

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

the **East**
Queen's Road East

PROPERTIES

The Group's investment portfolio of rental properties includes:

Existing rental properties in operation

Property	Location	Use	Approximate GFA (sq. ft.)
Hopewell Centre	Wanchai, Hong Kong Island	Commercial and retail	840,000
HITEC	Kowloon Bay, Kowloon	Conference, exhibition and commercial	839,000
EMax	Kowloon Bay, Kowloon	Commercial and retail	900,000
Panda Place	Tsuen Wan, New Territories	Retail	221,000
QRE Plaza	Wanchai, Hong Kong Island	Commercial	77,000
GardenEast	Wanchai, Hong Kong Island	Residential and Commercial	96,500

Rental properties under development

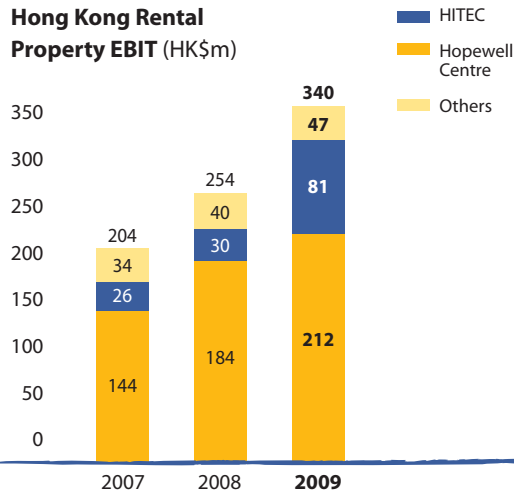
Property	Location	Use	Approximate GFA (sq. ft.)
12 Broadwood Road	Happy Valley, Hong Kong Island	Residential	113,900

Occupancy rate of commercial properties

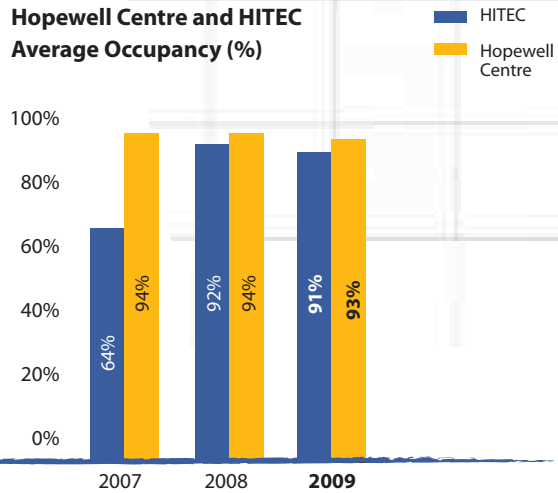
Avg. Occupancy Rate	FY08	FY09	Change %
Hopewell Centre	94%	93%	- 1%
HITEC Office	92%	91%	- 1%
EMax	79%	91%	+12%
Panda Place	83%	84%	+1%
QRE Plaza	21%	62%	+41%



**Hong Kong Rental
Property EBIT (HK\$m)**



**Hopewell Centre and HITEC
Average Occupancy (%)**



"The East"

"The East" is a brand name created for a dining and entertainment community conveniently located in Wanchai. First launched in December 2007, "The East" now comprises a cluster of retail outlets at Hopewell Centre, QRE Plaza, Wu Chung House and GardenEast with a total gross floor area of approximately 273,000 square feet. At present, 22 food and beverage outlets and 26 lifestyle stores are in operations. Through better coordinated marketing and promotional efforts, the branding is gradually building up. With the synergy achieved from the retail element of the different buildings involved and the upcoming redevelopment in Wanchai, we expect rental performance would be further enhanced.



A RENTAL

Hopewell Centre, Wanchai

Hopewell Centre, the 840,000-square-foot flagship of the Group's rental properties, recorded a 19% growth in rental income compared with last year and an average occupancy rate of 93%. Despite volatility in financial markets, the rental performance of the property was bolstered by stable occupancy over the year and improvement in rental rates. As part of its continuing efforts in providing quality environment and facilities to the tenants and retail customers of Hopewell Centre, the Group is currently refurbishing the lift lobby and carpark by phases after completing the modernization works of the office floors. The first phase of the carpark renovation was completed in May 2009. The Group has also implemented various green initiatives to improve the facilities of the property while saving energy and protecting the environment. Such constant enhancement has proved to be effective in drawing more and more professional and multi-national companies to relocate their offices to Hopewell Centre. Complemented by "The East" brand, the retail portion of Hopewell Centre has successfully attracted more quality food and beverage operators, offering a wider variety of dining choices to tenants and visitors of the building.

