

# Management Discussion and Analysis

For the year under review, the Group recorded a profit attributable to shareholders amounting to HK\$2,083.5 million, down 78% year-on-year. If stripping out the exceptions, the underlying profits recorded HK\$3,574.5 million, down 6.5%. Segment contributions from operations such as property sales, rental, infrastructure and service recorded a negative growth due to the economic downturn during the period under review. Total segment results amounted to HK\$5,224.1 million, down 41%.

Revenues decreased 17% to HK\$24,415.0 million from HK\$29,360.8 million. The decrease was the results of the decline in contribution from property sales, rental, infrastructure, hotel operations and service operations.

## CONSOLIDATED INCOME STATEMENT

|  | FY2009<br>HK\$m   | FY2008<br>HK\$m<br>(restated) |
|--|-------------------|-------------------------------|
| Revenues                                       | <b>24,415.0</b>   | 29,360.8                      |
| Cost of sales                                  | <b>(17,421.8)</b> | (20,844.8)                    |
| Gross profit                                   | <b>6,993.2</b>    | 8,516.0                       |
| Other income                                   | <b>265.2</b>      | 109.8                         |
| Other gains, net                               | <b>1,714.5</b>    | 2,174.7                       |
| Selling and marketing expenses                 | <b>(405.2)</b>    | (441.4)                       |
| Administrative expenses                        | <b>(1,635.9)</b>  | (1,968.4)                     |
| Other operating expenses                       | <b>(2,761.2)</b>  | (2,531.1)                     |
| Changes in fair value of investment properties | <b>(1,841.2)</b>  | 4,022.6                       |
| Operating profit                               | <b>2,329.4</b>    | 9,882.2                       |
| Financing income                               | <b>807.3</b>      | 1,016.9                       |
| Financing cost                                 | <b>(1,068.9)</b>  | (1,282.0)                     |
|  | <b>2,067.8</b>    | 9,617.1                       |
| Share of results of                            |                   |                               |
| Jointly controlled entities                    | <b>2,055.6</b>    | 3,613.4                       |
| Associated companies                           | <b>67.9</b>       | 962.4                         |
| Profit before taxation                         | <b>4,191.3</b>    | 14,192.9                      |
| Taxation                                       | <b>(439.4)</b>    | (1,444.0)                     |
| Profit for the year                            | <b>3,751.9</b>    | 12,748.9                      |
| Attributable to:                               |                   |                               |
| Shareholders of the Company                    | <b>2,083.5</b>    | 9,685.7                       |
| Non-controlling interests                      | <b>1,668.4</b>    | 3,063.2                       |

## REVENUES — BREAKDOWN BY BUSINESS SEGMENTS

|                      | FY2009<br>HK\$m | FY2008<br>HK\$m |
|----------------------|-----------------|-----------------|
| Property development | <b>2,112.6</b>  | 4,632.9         |
| Property investment  | <b>1,496.5</b>  | 1,433.2         |
| Infrastructure       | <b>278.1</b>    | 327.4           |
| Service              | <b>14,719.0</b> | 16,851.5        |
| Department stores    | <b>2,368.2</b>  | 2,236.0         |
| Hotel operations     | <b>2,267.7</b>  | 2,505.0         |
| Telecommunications   | <b>892.8</b>    | 962.1           |
| Others               | <b>280.1</b>    | 412.7           |
| Consolidated         | <b>24,415.0</b> | 29,360.8        |

In FY2009, revenue dropped 17% to HK\$24,415.0 million. The drop was the results of weak property sales, contraction of construction market, decrease in financial services due to overall lower trading volume of stock market and weaker demand in hospitality industry.

