

## > Management Discussion and Analysis

For the year under review, the Group recorded a profit attributable to shareholders amounted to HK\$9,674.4 million, up 124% year-on-year. If stripping out the exceptionals, the underlying profits recorded HK\$3,823.6 million, surged 205%. Segment contributions from operations such as property sales, rental, infrastructure, service and department stores achieved satisfactory growth. Total segment results amounted to \$8,880.3 million, up 64%.

Revenues increased 26% to HK\$29,360.8 million from HK\$23,284.5 million. The marked increase was the result of strong growth of property sales, rental, infrastructure, service and department stores operations.

### Consolidated Income Statement

|  | FY2008<br>HK\$m   | FY2007<br>HK\$m |
|--|-------------------|-----------------|
| Revenues                                       | <b>29,360.8</b>   | 23,284.5        |
| Cost of sales                                  | <b>(20,844.8)</b> | (17,364.6)      |
| Gross profit                                   | <b>8,516.0</b>    | 5,919.9         |
| Other income                                   | <b>109.8</b>      | 52.3            |
| Other gains, net                               | <b>2,174.7</b>    | 1,651.1         |
| Selling and marketing expenses                 | <b>(441.4)</b>    | (358.9)         |
| Administrative expenses                        | <b>(1,968.4)</b>  | (1,898.0)       |
| Other operating expenses                       | <b>(2,531.1)</b>  | (2,594.7)       |
| Changes in fair value of investment properties | <b>4,022.6</b>    | 1,263.9         |
| Operating profit                               | <b>9,882.2</b>    | 4,035.6         |
| Financing income                               | <b>1,016.9</b>    | 817.8           |
| Financing costs                                | <b>(1,282.0)</b>  | (1,173.3)       |
| Share of results of                            | <b>9,617.1</b>    | 3,680.1         |
| Jointly controlled entities                    | <b>3,594.8</b>    | 1,664.1         |
| Associated companies                           | <b>962.4</b>      | 1,325.8         |
| Profit before taxation                         | <b>14,174.3</b>   | 6,670.0         |
| Taxation                                       | <b>(1,444.0)</b>  | (902.5)         |
| Profit for the year                            | <b>12,730.3</b>   | 5,767.5         |
| Attributable to:                               |                   |                 |
| Shareholders                                   | <b>9,674.4</b>    | 4,312.9         |
| Minority interests                             | <b>3,055.9</b>    | 1,454.6         |

### Revenues — Breakdown by Business Segments

|                    | FY2008<br>HK\$m | FY2007<br>HK\$m | YoY |
|--------------------|-----------------|-----------------|-----|
| Property sales     | <b>4,632.9</b>  | 2,916.7         | 59% |
| Rental             | <b>1,433.2</b>  | 1,210.3         | 18% |
| Infrastructure     | <b>327.4</b>    | 299.5           | 9%  |
| Service            | <b>16,851.5</b> | 13,588.4        | 24% |
| Department stores  | <b>2,236.0</b>  | 1,704.1         | 31% |
| Hotel operations   | <b>2,505.0</b>  | 2,331.4         | 7%  |
| Telecommunications | <b>962.1</b>    | 890.0           | 8%  |
| Others             | <b>412.7</b>    | 344.1           | 20% |
| Consolidated       | <b>29,360.8</b> | 23,284.5        | 26% |

### Analysis of segment results (including share of results of jointly controlled entities and associated companies)

|                    | FY2008<br>HK\$m | FY2007<br>HK\$m | %<br>change |
|--------------------|-----------------|-----------------|-------------|
| Property sales     | <b>2,704.1</b>  | 588.0           | 360%        |
| Rental             | <b>2,137.5</b>  | 1,475.7         | 45%         |
| Infrastructure     | <b>1,285.7</b>  | 1,117.1         | 15%         |
| Service            | <b>1,498.8</b>  | 1,166.3         | 29%         |
| Department stores  | <b>434.3</b>    | 247.0           | 76%         |
| Hotel operations   | <b>618.1</b>    | 674.9           | -8%         |
| Telecommunications | <b>18.3</b>     | 420.1           | -96%        |
| Others             | <b>183.5</b>    | (265.0)         | N/A         |
| Segment results    | <b>8,880.3</b>  | 5,424.1         | 64%         |