QRE Plaza, Wanchai

QRE Plaza, one of the key components of “The East”, comprises 25 storeys and is conveniently connected to Hopewell Centre and Wu Chung House by a footbridge. Benefitting from its unique design together with “The East” promotion efforts, it has been attracting encouraging leasing response. In February 2009, the Town Planning Board agreed to rezone QRE Plaza site to “commercial” use, paving the way for full operation of the building. It further strengthens this 77,000 square-foot commercial building as a one-stop dining and entertainment hub to both retailers and diners. As of 30 June 2009, the occupancy rate was 79% and a further 9% of the total floor area is under active lease negotiation. Up to the middle of August 2009, occupancy rate reached 83%.

GardenEast, Wanchai

This newly completed 96,500-square-foot 28-storey property provides 216 high quality serviced apartments with three retail shops at the podium level. The occupation permit of the property was issued in September 2008. The development will be held for long-term investment. This conveniently located property offers stylish and high quality accommodation in the heart of Wanchai commercial district, targeting the lucrative market of expatriates and young professionals. Operations started in February 2009 and marketing of the shops and the apartments has obtained encouraging response. The second floor of the retail portion is leased to a stylish western restaurant. It is expected that the additional retail element will bring new momentum to “The East”. As of 30 June 2009, about 60% of the serviced apartments were leased. Demand for quality serviced apartments remains strong and as of the middle of August 2009, around 82% of the total units have been leased with an additional 3% of the total units under active negotiation.





Wu Chung House, Wanchai

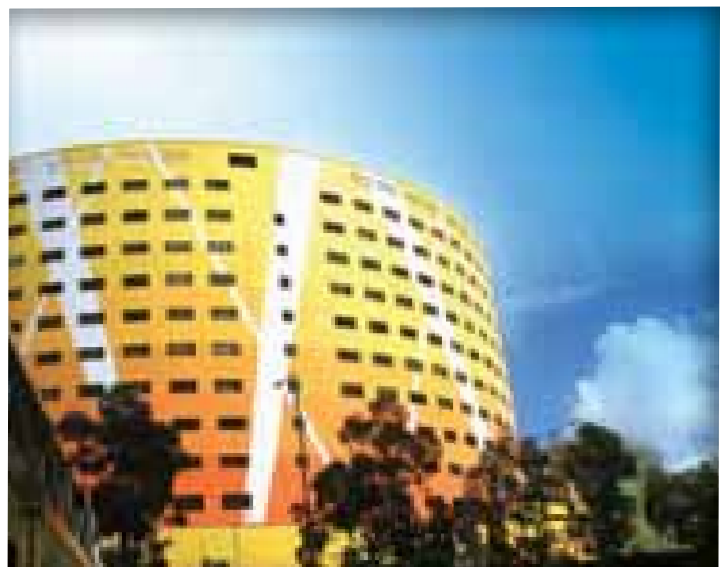
The property investment portfolio of the Group has been further strengthened after the acquisition of several retail outlets at Wu Chung House during the year under review. These premises, with a total gross floor area of 17,670 square feet, are fully let to a number of well-known retailers and provide enhanced rental revenue to the Group.

Hongkong International Trade and Exhibition Centre ("HITEC"), Kowloon Bay

HITEC, a commercial and retail complex comprising office, convention/exhibition halls and shopping mall known as EMax, provides unrivalled convenience and opportunities for event organizers and retail operators after repositioning into a top-notch multifaceted property in 2007.

For the year ended 30 June 2009, HITEC achieved a historical high overall average occupancy rate of 91% and rental income has been improving.

EMax, a 900,000-square-foot shopping and entertainment destination in HITEC, has attracted a wide variety of tenants offering food & beverage, pet accessories and services, home design and furniture, car show, bowling, retail and entertainment. The average retail occupancy rate of EMax increased from 79% for last year to 91% for the year ended 30 June 2009. After the opening of the tourist department store in the fourth quarter of 2008, the footfalls of visitors at EMax have increased remarkably. The visitor number is expected to grow further with the forthcoming opening of a new restaurant on the whole 14th Floor in September 2009 by an experienced operator as the flagship outlet.



Star Hall, the only large scale multi-purpose venue in Eastern Kowloon, measuring 30,000 square feet of column-free space capable of accommodating audiences up to 3,600, has completed its first year of full operation. Star Hall's first movie premiere in July 2009 has shown its capacity in hosting grand mega movie premieres and gained very positive feedback from the industry which immediately attracted subsequent bookings for movie premieres. After the first year of operation, Star Hall has firmly established itself as a popular venue for concerts, movie premieres, and banquets. Advance bookings of the venue have been made up to end of 2010. The business of Star Hall constitutes a major portion of convention and exhibition revenue of HITEC. The overall convention and exhibition revenue increased by 15 % compared with last year.