## ANALYSIS OF SEGMENT RESULTS (INCLUDING SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES)

|                      | FY2009<br>HK\$m | FY2008<br>HK\$m<br>(restated) |
|----------------------|-----------------|-------------------------------|
| Property development | <b>507.3</b>    | 2,704.1                       |
| Property investment  | <b>1,607.6</b>  | 2,137.5                       |
| Infrastructure       | <b>1,187.6</b>  | 1,304.3                       |
| Service              | <b>1,189.2</b>  | 1,498.8                       |
| Department stores    | <b>524.5</b>    | 434.3                         |
| Hotel operations     | <b>220.9</b>    | 618.1                         |
| Telecommunications   | <b>(57.7)</b>   | 18.3                          |
| Others               | <b>44.7</b>     | 183.5                         |
| Consolidated         | <b>5,224.1</b>  | 8,898.9                       |

# Management Discussion and Analysis

## PROPERTY DEVELOPMENT

For the year under review, the contribution from property sales segment decreased to HK\$507.3 million against HK\$2,704.1 million, mainly due to the lack of Hong Kong projects completed in FY2009 coupled with the prevailing weak market sentiment. In FY2009, the Group's effective share of property sales in Hong Kong amounted to approximately HK\$1,653.7 million, down 45% year-on-year. The contributions were mainly from the re-launch of Harbour Place (海濱南岸), sales of Block A of Wylie Court (衛理苑A座), Prince Ritz (太子匯) and other inventories.

Our project in Yuen Long, the Emerald Green (靚翠峰), was launched in March 2009. As at 30 June 2009, over 64% of the residential units were sold. Our luxury trophy project, The Masterpiece (名鑄), has received overwhelming market responses since launched in August 2009.

For the properties in Mainland China, a total GFA of 472,110 sq m, down 47% year-on-year, were sold in FY2009 with gross sale proceeds of approximately RMB3.4 billion, down 45% year-on-year. The average gross margin maintained at a stable level of 33.2% in FY2009 and the average selling price of RMB7,250 per sq m was achieved.

## PROPERTY INVESTMENT

Rental business contributed HK\$1,607.6 million, down 25% from HK\$2,137.5 million in the previous financial year, due to deficit in change of fair value of investment properties held by jointly controlled entities. The Group's gross rental income in Hong Kong maintained positive growth and amounted to HK\$1,259.1 million, increase 4% year-on-year. All the major projects in the Group's investment portfolio attained satisfactory occupancy.

## HOTEL OPERATIONS

In FY2009, hotel operations contributed HK\$220.9 million, down 64% from last year. The overall hotel operating results were unfavourable. Excluding global economic downturn and the spread of H1N1, the drop was mainly due to the partial renovation of Courtyard by Marriot Beijing and New World Mayfair Hotel Shanghai, the pre-matured results of the newly launched New World Hotel Wuhan, New World Hotel Dalian and Hyatt Regency Hong Kong, Sha Tin, together with the pre-opening expenses charged to income statement for Hyatt Regency Hong Kong, Tsim Sha Tsui during the period under review.

## INFRASTRUCTURE

In FY2009, infrastructure posted a segment result of HK\$1,187.6 million, down 9%. The drop in contribution of infrastructure segment was mainly due to the rising coal price that attacked the profitability of the energy division. Water business contribution to the segment was maintained as the overall impact of the global financial tsunami on the business was small when compared to other operations.

Despite the road and expressway projects within the Pearl River Delta Region has been adversely impacted by the slowdown of the economic activities and the improved performance of Tangjia Expressway due to toll-by-weight policy.

ATL Logistics Centre recorded a steady profit with a staggering average occupancy rate at 99% in FY2009. Owing to the time lag effect of its leasing business, an increase in overall average rental was observed as the impact of global freight market downturn was not fully reflected during this year.

## SERVICE

In FY2009, the service segment experienced a decrease in contributions mainly attributable to a substantial decline in earnings from the core business of Taifook Securities Group Limited as a result of the financial crisis. The segment contribution from service operations decreased 21% to HK\$1,189.2 million.