## > Management Discussion and Analysis

### Property sales

Property sales segment contributed HK\$2,704.1 million against HK\$588.0 million last year, hiked 3.6 times. In FY2008, the Group's effective share of property sales in Hong Kong amounted to approximately \$3 billion, up 95% year-on-year. The contributions were mainly from the sales of Harbour Place (海濱南岸), Prince Ritz (太子滙) and other inventory. As at 30 June 2008, the Group has sold 1,472 out of 2,470 units in Harbour Place.

For the properties in Mainland China, a total GFA of 884,216 sq m, up 35% year-on-year, were sold in FY2008 to generate gross sale proceeds of approximately RMB6.2 billion, up 19% year-on-year. An average gross profit margin of 33% and an average selling price of RMB7,016 per sq m were achieved.

### Rental

Rental business has a segment contribution of HK\$2,137.5 million, up 45% from HK\$1,475.7 million in the previous financial year. The higher contribution was coming from New World Tower, Manning House and our Mainland China investment properties.

In FY2008, the Group's gross rental income in Hong Kong amounted to \$1,210.9 million, up 12% year-on-year. All the shopping malls under the Group's portfolio maintained satisfactory occupancy during the year under review. Furthermore, the rental rates of both our office and commercial portfolio were continuously benefited from rental reversions in FY2008.

### Infrastructure

In FY2008, infrastructure posted a segment result of HK\$1,285.7 million, up 15%. Infrastructure operation recorded a stable segment contribution to the Group. Apart from the energy business, roads, water and ports businesses achieved a strong growth in contribution.

The outstanding performance of road and expressway projects within the Pearl River Delta Region continued to be benefited from the strong economic development in the region, and remained as the top contributor of infrastructure businesses.

### Service

In FY2008, there was a significant increment in the contribution from the service operations. Contracting, financial services and other businesses in service operations achieved a substantial growth in profits. The segment contribution from service operations increased 29% to HK\$1,498.8 million.

The operating environment of contracting segment has improved during the year under review although the recovery in the construction industry is still lagging behind in Hong Kong. In Mainland China, we are still cautious and selective in tendering new projects and the contribution thereof is stable. The business in Macau is very encouraging which remains as the major profit contributor to the segment.

## Department stores

Segment contribution from department stores business grew 76% to HK\$434.3 million. In the year under review, NWDS opened four new stores in Anshan, Shanghai, Nanjing and Wuhan. They included two self-owned stores of Anshan New World Department Store and Nanjing New World Department Store, as well as two managed stores of Shanghai-Hong Kong New World Department Store — Pujian Store and Wuhan New World Department Store — Xudong Branch Store. Besides, the Group expanded the Shanghai-Hong Kong New World Department Store — Hongkou Store GFA from about 15,500 sq m to about 19,600 sq m. The new stores and the expanded store together brought our total GFA to approximately 962,570 sq m, up 18% from the previous year.

## Hotel

Hotel operations contributed HK\$618.1 million, down 8% from last year. The Group's hotels in Hong Kong, namely Grand Hyatt Hong Kong, Renaissance Harbour View Hotel and Renaissance Kowloon Hotel, recorded an average occupancy of 80% and a 13% growth in the room rate achieved in FY2008. Meanwhile, our four hotels in Southeast Asia achieved a stable growth in the contribution during the year under review.

Our overall hotel operating results in Mainland China have been declining with a drop in occupancy rates and decrease in room rates during renovation of New World Hotel, Beijing, Courtyard by Marriot Beijing and New World Mayfair Hotel Shanghai. New World Hotel Wuhan was launched in April 2008. Therefore, its pre-matured results also dampened the contributions from hotel operation.

The Group had also paid HK\$31 million termination fees to previous managers for buyouts of the existing management contracts of New World Hotel Shenyang and New World Hotel Xian which have been charged to income statement in FY2008.

