

A photograph of a modern, multi-story building with a courtyard. The building features large glass windows and balconies. The courtyard is landscaped with a large, lush green tree in the center, surrounded by smaller plants and a wooden deck. In the foreground, there is a white, geometric, stepped structure. The overall scene is brightly lit, suggesting daytime.

# MANAGEMENT DISCUSSION AND ANALYSIS





# Management Discussion and Analysis



## FINANCIAL HIGHLIGHTS

- **Net profit attributable to owners at approximately HK\$394 million, up 21.7% from the previous financial year. Earnings per share increased from HK\$0.18 to HK\$0.21**
- **Net gearing ratio<sup>(i)</sup> at 32.5% and cash position at approximately HK\$2.3 billion as at 31st March, 2011**
- **Presale of property development at approximately HK\$2.6 billion for the year ended 31st March, 2011**
- **Gain resulting from spin-off of KHI at approximately HK\$418 million, recognized in reserve in the consolidated financial statements of the Company for the year ended 31st March, 2011**
- **Net assets attributable to shareholders increased from HK\$3.2 per share to HK\$3.7 per share. Adjusting for hotel revaluation surplus<sup>(i)</sup>, net assets attributable to shareholders as at 31st March, 2011 was HK\$6 per share**
- **Final dividend of HK\$0.05 per share for the year ended 31st March, 2011 recommended (2010: final dividend of HK\$0.04 per share)**

Note (i): The hotel revaluation surplus of HK\$5,979 million as at 31st March, 2011 was not recognized in the Company's consolidated financial statements, but adjusted for the calculation of the net gearing ratio and net assets attributable to shareholders per share.



## FINANCIAL REVIEW

### 1. Annual results

For the year ended 31st March, 2011, the Company's consolidated revenue was HK\$1,654 million, decreasing by 29.4% as compared to the previous financial year ended 31st March, 2010. The reduction was mainly due to lower property sales recorded in financial year 2011 versus financial year 2010. Hotel operation performance of KHI and the car park operation business contributed revenue of HK\$867 million and HK\$464 million respectively, increased by 40.7% and 66.5% respectively. Rental revenue from investment properties remained steady, increased by 4.9% from the previous financial year. The nature of the revenue in relation to hotel operation, car park business and rental income from investment properties is considered as recurring income. For the year ended 31st March, 2011, recurring income increased by approximately 46.1% reached HK\$1,392 million. It is one of our medium-term plans to build up our business with stable and consistent return from recurring income businesses. For the year ended 31st March, 2011, the recurring income portion was approximately 84.1% of our consolidated revenue.

Gross profit was HK\$756 million for the year ended 31st March, 2011, decreased by 5.4% only in comparison with the previous financial year. However, gross profit margin increased to 45.7% from 34.1%. This was mainly due to a number of reasons:– (1) For the year ended 31st March, 2011, major sales of properties came from California Garden in Shanghai of Mainland China, which provided a gross profit margin of approximately 71.5% (2010: 62.1%); (2) Gross profit margin from KHI increased to 54.5% from 53.8% as of the previous financial year; and (3) Gross profit margin from investment properties and car park business increased to 60.9% and 25.1% respectively from 58% and 20.8% respectively as of the previous financial year.

Net profit attributable to owners of the Company for the financial year ended 31st March, 2011 amounted to HK\$394 million, increased by 21.7% from the previous financial year. Major contributions during the financial year 2011 were derived from KHI's hotel operation steady performance; sale of a hotel, The Mercer by Kosmopolito, in Hong Kong; full year contribution from car park operation; sales of properties in California Garden in Shanghai of Mainland China; and the increase in fair value of investment properties.