For the 650,000-square-foot office portion of HITEC, a portion of the floor area on 13th Floor has been converted from club operation into office space so as to bring more revenue for the property as a whole. Average occupancy rate for the office portion was 91% for the year ended 30 June 2009 as compared to 92% for last year.

Panda Place, Tsuen Wan

Panda Place, a 221,000-square-foot shopping mall situated on the lower floor and basement of the Panda Hotel, is located within convenient walking distance from both Tsuen Wan and Tai Wo Hau MTR stations. Since the completion of the major renovation works in the second half of 2005, the mall has provided retailers with excellent business opportunities. Aggressive leasing strategies and promotional activities have attracted a wide variety of the tenants covering food and beverage, fashion and accessories, home design, lifestyle, education and entertainment. Despite intense competition amongst other shopping malls in the district, the average occupancy rate of Panda Place reached 84% for the year ended 30 June 2009 and rental income for the year rose by 15% compared with last year. On-going upgrading works alongside trade-mix enhancement programs have been implemented to facilitate the shopping mall to become a dynamic and exciting landmark in Tsuen Wan.





B. HOSPITALITY

Panda Hotel, Tsuen Wan

During the year under review, the increase in supply of hotel rooms, the global financial crisis, the human swine influenza and the PRC's new travel policy forbidding agencies from offering tour packages below cost posed immense challenges for Panda Hotel and the tourism industry in Hong Kong.

Average room occupancy for the year decreased slightly to 80% while average room rate slid marginally as compared to last year. Since May 2009, the occupancy has remained low at around 50%, and room rates have remained soft, mainly due to the new travel policy. Total room revenue for the year was HK\$134 million, representing a 6% decrease from last year. Total hotel revenue decreased by 3% to HK\$204 million as compared to last year, partly offset by the significant improvement in the banquet business which

grew by 29%. Mainland visitors made up the majority of our hotel guests while tourists from short-haul markets, corporate and long staying guests also contributed to a steady flow of guest arrivals.

To maintain the competitiveness of Panda Hotel in the market, flexible pricing strategy and various marketing programmes are being deployed to sustain the business volume. Furthermore, Panda Hotel will maintain tight control of expenses and staff cost, as well as speed up the ongoing guestroom renovation and facility upgrading plans in order to remain competitive and prepare for market rebound.

Although there was a market downturn for the restaurant business, the food and beverage operation of Panda Hotel has achieved a steady growth in its business volume. Total food and beverage revenue for the year was HK\$67 million, which was 2% above that for last year.



Restaurant & Catering Services

The restaurant and catering services of the Group, comprising the food and beverage operations of the HITEC (“HITEC F&B”), Hopewell Food Industries Limited (“Hopewell Food”) and Bayern Gourmet Food (“BGF”) maintained the overall business volume at a similar level as last year.

The HITEC F&B continued to enjoy a steady growth in revenue of 7.2% to HK\$77 million compared to last year. The improvement for the year is mainly attributed to the growth in patronage of EMax and Star Hall and the series of innovative promotions launched.

Hopewell Food operates the “R66 Revolving Restaurant” (“R66”) at Hopewell Centre and “The Queen’s Palace Restaurant” at QRE Plaza. The revenue of R66 for the year was affected by the outbreak of human swine influenza

and the global economic downturn, which led to a decrease in visitors’ arrival to Hong Kong. Nonetheless, the R66, the only revolving restaurant in Hong Kong, continues to be a very popular venue amongst tourists and local residents. The Queen’s Palace Restaurant, a specialized Chinese restaurant located at QRE Plaza, opened on 8 September 2008. Since its opening, it has attracted residents and office workers nearby.

The revenue of BGF for the year decreased by 10% to HK\$90 million as compared to last year. Operating in a weak domestic consumption market, BGF has adopted stringent cost control measures and managed to achieve a slight increase in profit margin. BGF also took this opportunity to develop new products and explore new customer base in preparation for market rebound.





C. DEVELOPMENT

Hopewell Centre II, Wanchai

The Company revised the development plan of "Hopewell Centre II" in November 2008. This revised plan strikes a balance between economic development and environmental protection, under which the total number of storeys will be reduced to about 55 while the total floor area will be decreased to about 101,600 square metres. The height of the building, 210 metres above the principal datum, will be lower than the adjacent Hopewell Centre. Hopewell Centre II will be Hong Kong Island's first conference hotel with about 1,024 hotel rooms. The total investment is currently planned to be about HK\$5 billion, including a HK\$400 million road improvement plan, a green park open for public use and an extensive tree planting plan. The road improvement plan will help solve traffic problems in the area and enhance the safety of pedestrians.

