable to an increase in property management services provided by the Group. 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, the total floor area under the Group's property management was approximately 79 million square feet and this is expected to grow steadily following the gradual completion of the Group's property projects in the years ahead.

Major Associates

The Hutchison Whampoa Group, a listed associate, reported profit attributable to shareholders for the year ended 31st December, 2005 of HK\$14,343 million (2004 (restated) – HK\$12,978 million).

The CK Life Sciences Group, another listed associate, reported profit attributable to shareholders for the year ended 31st December, 2005 of HK\$12,234,000 (2004 (restated) – loss of HK\$3,968,000).

FINANCIAL REVIEW

Liquidity and Financing

During the year, the Group issued notes with two to ten years' terms in Hong Kong under the retail note issuance programme in the total amount of HK\$2.9 billion, and launched an issue of Japanese Yen Bonds with a five years' term in Japan in an aggregate principal amount of JPY33 billion which has been swapped into US\$. During the year, the Group also redeemed notes upon maturity in the total amount of HK\$3.1 billion. At the balance sheet date, outstanding bonds and notes issued by the Group amounted to HK\$9.3 billion.

Together with bank loans of HK\$13.3 billion, the Group's total borrowings at the balance sheet date were HK\$22.6 billion, an increase of HK\$1.6 billion from last year end date. The maturity profile is spread over a period of ten years, with HK\$3.9 billion repayable within one year, HK\$18.2 billion within two to five years and HK\$0.5 billion beyond five years.

At the balance sheet date, the Group's gearing ratio remained low at 7.7% (2004 (restated) – 9.7%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balances of HK\$8.3 billion) over shareholders' funds.

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 balance sheet date, approximately 87.5% of the Group's borrowings were in HK\$ (or swapped into HK\$) with the balance in US\$ (or swapped into US\$) mainly for the purpose of financing projects outside Hong Kong. While the Group derives its revenue mainly in HK\$, cash balances and marketable securities are maintained mainly in HK\$ or US\$, and the Group 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 or equity linked bonds and notes issued by the Group, swaps arrangements have been in place to convert the rates and related terms to a floating rate basis in effect.

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 foreign exchange rate fluctuations.

Charges on Assets

At the balance sheet date, certain subsidiaries of the Group in the Mainland pledged assets of joint ventures with aggregate carrying value of HK\$1,120 million (2004 (restated) – HK\$1,115 million) to secure bank loan facilities utilised by the joint ventures with other partners.

Contingent Liabilities

At the balance sheet date, the Group's contingent liabilities were as follows:

- (1) share of contingent liability of a jointly controlled entity in respect of guaranteed return payments payable to the other party of a co-operative joint venture in the next 44 years amounted to HK\$4,494 million;
- (2) guarantee provided for the minimum share of revenue receivable by the other party of a joint venture project in a period of 40 years amounted to HK\$672 million; and
- (3) guarantees provided for bank loans utilised by jointly controlled entities and investee company amounted to HK\$4,731 million (2004 – HK\$3,597 million) and HK\$19 million (2004 – HK\$21 million) respectively.

Employees

At the balance sheet date, the Group employed approximately 7,100 employees for its principal businesses. The related employees' costs for the year (excluding directors' emoluments) amounted to approximately HK\$1,038 million. 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.