

Management Discussion and Analysis

BUSINESS REVIEW

Major Business Activities

1. Developments Completed during 2006:

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
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	Tseung Kwan O Town Lot No. 73, Area 73B Tseung Kwan O	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%
Caribbean Coast Crystal Cove	Tung Chung Town Lot No. 5	61,680	Joint Venture
Cape Coral Phase 2 and Commercial	Panyu Dashi, Guangzhou	95,210	50%
The Greenwich Phases IA and IB	Yao Jia Yuan, Beijing	131,000	50%
Regency Park Phases IV and V	Pudong Huamu, Shanghai	35,550	50%
Seasons Villas Phase 6B	Pudong Huamu, Shanghai	810	50%
One Raffles Quay	Marina Boulevard Singapore	148,530	33.33%

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2. Developments in Progress and Scheduled for Completion in 2007:

Name	Location	Total Gross Floor Area (sq. m.)	Group's Interest
The Apex and Hotel Development	The Remaining Portion of Kwai Chung Town Lot No. 467	74,340	100%
Central Park Towers Phase 1	Tin Shui Wai Town Lot No. 24	98,800	98.47%
Le Point	Tseung Kwan O Town Lot No. 73, Area 73B Tseung Kwan O	130,338	Joint Venture
Sausalito	Sha Tin Town Lot No. 487	70,030	100%
Cape Coral Phase 1	Nanan, Chongqing	39,738	47.5%
Changchun Project Phase 1	Jing Yue Tan, Changchun	57,826	50%
The Greenwich Commercial	Yao Jia Yuan, Beijing	2,377	50%
Chengdu Project Phase 1A	Wenjiang, Chengdu	91,275	50%
The Greenwich Phase 1A	Xian	113,902	50%
Le Parc Phase 1A	Chengdu	70,565	50%
Maison des Artistes Phases 1 to 3C and Commercial	Gubei, Shanghai	112,120	50%
Regency Park Phases IIA and VI	Pudong Huamu, Shanghai	31,481	50%
The Metropolitan Plaza	Guangzhou	87,018	50%
Seasons Villas Phase 4A	Pudong Huamu, Shanghai	1,500	50%
Kerry Everbright City Phases IIA and IIB	Zhabei District, Shanghai	150,200	24.75%

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

Hong Kong

- (1) February 2006: A wholly owned subsidiary of the Group executed a development agreement with MTR Corporation Limited (“MTR”) 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.
- (2) April 2006: A wholly owned subsidiary of the Group entered into a development agreement with Kowloon-Canton Railway Corporation for the development at Tai Wai Maintenance Centre of the Ma On Shan Rail. With an area of approximately 70,600 sq. m., the site is planned for a residential development with a total developable gross floor area of approximately 313,960 sq. m. Construction work involving a developable gross floor area of about 200,750 sq. m. is due to commence. The remaining portion comprising a developable gross floor area of about 113,210 sq. m. is under planning.
- (3) June 2006: A wholly owned subsidiary of the Group entered into a sale and purchase agreement with Nan Fung Development Limited (“Nan Fung”) to dispose of the Group’s 15% interest in the development at Area 86, Tseung Kwan O, Site AB of Tseung Kwan O Town Lot No. 70 to Nan Fung for a total consideration of approximately HK\$678 million.
- (4) June 2006: The Group entered into a sale and purchase agreement for the acquisition of 29% of the issued share capital of The Ming An Insurance Company (Hong Kong) Limited for a consideration of approximately HK\$607 million. The Ming An Group was listed on The Stock Exchange of Hong Kong Limited in December 2006 and after completion of the listing, the Group holds approximately 21% interest in the Ming An Group.
- (5) November 2006: The Group successfully bid for Sha Tin Town Lot No. 548, Area 77, Ma On Shan, Sha Tin at a Government auction. With an area of approximately 16,440 sq. m., the site is designated for a residential development estimated to have a developable gross floor area of approximately 82,200 sq. m.
- (6) November 2006: A wholly owned subsidiary of the Group entered into a sale and purchase agreement with MTR for the acquisition of the whole of the commercial development with a developable gross floor area of approximately 16,800 sq. m. and the whole of the commercial car park at Tseung Kwan O Town Lot No. 73 (the “Project TKOTL73”).
- (7) December 2006: A wholly owned subsidiary of the Group entered into a sale and purchase agreement with Nan Fung to dispose of 20% of the Group’s interest in the Project TKOTL73 to Nan Fung.

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- (8) February 2007: A wholly owned subsidiary of the Group acquired 90 Repulse Bay Road, Section A and the Remaining Portion of Rural Building Lot No. 177. With a site area of approximately 3,300 sq. m., the site is designated for a residential development.
- (9) During the year under review, the Group continued to acquire properties and agricultural land with potential for development. Some of the properties and agricultural land are under varying stages of design and planning applications.