## 2. Liquidity and financial resources

	<b>KHI Consolidated Group</b>	
	(HK\$ million)	(HK\$ million)
Bank and cash balances	897	2,264
Bank loans, convertible bonds and borrowings	3,562	5,969
Carrying amount of total equity	2,897	7,027
Add: revaluation surplus	5,979	4,365
Total equity	8,876	11,392
Net gearing ratio	30.0%	32.5%

Carrying amount of total equity attributable to owners of the Company as at 31st March, 2011 was HK\$7,027 million, increased by 14.7% as compared to HK\$6,126 million as at 31st March, 2010. As at 31st March, 2011, fair value of KHI's hotel portfolio exceeded its carrying amount was in the amount of approximately HK\$5,979 million, which was not recognized in the Company's consolidated statement of financial position. Taking into account of the revaluation surplus of the hotel assets, the net gearing ratio of KHI was 30% and the net gearing ratio of the Company was 32.5%. The Company maintained a strong financial position and had sufficient financial resources to cater for its operating activities as well as the existing and potential investment activities.

## Management Discussion and Analysis



Tan Sri Dato' David CHIU (4th from left) tossed for the success with the board of directors at the listing ceremony of KHI



Senior officials of Stock Exchange joined the management team of KHI for a photo at the trading hall to congratulate the listing of KHI

### 3. Kosmopolito Hotels International Limited – Spin Off

KHI was spun off and listed on the Stock Exchange on 11th October, 2010. IPO proceeds came to over HK\$1.1 billion, net of listing expenses. The proceeds enhanced both the Company and KHI liquidity. As at 31st March, 2011, the Company owned 73.1% of KHI. Gain resulted from the spin-off was approximately HK\$418 million. This gain was recognized in reserve in the consolidated financial statements of the Company for the financial year ended 31st March, 2011 under the current financial reporting standard.

### 4. Property presales

For the financial year ended 31st March, 2011, the Company's presales of properties under development amounted to approximately HK\$2.6 billion. Pre-sales of Stage 1 of Upper West Side in Melbourne, Australia amounted to approximately HK\$2.1 billion and pre-sales of apartments at Dorsett Regency "On New Bridge" Hotel in Singapore (through KHI) amounted to approximately HK\$494.5 million.



Upper West Side  
Melbourne, Australia

## BUSINESS REVIEW

### 1. Property division

The property division includes property development and investment property holding.

With respect to property development, the Company is committed to provide quality residential property, geographically covering Mainland China, Malaysia, Australia, Hong Kong and Singapore. This coverage enables the Company to capture the troughs of different property cycles in different locations. As at 31st March, 2011, GFA in our property development pipeline reached more than 10 million sq.

ft. For the year ended 31st March, 2011, the Company increased its development pipeline in terms of GFA by more than 10%.

However, during the year ended 31st March, 2011, revenue from property development decreased by 82.2% to HK\$245 million due to a decrease in completion of property development projects. As at 31st March, 2011, the Company had a total number of 17 residential development projects, of which 8 projects are expected to be completed within the coming 2 to 3 financial years, amounting to approximately 2 million sq. ft. GFA. We expect sales of properties to be on the rise in the coming years.



## Management Discussion and Analysis



**California Garden**  
Shanghai, Mainland China

The followings is a list of our major property development pipeline.

<b>Development projects</b>	<b>Location</b>	<b>Approximate GFA (sq. ft)</b>	<b>Completion schedule (Financial Year)</b>
1. California Garden	Shanghai, Mainland China	5,000,000	2012-2017
2. Hua Di Jia Yuen	Guangzhou, Mainland China	1,030,000	2015
3. Upper West Side	Melbourne, Australia	1,300,000	2014-16
4. 684 Clear Water Bay Road	Sai Kung, Hong Kong	20,000	2012
5. No. 1-11A San Wai Street	Hunghom, Hong Kong	66,000	2014
6. No. 287-293 Sai Yeung Choi Street North	Sham Shui Po, Hong Kong	39,000	2014
7. No. 90-100 Hill Road	Pok Fu Lam, Hong Kong	45,000	2015
8. Lot 470, Section 67, Imbi Road	Kuala Lumpur, Malaysia	166,000	2014-15

## Management Discussion and Analysis



**California Garden**  
Shanghai, Mainland China



**Hua Di Jia Yuen**  
Guangzhou, Mainland China

### **Mainland China** **California Garden, Shanghai**

Our flagship residential development in Mainland China is California Garden in Shanghai. This development is within half an hour metro train ride from the city centre and located next to Shanghai University. As at 31st March, 2011, California Garden consisted of approximately 5 million sq. ft. GFA, comprising various residential types, such as mid rise, low rise, high rise and townhouses.

