

## Management Discussion and Analysis

CK Hutchison Holdings Limited (the “Company”) is a Cayman Islands company incorporated on 11th December, 2014 and registered in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). During the period from 11th December, 2014 to 31st December, 2014, Cheung Kong (Holdings) Limited (“Cheung Kong”) was the sole shareholder of the Company. With effect from 18th March, 2015, the Company has become the holding company of Cheung Kong and its subsidiaries (the “CK Group”) and has replaced the listing status of Cheung Kong.

### SUSTAINABLE DEVELOPMENT STRATEGY

The principal business activities of both the CK Group and the Group encompass property development and investment, hotel and serviced suite operation, property and project management, and investment in infrastructure businesses and securities, and the newly invested business of the ownership and leasing of movable assets. These core businesses have been the key drivers in providing steady streams of revenue. The Hutchison Whampoa Group, our major listed affiliate, has been a major profit contributor. With diversified operations spanning over 50 countries around the globe, the Hutchison Whampoa Group has six core businesses – ports and related services, property and hotels, retail, infrastructure, energy and telecommunications.

Both the CK Group and the Group will continue to adhere to our core strategic objective to maximise shareholder value by driving long-term sustainable growth of our businesses. Based on our strategic positioning as a multinational conglomerate, the listed companies under the CK Group and the Group are committed to nurturing new growth through diversification and globalisation while continuing to be registered and listed in Hong Kong. We are focused on the pursuit of attractive investment opportunities around the world to extend our business scope and geographic coverage beyond Hong Kong, and to create steady returns and further value for shareholders. All investment decisions are made for our shareholders’ long-term best interests, contingent on market conditions as well as appropriate assessment of project risk and return.

The CK Group and the Group also benefit from operating and financial synergies across the core businesses of each of our listed companies. These synergies translate into enhanced competitiveness that allows us to capture good investment opportunities around the globe which, in turn, drive business growth and create new sources of revenue. By building on a stronger and more diversified operating base, we will enhance further our operational efficiency and effectiveness, and strengthen our risk management capacity to deal with unforeseen market changes.

Achieving an optimal balance between progress and stability has always been one of our defining operating philosophies. We are steadfast in maintaining financial prudence in our pursuit of global acquisitions and investments. Through adhering to our fundamental financial policy of maintaining a healthy debt ratio, we will maintain strong liquidity and sufficient financial resources to position ourselves to be able to capitalise on acquisition and investment opportunities as they arise, and to create shareholder value on a sustainable basis.

## BUSINESS REVIEW

### Major Business Activities

#### 1. Developments Completed during 2014:

Name	Location	Total Gross Floor Area (sq.m.)	Group's Interest
Hemera	Site E of The Remaining Portion of Tseung Kwan O Town Lot No. 70	128,544	Joint Venture
Kennedy Park at Central	Section A, The Remaining Portion of Section B, Subsection 1 of Section N and Subsection 1 of Section O of Inland Lot No. 1381	8,106	100%
The Rise	The Remaining Portion of Kwai Chung Town Lot No. 157	23,225	100%
Mont Vert Phase I	The Remaining Portion of Tai Po Town Lot No. 183	70,459	100%
City Point	The Remaining Portion of Tsuen Wan Town Lot No. 403	113,064	Joint Venture
Trinity Towers	The Remaining Portion of New Kowloon Inland Lot No. 6494	29,649	Joint Venture
The Vision	West Coast Crescent, Singapore	33,600	50%
Upper West Shanghai Phase 1A	Putuo District, Shanghai	13,581	29.4%
Oriental Financial Center	Lujiazui, Shanghai	80,000	50%
Regency Residence Phase 1	Nangan District, Changchun	3,000	50%
Le Parc Phase 5A	Chengdu High-Tech Zone, Chengdu	154,486	50%

## Management Discussion and Analysis (continued)

Name	Location	Total Gross Floor Area (sq.m.)	Group's Interest
Regency Oasis Phase 1B	Wenjiang District, Chengdu	15,343	50%
Noble Hills Phase 2C	Douxi, Chongqing	36,419	50%
Regency Park Phase 3B	Tianning District, Changzhou	170,787	50%
Laguna Verona Phases E1 and E2	Hwang Gang Lake, Dongguan	64,398	49.91%
Noble Hills Phase 1B	Zengcheng, Guangzhou	21,293	50%
The Harbourfront Land No. 3, 4 and 8	Shibei District, Qingdao	141,045	45%
Regency Garden Phases 2B and 4	Pudong New District, Shanghai	100,494	42.5%
Millennium Waterfront Phase 1A	Jiangnan District, Wuhan	23,453	50%
Regency Cove Phase 1	Caidian District, Wuhan	89,357	50%