Macau projects still remained to be the major profit contributor of Contracting businesses. Contributions from Hong Kong projects decreased as a result of an additional provision of approximately HK\$180.0 million made for one major project due to potential claims for liquidated damages and foreseeable loss. We are planning to gradually scale down our presence in China as prices are extremely competitive while various new legislations and policies further increase our costs.

The Facilities Management business is expected to deliver solid profit contributions as a result of HKCEC's position as a market leader in the region which remains as the major profit contributor to the segment. Transport business achieved a significant increase over FY2008. It was primarily due to the gain in disposal of fixed assets and the drop in fuel costs during the year. The improved results were also due to the one-off impairment provision made for an investment in Mainland China last year.

## DEPARTMENT STORES

Segment contribution from department stores business grew 21% to HK\$524.5 million. In the year under review, NWDS opened three new stores in Beijing, Wuhan and Taizhou. They included two self-owned stores of Wuhan Hanyang Branch Store and Taizhou Store, as well as one managed store of Beijing Liying Store. The expansion of Harbin Store has been in phased operation starting from May 2009. The new stores and the expanded store together brought our total GFA to approximately 1,063,470 sq m.

NWDS made two acquisitions during the period under review. Two managed stores, namely Kunming Store and Ningbo Trendy Store, were acquired and converted to self-owned stores in March and April 2009 respectively.

## TELECOMMUNICATIONS

Telecommunications segment recorded a loss of HK\$57.7 million from a profit of HK\$18.3 million last year. The substantial drop was mainly due to the accelerated depreciation on the CSLNWM's old networks, following the decision to invest in new network technologies and acceleration in the phasing out of the old networks in FY2009.

## OTHERS

Others segment contributed a gain of HK\$44.7 million against HK\$183.5 million last year. Despite the increase of dividend income from investment, the swing was due to no net exchange gains recorded this year when compared with last year.

## OTHER GAINS, NET

Other gains, net amounted to HK\$1,714.5 million, dropped from HK\$2,174.7 million last year. In FY2008, there was a deemed disposal gain of HK\$1.6 billion due to the listing of NWDS on the Hong Kong Stock Exchange.

## CHANGES IN FAIR VALUE OF INVESTMENT PROPERTIES

Changes in fair value of investment properties recorded a deficit of HK\$1,841.2 million from a gain of HK\$4,022.6 million last year. The global financial tsunami drowned quite a number of multinational corporations. The big waves also triggered a lot of companies downsizing and even closing their operations in Hong Kong. The demand and rental rates of prime office buildings were greatly reduced.

## LIQUIDITY AND CAPITAL RESOURCES

| Gross Debt                                  | FY2009<br>HK\$m | FY2008<br>HK\$m |
|---|-----------------|-----------------|
| Consolidated gross debt                     | <b>48,550.8</b> | 40,733.6        |
| NWSH  | <b>8,806.0</b>  | 8,790.9         |
| NWCL  | <b>16,016.5</b> | 13,612.7        |
| NWDS  | —               | —               |
| Gross debt<br>(exclude listed subsidiaries) | <b>23,728.3</b> | 18,330.0        |

| Net Debt                                  | FY2009<br>HK\$m  | FY2008<br>HK\$m |
|---|------------------|-----------------|
| Consolidated Net debt                     | <b>34,187.5</b>  | 26,929.7        |
| NWSH                                      | <b>3,600.9</b>   | 4,666.7         |
| NWCL                                      | <b>12,115.6</b>  | 8,788.1         |
| NWDS-cash and bank balances               | <b>(2,923.5)</b> | (3,127.6)       |
| Net debt<br>(exclude listed subsidiaries) | <b>21,394.5</b>  | 16,602.5        |

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.

The Group's borrowings were mainly arranged on a floating rate basis. The Group used interest rate swaps to convert the rate from floating to fixed rate basis to hedge part of the Group's underlying exposure. As at 30 June 2009, the Group had outstanding floating-to-fixed interest rate swaps contracts in the aggregate amount of HK\$2 billion.

As at 30 June 2009, HK\$33,358.4 million (2008: HK\$26,971.3 million) of total Group's assets were pledged as securities for certain banking facilities of the Group.