For the year ended 31st March, 2011, sales of properties in California Garden came to HK\$153 million. During the financial year 2011, 3 shop lots, 3 apartments and 36 townhouses with approximately 83,000 sq. ft. GFA were sold. Phases 16 and 17 were in the construction stage, amounted to approximately 1 million sq. ft. GFA. They are expected to be presold in the second half of financial year 2012 and the financial year 2013. Approximately 700,000 sq. ft. GFA of Phase 16 are expected to be completed in the financial year 2014. Approximately 300,000 sq. ft. GFA of Phase 17 are expected to be completed in the financial year 2013.

### **Hua Di Jia Yuen, Guangzhou**

Hua Di Jia Yuen is located along with Huadi River in Guangzhou. The development project consists of approximately 1.03 million sq. ft. GFA. It planned to build a community with 5 residential towers. Construction work is expected to commence in the second half of the financial year ended March 31, 2012. Presale and completion are expected to take place in the financial year 2014 and 2015 respectively.



**California Garden**  
Shanghai, Mainland China



Upper West Side  
Melbourne, Australia

### Australia

The Company focused its core development projects in Australia during the last financial year 2011. The Bundoora development of 88 two-bedroom townhouses was completed in October 2010. As at 31st March, 2011, 76 units amounting to more than HK\$200 million were delivered and settled. The Company has a 25% interest in the project. The remaining apartments at Royal Domain Tower and North Bank Place were sold for approximately HK\$16 million and HK\$4 million respectively during the second half of the financial year ended 31st March, 2011. The development site at Northcote was also disposed of for approximately HK\$55 million before year ended 31st March, 2011, following the

decision to focus on the much larger and more profitable development at Upper West Side.

### Upper West Side, Melbourne

Upper West Side is a residential development project of approximately 1.3 million sq. ft. GFA, located in the heart of Melbourne CBD. It is expected to build approximately 3,000 apartments, divided into 4 stages. Pre-sale of Stage 1 of 700 apartments with approximately 400,000 sq. ft. GFA was launched in July 2010. As at 31st March, 2011, 83% of Stage 1 was presold, amounting to sales value of approximately HK\$2.1 billion. Construction had been commenced in the second half of the financial year 2011 and completion is expected to take place in the first half of the financial year 2014.

Stage 2 of Upper West Side is named as Madison at Upper West Side. It consists of 584 apartments with approximately 400,000 sq. ft. GFA. Sales and marketing had already been commenced in April 2011. Construction is expected to commence towards the end of the financial year 2012. Completion of Stage 2 is expected to take place in the financial year 2015. Stages 3 and 4, comprise approximately 500,000 sq. ft. GFA in total, will be launched following the first and second stages and the whole project is expected to be completed in 5 to 6 years. We believe that the total value from the whole project will bring in more than HK\$8 billion in revenue to the Company.



## Management Discussion and Analysis



**684 Clear Water Bay Road,**  
Sai Kung, Hong Kong



**No. 1-11A San Wai Street**  
Hunghom, Hong Kong

### Hong Kong

The Company plans to launch 4 developments in Hong Kong market. These developments cover a range of property type: from a 4 villas development with a total of 20,000 sq. ft. GFA to high rise apartments of more than 20 floors, namely, (i) 684 Clearwater Bay Road in Sai Kung, (ii) No. 1-11A San Wai Street in Hunghom, (iii) No. 287-293 Sai Yeung Choi Street North in Sham Shui Po, and (iv) No. 90-100 Hill Road in Pok Fu Lam. Total GFA of these four developments is approximately 170,000 sq. ft..

### 684 Clear Water Bay Road, Sai Kung

This is a redevelopment project converting 6 old villas into 4 villas, with a total GFA of 20,000 sq. ft. The developments situated in the prestige Sai Kung region with rare offers of new villas with private swimming pools. Construction and architectural works had been completed during the financial year 2011. The development has been launched to the market for sale.