## 2. Developments in Progress and Scheduled for Completion in 2015:

Name	Location	Total Gross Floor Area (sq.m.)	Group's Interest
Heung Yip Road Project	The Remaining Portion of Aberdeen Inland Lot No. 354	30,099	100%
Stars by the Harbour	Kowloon Inland Lot No. 11120	33,979	100%
Mont Vert Phase II	The Remaining Portion of Tai Po Town Lot No. 183	16,892	100%
DIVA	The Remaining Portion of Inland Lot No. 3319	6,606	100%
La Lumière	Hung Hom Inland Lot No. 556	9,740	100%
Argyle Street Project	Kowloon Inland Lot No. 11125	36,630	80%
Ping Kwai Road Project	Lot No. 2129 in D.D. 121 Yuen Long	6,076	100%
Thomson Grand	Upper Thomson Road Singapore	43,781	100%
La Grande Ville Phase 3	Shun Yi District, Beijing	65,183	100%
Guangzhou Guoji Wanjucheng Phases 2B and 2C1	Huangpu District, Guangzhou	99,462	30%
Yuhu Mingdi Phases 2(1) and 3	Luogang District, Guangzhou	132,263	40%
Upper West Shanghai Phase 1B	Putuo District, Shanghai	103,310	29.4%
Hupan Mingdi Land No. 911 North	Jiading District, Shanghai	138,904	50%
Kerry Everbright City Phase III	Zhabei District, Shanghai	104,253	24.75%

## Management Discussion and Analysis (continued)

Name	Location	Total Gross Floor Area (sq.m.)	Group's Interest
Regency Cove Phases 1A and 1B	Changchun National Hi-Tech Industrial Development Zone, Changchun	235,456	50%
Regency Park Phases 4A and 4B	Jingyue Economic Development Zone, Changchun	72,414	50%
Le Parc Phase 5B	Chengdu High-Tech Zone, Chengdu	148,015	50%
Regency Hills Lands No. 1 and 8A	Yangjiashan, Chongqing	198,383	47.5%
Zhaomushan Land No. G19	Liangjiang New Area, Chongqing	73,175	50%
Laguna Verona Phase D2b	Hwang Gang Lake, Dongguan	73,869	49.91%
Nanzhuang Town Phases 1A and 2A	Chancheng District, Foshan	45,846	50%
Cape Coral Phase 4A	Panyu District, Guangzhou	76,963	50%
Noble Hills Phase 1A	Zengcheng, Guangzhou	1,500	50%
Emerald City Phases 1 and 2	Jianye District, Nanjing	359,198	50%
The Harbourfront Land No. 6	Shibei District, Qingdao	225,797	45%
Zhao Xiang Town Land No. 17 Phases 1 and 2	Qing Pu District, Shanghai	80,230	50%
Zhao Xiang Town Land No. 16 Phases 1 and 2A	Qing Pu District, Shanghai	151,126	50%
Century Link	Pudong New District, Shanghai	218,457	25%

Name	Location	Total Gross Floor Area (sq.m.)	Group's Interest
Regency Garden Phase 5A	Pudong New District, Shanghai	35,980	42.5%
Land Lots G/M and H Project	Futian District, Shenzhen	45,000	25%
Laopupian Project Phase 1	Jiangnan District, Wuhan	198,291	50%
Millennium Waterfront Phases 1B and 2A	Jiangnan District, Wuhan	476,248	50%

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

#### Hong Kong

- (1) December 2014: A wholly owned subsidiary of the CK Group successfully bid for the contract for the joint development of the site located at Hai Tan Street / Kweilin Street / Pei Ho Street, Sham Shui Po, New Kowloon Inland Lot No. 6506 in a public tender exercise. With an area of approximately 7,507 sq.m., the site is planned for a commercial, residential, and government, institution or community development estimated to have a developable gross floor area of approximately 57,400 sq.m.
- (2) During the year under review, the CK Group continued to pursue opportunities for acquisition of 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

- (3) May 2014: An indirect joint venture company, held as to one-third by each of Cheung Kong, Cheung Kong Infrastructure Holdings Limited ("CKI") and Power Assets Holdings Limited, was formed for funding for the conditional cash takeover bid to acquire Envestra Limited (now known as Australian Gas Networks Limited), a distributor of natural gas in Australia, the shares of which were listed on the Australian Securities Exchange. The acquisition was completed in the third quarter of 2014.
- (4) May 2014: A 50/50 joint venture company was formed by Cheung Kong and CKI for the acquisition of Park'N Fly, an off-airport car park provider in Canada. The enterprise value of the transaction is approximately C\$381 million (approximately HK\$2.72 billion). The acquisition was completed in late July 2014.