## Telecommunications

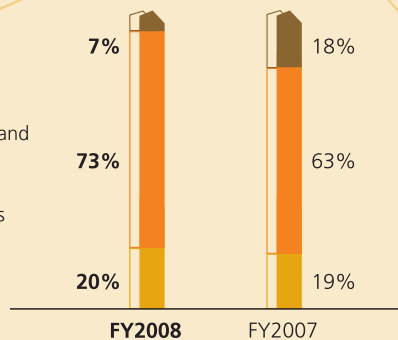
Telecommunications segment contributed HK\$18.3 million, down 96% from HK\$420.1 million last year. The substantial drop was mainly due to the one-off negative goodwill booked from the acquisition of CSL New World Mobility Group in FY2007.

## Others

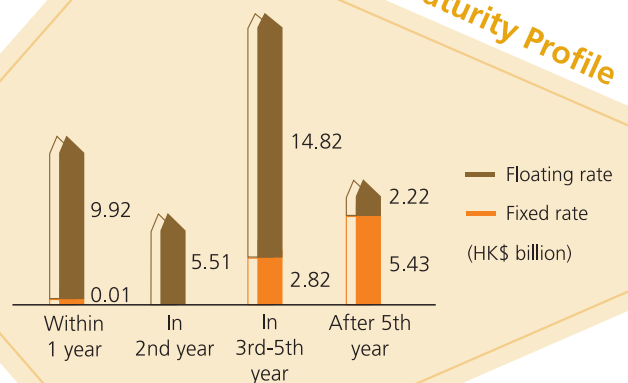
Others segment contributed a gain of HK\$183.5 million against a loss of HK\$265.0 million last year. The swing was due to the increase of net exchange gains of HK\$253.0 million from HK\$30.9 million last year and the increase of dividend income from investments.

### Source of Borrowings

- Short-term loans and Overdrafts
- Long-term loans
- Convertible bonds

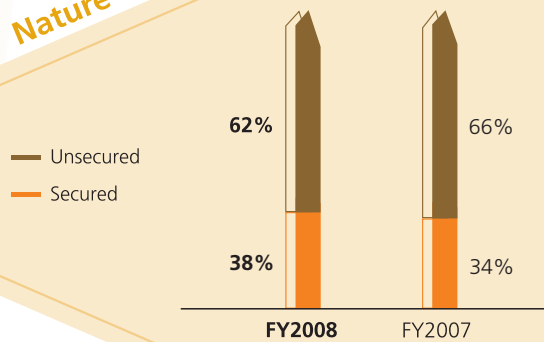


### Interest Rate and Maturity Profile

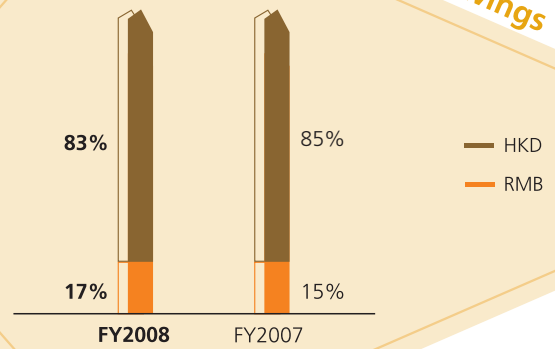


## > Management Discussion and Analysis

### Nature of Debts



### Currency Profile of Borrowings



### Other gains, net

Other gains, net amounted to HK\$2,174.7 million, up 32% from HK\$1,651.1 million in FY2007 last year.

NWDS shares were successfully listed on The Stock Exchange of Hong Kong Limited on 12 July 2007. The Group's shareholding

in NWDS decreased from 100% to 72.3%, resulting in a gain on deemed disposal of interest in NWDS of HK\$1.6 billion.

The Group won the PrediWave litigation in December 2006 and recognised a recovery from the PrediWave litigations of HK\$431.5 million for the 12 months ended 30 June 2008. As at 30 June 2008, total aggregate recovery from the PrediWave litigation amounted to approximately HK\$2,025.1 million.