## Management Discussion and Analysis

As at 30 June 2009, the Group's cash and bank balances stood at HK\$14,363.3 million (2008: HK\$13,803.9 million) and the consolidated net debt amounted to HK\$34,187.5 million (2008: HK\$26,929.7 million). The net debt to equity ratio was 35.1%, an increase of 6.7 percentage points as compared with FY2008. The increase was mainly due to the increase in bank borrowings for financing the payment of land premium for two development projects namely Che Kung Temple Station Development in Sha Tin and Lung Tin Tsuen in Yuen Long and development costs for projects under development.

As at 30 June, 2009, the Group's long-term bank loans and convertible bonds amounted to HK\$41,370.1 million. Short-term bank and other loans as at 30 June 2009 were HK\$7,180.7 million. The maturity of long-term bank loans and convertible bonds as at 30 June 2009 is as follows:

|                            | HK\$m           |
|----------------------------|-----------------|
| Within one year            | 7,796.2         |
| In the second year         | 6,385.5         |
| In the third to fifth year | 26,977.4        |
| After the fifth year       | 211.0           |
|                            | <b>41,370.1</b> |

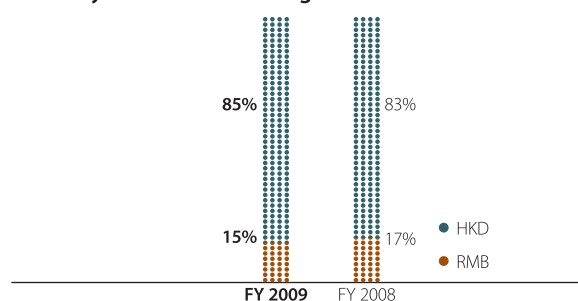
Equity of the Group as at 30 June 2009 increased to HK\$97,483.0 million against HK\$94,904.7 million as restated as at 30 June 2008.

### INTEREST RATE AND MATURITY PROFILE

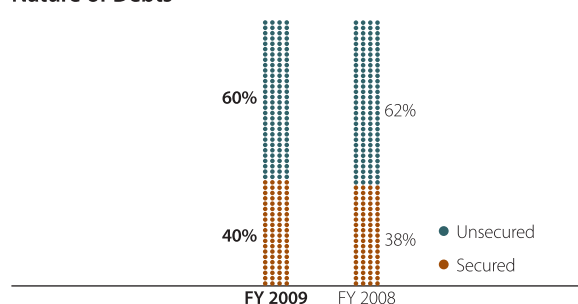
Amount of long term borrowings due within FY2009 amounted to HK\$7,796.2 million. Our cash and bank balances as of 30 June 2009 were HK\$14,363.3 million. The combination of cash and bank balances, together with cash inflow from operation and our remaining undrawn banking facilities, should enable the Group to satisfy its debt repayment commitments and working capital requirements.

Approximately 79% of the Group's total debts are on a floating rate basis, whilst fixed rate borrowings are mainly related to the RMB loan facilities and convertible bonds. Effective interest rates are shown in Note 42(b) and (d) to the financial statements.

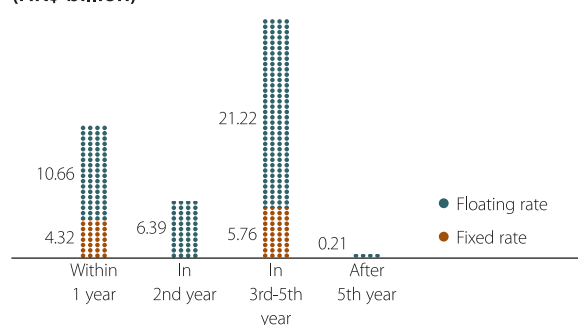
### Currency Profile of Borrowings



### Nature of Debts



### Interest Rate and Maturity Profile (HK\$ billion)



### Source of Borrowings