### No. 1-11A San Wai Street, Hunghom

In the second half of financial year 2011, the Company entered into an agreement to acquire at the price of HK\$325 million a redevelopment site comprising residential and commercial properties at San Wai Street, Hunghom, which is located at the heart of Kowloon. The site is conveniently located to the future To Kwa Wan MTR station of the Central – Shatin Lane which will be completed in 2018 according to Shatin to Central link project of MTR Corporation Limited. GFA of the redevelopment site is approximately 66,000 sq. ft. It is expected to launch presale in the second half of the financial year 2012, and the development will be completed in the financial year 2014. This development demonstrated our new focus on serviced apartment development.



## Management Discussion and Analysis



**No. 90-100 Hill Road**  
Pok Fu Lam, Hong Kong



**No. 287-293 Sai Yeung Choi Street North**  
Sham Shui Po, Hong Kong



**Lot 470 Section 67, Imbi Road**  
Kuala Lumpur, Malaysia

### **No. 287-293 Sai Yeung Choi Street North, Sham Shui Po**

This is a residential redevelopment site with GFA 39,000 sq. ft.. This project was acquired in December 2010 through compulsory auction under Cap. 545. Construction works had been commenced in the first half of the financial year 2012. It is expected to launch presale of the property in the second half of the financial year 2012, and completion of the project is expected to take place in the financial year 2014.

### **No. 90-100 Hill Road, Pok Fu Lam**

This is a residential redevelopment site, located at the upper part of Hill Road, close to the University of Hong Kong with conveniently access to the Hong Kong University MTR station in the West Island Lane which will be completed in 2014 according to West Island line project of MTR Corporation Limited. GFA of the site is approximately 45,000 sq. ft. It plans to build up a residential tower of 120 residential units. It is still in finalization of the legal proceedings in acquisition of the whole site through compulsory auction under Cap 545. The project is expected to be completed in the financial year 2015.

### **Malaysia**

#### **Lot 470, Section 67, Imbi Road, Kuala Lumpur**

In the second half of the financial year 2011, the Company entered into an agreement to acquire a piece of vacant land located at Imbi Road, Central Kuala Lumpur with GFA at approximately 166,000 sq. ft. for approximately HK\$80 million. This is a residential serviced apartment project. Construction and earthworks are expected to commence in the second half of the financial year 2012. Presales and completion are expected to be in the financial years 2013 and 2014/2015 respectively.

#### **Investment properties**

Investment properties mainly comprise retail and office buildings located in Shanghai of Mainland China, Hong Kong, Australia, Singapore and Malaysia. As at the end of March 2011, the total value of investment properties was recorded at HK\$2.6 billion, increasing by 18.4% from the previous financial year 2010. A revaluation gain of HK\$313 million was made during the financial year 2011. Revenue and gross profit of investment properties holding came to HK\$61 million and HK\$37 million respectively for the year ended 31st March, 2011.

The Company has drawn up a plan to revamp Shanghai Ching Chu Xintiandi in Mainland China, a shopping mall project in California Garden. Further, the Company is investigating the possibility of building a mall adjacent to the Shanghai Ching Chu Xintiandi project. These two developments will be linked together providing easy mutual access. It is expected that these 2 developments will further strengthen our recurring rental cashflow stream.

### **2. Kosmopolito Hotels International Limited**

Our hotel business spreads over Hong Kong, Malaysia, Mainland China and Singapore. Currently KHI owns 21 hotels, of which 15 hotels are in operation across the region, namely 8 hotels operating in Hong Kong, 2 hotels in Mainland China, and 5 hotels in Malaysia. The total number of rooms under KHI operation was approximately 4,000 as at 31st March, 2011. For the year ended 31st March, 2011, KHI's performance showed a strong rebound from the financial year 2010, reversing the downward trend over the previous two financial years.

Note (i): The legal titles of ownership of all hotels have been obtained, save for Dorsett Regency CBD, Zhongshan which is in the process of obtaining its title certificates.