## Changes in fair value of investment properties

Changes in fair value of investment properties jumped 218% to HK\$4,022.6 million from HK\$1,263.9 million last year. The surge was due to the marked increase in the fair value of the Hong Kong investment properties, especially the New World Centre, New World Tower and Manning House because of the substantial increase in unit rental rate in FY2008.

## Liquidity And Capital Resources

| Gross Debt                                  | FY2008<br>HK\$m | FY2007<br>HK\$m |
|---|-----------------|-----------------|
| Consolidated gross debt                     | <b>40,733.6</b> | 39,478.0        |
| NWSH  | <b>8,790.9</b>  | 11,685.6        |
| NWCL  | <b>13,612.7</b> | 10,417.2        |
| NWDS  | –               | –               |
| Gross debt<br>(exclude listed subsidiaries) | <b>18,330.0</b> | 17,375.2        |

| Net Debt                                  | FY2008<br>HK\$m  | FY2007<br>HK\$m |
|---|------------------|-----------------|
| Consolidated net debt                     | <b>26,929.7</b>  | 24,077.9        |
| NWSH                                      | <b>4,666.7</b>   | 8,438.4         |
| NWCL                                      | <b>8,788.1</b>   | 4,021.2         |
| NWDS-cash and bank balances               | <b>(3,127.6)</b> | (967.5)         |
| Net debt<br>(exclude listed subsidiaries) | <b>16,602.5</b>  | 12,585.8        |

On 12 July 2007, the Company completed the spin-off of its department store operations and management businesses in the People's Republic of China into a separate company, NWDS, whose shares were listed on the Main Board of the Hong Kong Stock Exchange. NWDS issued 467,245,000 shares at HK\$5.8 per share, raising net proceeds of HK\$2.6 billion. This put the Group in a better financial position for future expansion in its department store operations.

The Group's debts were primarily denominated in Hong Kong dollar and Renminbi. The Group maintains an appropriate level of external borrowings in Renminbi for natural hedging of the Group's operation in Mainland China. Apart from this, the Group does not have any material foreign exchange exposure.

As at 30 June 2008, HK\$26,971.3 million (2007: HK\$17,191.9 million) of total Group's assets were pledged as securities for certain banking facilities of the Group.

As at 30 June 2008, the Group's cash and bank balances stood at HK\$13,803.9 million and the consolidated net debt amounted to HK\$26,929.7 million (2007: HK\$15,400.1 million and HK\$24,077.9 million). The net debt to equity ratio was 28.4%, a decrease of 2.28% as compared with FY 2007.

## > Management Discussion and Analysis

The Group's long-term bank loans and convertible bonds and short-term bank and other loans as at 30 June 2008 were HK\$37,992.2 million and HK\$2,741.4 million respectively. The maturity of long-term bank loans and convertible bonds as at 30 June 2008 is as follows:

|                            | HK\$m           |
|----------------------------|-----------------|
| Within one year            | 7,193.0         |
| In the second year         | 5,508.7         |
| In the third to fifth year | 17,644.1        |
| After the fifth year       | 7,646.4         |
|                            | <b>37,992.2</b> |

Equity of the Group as at 30 June 2008 increased to HK\$94,806.1 million against HK\$78,483.8 million as at 30 June 2007.

### Nature of Debt

As at 30 June 2008, less than 40.0% of the total outstanding loans were secured by the Group's assets.

### Interest Rate and Maturity Profile

Amount of long term borrowings due within FY2009 amounts to HK\$7,193.0 million. Our cash and bank balances as of 30 June 2008 were HK\$13,803.9 million.

The combination of cash and bank balances, together with cash inflow from operation and our remaining undrawn banking facilities, should enable the Group to satisfy its debt repayment commitments and working capital requirements.

Approximately 79.7% of the Group's total debts are on a floating rate basis, whilst fixed rate borrowings mainly related to the RMB loan facilities and convertible bonds.

Effective interest rates are shown in Note 39(c) and (e) to the financial statements.