The Mainland and Overseas

- (10) 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.
- (11) 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 thereon situated at and known as the Lots Road Power Station, Lots Road, Chelsea, London, England.
- (12) June 2006: A 45/45 joint venture company of the Group and the Hutchison Whampoa Group together with an independent third party entered into an agreement for the confirmation of bid result, redevelopment and payment of the bid price in respect of bidding of a piece of land with an area of approximately 386,207 sq. m. located at Xiao Gang Wan, Qingdao, the Mainland (the “Land”). Pursuant to the above agreement, the joint venture company agreed to acquire an area of approximately 311,780 sq. m., representing approximately 81% of the total area of the Land and the land use right thereof, which is planned for development into residential and commercial properties.
- (13) October 2006: A wholly owned subsidiary of the Group issued S\$400 million Guaranteed Fixed Rates Notes in Singapore comprising S\$200 million Guaranteed Fixed Rate Notes due 2009 and S\$200 million Guaranteed Fixed Rate Notes due 2011.

- (14) October 2006: A joint venture company equally owned by the Group and the Hutchison Whampoa Group entered into agreements with independent third parties to acquire and jointly develop (through a wholly foreign owned enterprise to be established by the joint venture company) a piece of land with an area of approximately 80,000 sq. m. at Lujiazui, Pudong New District, Shanghai, the Mainland for development into properties for commercial and related purposes.
- (15) January 2007: The Group, the Hutchison Whampoa Group and an independent third party were successful in the bid for a piece of land with an area of approximately 177,262 sq. m. at Zhen Ru Fu Zhong Xin (A3-A6), Putuo District, Shanghai, the Mainland. A sino-foreign equity joint venture company will be established by the Group, the Hutchison Whampoa Group and the independent third party with effective equity interests of 49.2%, 50.4% and 0.4% respectively, for acquiring and developing the land into commercial and residential properties.
- (16) February 2007: 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, exercised an option, granted in their favour under a joint tender in July 2005, to purchase the remainder of Land Parcel 662 at Marina Boulevard/Central Boulevard, Singapore ("Phase 2 of Marina Bay Land") with a maximum permissible gross floor area of 194,000 sq. m. Phase 2 of Marina Bay Land is planned for the development of a residential development and an office development.
- (17) During the year under review, the Group's property projects in the Mainland and overseas were 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\$13,796 million (2005 – HK\$12,904 million), an increase of HK\$892 million when compared with last year, and comprised mainly the sale of residential units of The Pacifica in Hong Kong and Cairnhill Crest in Singapore, both completed in previous years, and the sale of residential units of property projects completed during the year, including Metro Town, Seasons Palace and The Legend at Jardine's Lookout in Hong Kong and Cape Coral Phase 2, Regency Park Phases IV and V and The Greenwich Phases IA and IB in the Mainland. Approximately 84% of the residential units of these projects 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\$5,583 million (2005 – HK\$3,306 million), an increase of HK\$2,277 million when compared with last year. The contribution margin for property sales recognised during the year was, in aggregate, better than last year as demand for residential properties in Hong Kong remained strong, particularly in the luxury sector, as interest rates became more stable in the second half year.

Contribution from property sales for 2007 will mainly be derived from the sale of residential units of The Apex, Sausalito, Le Point and Central Park Towers Phase 1 in Hong Kong and several other property projects in the Mainland which are scheduled for completion.

During the year, the presale of residential units of The Apex, Sausalito and Le Point was launched and, as at the year end, over 70% of the residential units of these projects have been presold.

Property Rental

Turnover of the Group's property rental for the year was HK\$624 million (2005 – HK\$590 million), an increase of HK\$34 million when compared with last year mainly due to increases in rental rates in Hong Kong during the year, the effect of which was partly offset by the disposal of several industrial/office properties in Hong Kong to Prosperity Real Estate Investment Trust at the end of last year. The Group's existing investment properties comprise mainly retail shopping malls and commercial office properties in Hong Kong which accounted for approximately 30% and 42% respectively of the turnover of the Group's property rental for the year.

Contribution from property rental, including share of results of jointly controlled entities, was HK\$936 million (2005 – HK\$901 million), an increase of HK\$35 million when compared with last year. During the year, increased occupancy and rental rates were reported by most of the investment properties in Hong Kong and the Mainland, and their increase in contribution offset the absence of contribution from various investment properties which were divested last year. With the completion of One Raffles Quay during the year, a commercial property in Singapore of which the Group has a 33 $\frac{1}{3}$ % interest, and the acquisition of the commercial portion of Metro Town in Hong Kong before the year end, of which the Group has a 80% interest, the contribution from property rental will be enhanced in the coming year.