## Management Discussion and Analysis

Operating results for the 12 months ended 31st March, 2011 are as follows:

Region	Revenue Per Available Room ("RevPAR") (HK\$)		Occupancy (%)		Average Room Rate (HK\$)	
	31.3.2011	†Change %	31.3.2011	†Change %	31.3.2011	†Change %
Hong Kong*	746.1	33%	92%	11%	815.4	21%
Malaysia	331.8	14%	73%	6%	456.5	8%
Mainland China <sup>#</sup>	283.6	119%	47%	-4%	604.0	126%
<b>Group Wide</b>	<b>534.9</b>	<b>28%</b>	<b>79%</b>	<b>5%</b>	<b>679.9</b>	<b>22%</b>

\* Includes Cosmo Mongkok Hotel which opened in July 2010.

<sup>#</sup> Includes Yue Shanghai Hotel which opened in February 2010.

† As compared to the previous financial year.

For the year ended 31st March, 2011, revenue increased by 40.7% as compared to the previous financial year due to higher RevPAR and contribution from new hotels. Continuous economic growth in Asia, particularly in Mainland China and Hong Kong, were positive contributing factors. Demand for hotel accommodation across the region was strong and grew at a rapid pace. During the year ended 31st March, 2011, RevPAR increased by 33% in Hong Kong while the overall RevPAR was up 28%. In Mainland China, RevPAR increased by 119%. The significant increase of RevPAR in Mainland China was brought about by our Yue Shanghai Hotel, which commenced operation in February 2010 and started to provide contribution in the second

half of the financial year 2011. The average room rate in Mainland China also increased by 126% during the year ended 31st March, 2011.

As a result of strong revenue growth and gain recorded on the sale of The Mercer by Kosmopolito, KHI achieved a net profit for the year ended 31st March, 2011 of HK\$208 million (2010: HK\$45.8 million).

The rise in capital value of our hotel properties, resulted in a surplus of approximately HK\$5,979 million as at 31st March, 2011, which was not accounted for in the consolidated financial statements of the Company. KHI is currently operating 15 owned hotels with approximately 4,000 rooms in total. In the next couple of years, the

number of room is expected to increase by 6 new hotels providing additional accommodation of about 2,400 rooms. In March 2011, KHI sold The Mercer by Kosmopolito and obtained its management contract. This is the first hotel management contract obtained in Hong Kong. We are proactively seeking hotel investment and hotel management opportunities to enhance our presence.

## Management Discussion and Analysis

### Hotel Assets Portfolio Hotels in Operation

As at 31st March, 2011, KHI was operating 15 hotels, representing 3,834 rooms across Hong Kong, Malaysia and Mainland China:

<b>Company owned hotel properties</b>	<b>Location</b>	<b>Target market segment*</b>	<b>Total rooms*</b>	<b>Commencement</b>
Cosmopolitan Hotel	Hong Kong	mid-scale	454	January 2005
Central Park Hotel	Hong Kong	boutique	142	April 2005
Dorsett Kowloon Hotel	Hong Kong	value	141	May 2005
Cosmo Hotel	Hong Kong	boutique	142	October 2005
Lan Kwai Fong Hotel @ Kau U Fong	Hong Kong	boutique	162	March 2006
Dorsett Seaview Hotel	Hong Kong	value	268	October 2006
Dorsett Far East Hotel	Hong Kong	value	240	January 2007
Cosmo Hotel Mongkok	Hong Kong	boutique	285	July 2010
Dorsett Regency Hotel Kuala Lumpur	Malaysia	mid-scale	320	April 1998
Grand Dorsett Subang Hotel	Malaysia	upscale	478 <sup>#</sup>	February 2007
Grand Dorsett Labuan Hotel	Malaysia	upscale	178	September 2007
Maytower Hotel	Malaysia	boutique	179	October 2008
Dorsett Johor Hotel	Malaysia	value	252	October 2008
Wuhan Cosmopolitan Hotel	Mainland China	mid-scale	329	June 2008
Yue Shanghai Hotel	Mainland China	boutique	264	February 2010
			3,834	

\* The hotel names, target market segments and total rooms may change.

<sup>#</sup> On the assumption that the proposed 125 additional rooms located on 13th Floor to 17th Floor of Grand Dorsett Subang are fully completed.