Following the support of the Wan Chai District Council in January 2009, the related road improvement works of the project was gazetted on 9 April 2009. The 60-day period for submitting written opinions to the Government ended on 8 June 2009. Going forward, the Company will establish two preparatory committees for Hopewell Centre II Green Park and for Conservation and Revitalization of Nam Koo Terrace respectively. Members of the Committees will include district representatives and relevant professionals or experts. Under the current plan, Hopewell Centre II is targeted for completion in 2016. The Company will continue to strengthen its communications with various stakeholders and drive forward the project in line with established procedures.

Lee Tung Street Project, Wanchai

In June 2009, a joint venture company formed by the Company and Sino was awarded the tender for the Lee Tung Street Project in Wanchai by Urban Renewal Authority ("URA"). The 50:50 joint venture brings together our long term establishment and experience in Wanchai and Sino's strong track record in residential sales and experience in URA projects.

The Lee Tung Street/McGregor Street area is an iconic landmark that is widely known and full of historic value. Situated in a prime location on Hong Kong Island, together with a subway link to Wanchai MTR Station, the Lee Tung Street Project is also expected to bring superior transportation network to the area.



The project is highlighted with its iconic and unique characteristics by incorporating redevelopment, heritage conservation, revitalisation and green elements.

The redevelopment project possesses a site area of approximately 88,500 square feet, and will provide a total gross floor area of about 835,000 square feet upon its completion. The project is planned to comprise about 731,000 square feet for residential use, 86,000 square feet for a themed shopping mall, and 18,000 square feet to be handed over to URA.

Under the present plan, the joint venture intends to invest about HK\$8.3 billion in this project. Construction works is planned to commence before end of 2009 and be completed by 2015. Upon completion, the project will further strengthen the Company's rental properties portfolio under the commercial portion and enhance its properties income base through the provision

of over 1,000 premium residential units, to be sold in 2013 at the earliest. The project is also expected to bring synergy to the Company's existing properties in Wanchai including Hopewell Centre, QRE Plaza and GardenEast.

Hopewell New Town, Huadu, Guangzhou

The Group owns a 95% interest in Hopewell New Town. The project is a composite development with a site area of approximately 610,200 square metres. It comprises apartments, townhouses, commercial and recreational facilities which are being developed in phases. Phase 1B comprises 6 apartment buildings of approximately 17,000 square metres. Phase 2 comprises 48 units of townhouses and 10 blocks of apartments with total gross floor area of approximately 95,000 square metres. Occupation permit for the 48 townhouses (approximately 14,000 square metres) of Phase 2 now being marketed has been obtained in June 2009. Some apartment units of both phases will be made available for sale in the fourth quarter of 2009 and





completion scheduled in first half of 2010. Under the current plan, a total of 419 units or approximately 55,000 square metres (of which approximately 25% are townhouses and 75% are apartments) of Phases 1B and 2 will be made available for sale in the financial year ending 30 June 2010. The planned total investment for Phase 1B and Phase 2 are about RMB50 million and RMB300 million respectively.

Despite the downturn of the PRC residential property market in 2008 in terms of both transaction volume and price, there have been signs of rapid recovery since early 2009. In Guangzhou, the purchasing power of home-buyers remains strong, and which supports the property price recovery. Furthermore, PRC banks have relaxed policies on some loan applications, particularly for first time home buyers, resulting in mortgage growth and a positive market sentiment. The long term outlook of Huadu's housing market is positive.

***Liede Integrated Commercial
(Operating Lease) Project,
Zhujiangxincheng, Guangzhou***

The project is situated at the Zhujiangxincheng region of Tianhe District, the central business district of Guangzhou. It has a planned total gross floor area of about 232,000 square metres (including basements). Pursuant to the agreement entered between a subsidiary of the Company and the landlord, Guangzhou Lie De Economic Company Limited ("Liede Company"), an integrated commercial property will be built jointly by both parties. The subsidiary of the Company will be responsible for fitting-out and equipping the property and the premises will be leased to the subsidiary of the Company after its completion under an operating lease arrangement. Under the

present plan, the Group intends to invest not less than RMB1,000 million in this project. The development is planned to comprise a high quality commercial complex. The construction works are planned to start in the third quarter of 2010 with completion planned in 2015.

12 Broadwood Road, Happy Valley

The site is being redeveloped into a 45-storey luxurious apartment building with 78 residential units, a fully-equipped clubhouse, spacious landscaped areas and carparks. The property will be held for rental, targeting the premium residential market. The development has a gross floor area of approximately 113,900 square feet. Construction is progressing smoothly and the development is scheduled for completion in the second quarter of 2010. The currently planned total investment is about HK\$700 million. Upon completion, the development will further strengthen the Group's recurring rental income base. Preliminary leasing plan is being formulated.



EXTENDING INTO THE FUTURE

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power plant projects paving the way
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