At balance sheet date, the Group recorded an increase in the fair value of investment properties of HK\$1,936 million based on a professional valuation, and shared an increase in the fair value of investment properties of HK\$564 million of jointly controlled entities.

Hotels and Serviced Suites

Turnover of the Group's hotels and serviced suites for the year was HK\$729 million (2005 – HK\$642 million), an increase of HK\$87 million when compared with last year. The increase in turnover was mainly attributable to increased occupancy and room rates as economic conditions in Hong Kong and the Mainland were good and the number of tourist arrivals continued to grow during the year.

Contribution from hotels and serviced suites, including share of results of jointly controlled entities, was HK\$367 million (2005 – HK\$275 million), an increase of HK\$92 million when compared with last year. During the year, satisfactory operating results were reported by the Group's hotels and serviced suites both in Hong Kong and the Mainland, and contribution from jointly controlled entities increased significantly from last year as Harbour Plaza Metropolis and The Kowloon Hotel in Hong Kong and Grand Hyatt Beijing in the Mainland all had good performance.

During the second half year, the Harbourview Horizon All-Suite Hotel and the Rambler Oasis Hotel, of which the Group has a 100% interest and a 30% interest respectively, had their grand opening. Furthermore, the Harbourfront Horizon All-Suite Hotel, of which the Group has a 100% interest, was completed during the year and will commence operation shortly. These hotel and serviced suite properties are located in Hong Kong and stand to benefit from the growing tourist arrivals in Hong Kong.

Property and Project Management

Turnover of property and project management for the year was HK\$197 million (2005 – HK\$222 million), of which income from property management was HK\$144 million (2005 – HK\$137 million), an increase of HK\$7 million when compared with last year, and income from project related services was HK\$53 million (2005 – HK\$85 million), a decrease of HK\$32 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 management was HK\$83 million (2005 – HK\$80 million), an increase of HK\$3 million when compared with last year. Contribution from project related services was lower following the decrease in project management services rendered by the Group during the year.

The Group is committed to providing high quality services to properties under our management. At the year end, the total floor area under the Group's property management was approximately 81 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, 2006 of HK\$20,030 million (2005 – HK\$14,343 million).

The CK Life Sciences Group, another listed associate, reported profit attributable to shareholders for the year ended 31st December, 2006 of HK\$102,022,000 (2005 – HK\$12,234,000).

FINANCIAL REVIEW

Liquidity and Financing

During the year, the Group obtained a loan of HK\$4 billion from a joint development partner to finance the payment of land premium of a joint development project. The Group also issued notes with a ten-year term in Hong Kong under the retail note issuance programme in the amount of HK\$150 million and issued Singapore Dollar Fixed Rates Notes with three-year and five-year terms in Singapore in an aggregate principal amount of S\$400 million. During the year, the Group also redeemed notes upon maturity in the total amount of HK\$909 million. At balance sheet date, outstanding bonds and notes issued by the Group amounted to HK\$10.6 billion.

Together with bank loans of HK\$23.9 billion, the Group's total borrowings at balance sheet date were HK\$38.5 billion, an increase of HK\$15.9 billion from the end of last year. The maturity profile is spread over a period of ten years, with HK\$6.9 billion repayable within one year, HK\$31 billion within two to five years and HK\$0.6 billion beyond five years.

At balance sheet date, the Group's gearing ratio was approximately 17.3%, calculated on the basis of the Group's net borrowings (after deducting cash and bank balances of HK\$3.8 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 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\$) and S\$ 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 balance sheet date, certain subsidiaries of the Group in the Mainland pledged assets of joint ventures with aggregate carrying value of HK\$1,138 million (2005 – HK\$1,120 million) to secure bank loan facilities utilised by the joint ventures with other partners.

Contingent Liabilities

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

- (1) share of contingent liability of jointly controlled entity in respect of guaranteed return payments payable to the other party of a co-operative joint venture in the next 43 years amounted to HK\$4,488 million;
- (2) guarantees provided for the minimum share of revenue/profit receivable by other partners of joint development projects amounted to HK\$1,422 million (2005 – HK\$672 million); and
- (3) guarantees provided for bank loans utilised by jointly controlled entities amounted to HK\$3,701 million (2005 – HK\$4,731 million).

Employees

At 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\$1,111 million. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis, together with reference to the profitability of the Group, remuneration benchmarks in the industry, and prevailing market conditions within the general framework of the Group's salary and bonus system. The Group does not have any share option scheme for employees.