## Management Discussion and Analysis

### Hotels Under Development

The 6 owned hotels that are under development are largely progressing as planned with slight delays mainly with the 2 hotels in Mainland China. The details are as follows:

<b>Company owned hotels under development*</b>	<b>Location</b>	<b>Target market segment*</b>	<b>Total rooms*</b>	<b>Commencement*</b>
Dorsett Regency Hong Kong	Hong Kong	mid-scale	209	June 2011
Dorsett Regency Kwun Tong	Hong Kong	mid-scale	380	December 2011
Dorsett Regency Kwai Chung	Hong Kong	mid-scale	506	March 2012
Hotel Kosmopolito City Centre, Chengdu	Mainland China	up-scale	547	June 2012
Dorsett Regency CBD, Zhongshan <sup>#</sup>	Mainland China	mid-scale	416	July 2012
Dorsett Regency "On New Bridge"	Singapore	mid-scale	285	June 2013
			<u>2,343</u>	

\* The hotel names, target market segments and total rooms may change.

<sup>#</sup> This hotel is in the process of obtaining its legal title of ownership.



**Yue Shanghai hotel**  
Shanghai, Mainland China



**Grand Dorsett Labuan Hotel**  
Labuan, Malaysia



**Dorsett Regency Hotel**  
Hong Kong



**Grand Dorsett Subang Hotel**  
Kuala Lumpur, Malaysia



**Dorsett Regency Hotel**  
Kwai Chung, Hong Kong

For the year ended 31st March, 2011, 2 hotels were completed and their operations had been commenced. In July 2010, Cosmo Hotel Mongkok in Hong Kong began its operation. The hotel consists of a total number of 25 floors comprised of 285 rooms. This hotel focuses on tourism business, such as those from Mainland China, South East Asia, Japan and Korea. In February 2010, Yue Shanghai Hotel in Mainland China commenced its operation. The hotel consists of 18 floors comprised of 264 rooms. Due to its location being close to Shanghai Exhibition Centre and Century Park in Pudong, Shanghai, the hotel caters for both business customers and tourist customers.

**Dorsett Regency Hotel**  
Kuala Lumpur, Malaysia



**Dorsett Regency Hotel**  
On NewBridge, Singapore





### Car Park Division

A number of our hotels will complete their development and will commence operation, namely Dorsett Regency Hotel Hong Kong, Dorsett Regency Kwun Tong and Dorsett Regency Kwai Chung. They provide approximately 1,100 rooms. These developments will add to hotel operation and hence further consolidate our market share in Hong Kong. Hotels in Chengdu and Zhongshan of China will bring up approximately 1,000 rooms to strengthen our hotel portfolio in Mainland China. Our Dorsett Regency "On New Bridge" Hotel in Singapore will also further reinforce our market in South East Asia.

In the second half of the financial year 2011, a development order was obtained to develop a site located right next to our Grand Dorsett Subang Hotel in Kuala Lumpur in Malaysia. The site is presently vacant. KHI is in initial discussion with various parties and is considering available options for this hotel residence development project.

In Singapore, construction of our new Dorsett Regency "On New Bridge" Hotel is underway. Presales of the 68 apartments adjacent to the hotel were completed in the second

half of the financial year 2011. Completion is expected to be in the second half of the financial year 2014.

### 3. Car park division

The Company's car park division managed both third-party-owned car parks and self-owned car parks in Australia, New Zealand, and Kuala Lumpur of Malaysia. As at 31st March, 2011, the Company had approximately 250 car parks consisting of over 46,000 car park bays under our management. Of these, the Company owned 20 car parks consisting of approximately 5,600 car park bays.

The division operates in Australia and New Zealand under the name of CarePark Group, which is one of the largest car park operators in Australia and New Zealand. For the year ended 31st March, 2011, CarePark Group added approximately 1,000 car park bays under its management, bringing the total number of car park bays under its management to a total number of approximately 44,000 as at 31st March, 2011. CarePark Group also has a number of contracts with city councils for parking meter collection. In Malaysia, the Company managed over 2,000

self-owned car park bays as at 31st March, 2011. This operation is primarily located in the Hartamas area in Kuala Lumpur.

For the year ended 31st March, 2011, revenue and profit after tax significantly grew by 66.5% and 38.1% to HK\$464 million and HK\$24 million respectively, mainly due to its full year contribution as the car park business was acquired in the second half of the year ended 31st March, 2010.