**Management Discussion and Analysis (continued)**

- (5) August and November 2014: Wholly owned subsidiaries of Cheung Kong entered into sale and purchase agreements with, among others, (a) GE Capital Aviation Services Limited to purchase a total of 21 aircraft for a total consideration of approximately US\$816,000,000, (b) BOC Aviation Pte. Ltd. to purchase up to 10 aircraft for a total base purchase price of US\$492,000,000, and (c) Jackson Square Aviation, LLC to purchase up to 14 aircraft for a consideration of US\$584,200,000. Further, a wholly owned subsidiary of Cheung Kong entered into a subscription agreement (“Subscription Agreement”), pursuant to which such wholly owned subsidiary and MC Aviation Partners Inc. (“MCAP”) agreed, on a 60:40 basis, to subscribe for the equity interest in JV Aviation (HK) Limited (the “JV Company”, now known as Vermillion Aviation Holdings Limited) which will indirectly hold a portfolio of up to 15 aircraft at a consideration payable by the CK Group of up to US\$132,000,000. The aggregate base purchase price of the 15 aircraft is expected to be approximately US\$733,500,000. In January 2015, Cheung Kong, such wholly owned subsidiary, MCAP, the JV Company, Li Ka Shing (Overseas) Foundation (“LKSO”) and Vermilion Global Limited (“VGL”, a wholly owned subsidiary of LKSO) entered into a deed of amendment to amend the Subscription Agreement by the adoption of an amended subscription agreement. Under the amended subscription agreement, (i) the parties agreed to vary the shareholding structure of the JV Company, by including VGL as a shareholder, and (ii) such wholly owned subsidiary, MCAP and VGL agreed to subscribe for 50%, 40% and 10% of the equity interest of the JV Company, respectively, for an aggregate maximum consideration of approximately US\$110 million, US\$88 million and US\$22 million, respectively.
- (6) November 2014: A wholly owned subsidiary of the CK Group successfully bid for Land Parcel 894 at Upper Serangoon Road in Singapore with a site area of approximately 10,097.2 sq.m. and a gross floor area of approximately 30,292 sq.m. for development into residential and commercial properties. In December 2014, the Hutchison Whampoa Group subscribed for one share, representing 50% of the enlarged share capital, in the holding company of such wholly owned subsidiary. Subsequent to the completion of the subscription, the CK Group and the Hutchison Whampoa Group jointly and equally owned the development of the Land Parcel.
- (7) January 2015: An indirect 50/50 joint venture company of the CK Group and CKI entered into an agreement to acquire Eversholt Rail Group, one of the three major rolling stock operating companies in the United Kingdom. The purchase price payable by such joint venture company on completion of the acquisition is the aggregate of (a) GBP1,027 million (equivalent to approximately HK\$12,016.93 million), (b) an amount equal to 10% per annum thereon from and excluding 31st December, 2013 to and including the date of completion (calculated and pro-rated on a daily basis), and (c) GBP10,000,000 (equivalent to approximately HK\$117.01 million), subject to such downward adjustments as set forth in the sale and purchase agreement for the acquisition.
- (8) During the year under review, the CK Group continued to focus on project development and the marketing of properties on the Mainland and overseas in a timely manner.

## Property Sales

The CK Group's turnover of property sales for the year including share of property sales of joint ventures was HK\$26,348 million (2013 – HK\$27,589 million), a decrease of HK\$1,241 million when compared with last year, and comprised mainly (i) sale of residential units of property projects in Hong Kong – The Beaumont and One West Kowloon completed in 2013, Kennedy Park at Central, The Rise, Trinity Towers, City Point and Mont Vert Phase I completed during the year, (ii) sale of residential units of property projects on the Mainland – Regency Garden Phases 2B and 4 in Shanghai, Le Parc Phase 5A in Chengdu, The Harbourfront Land Nos. 3 and 4 in Qingdao and Regency Park Phase 3B in Changzhou completed during the year, and (iii) sale of residential units of The Vision completed in Singapore during the year.

Contribution from property sales including share of results of joint ventures was HK\$8,436 million (2013 – HK\$10,184 million), a decrease of HK\$1,748 million when compared with last year as contribution from property sales on the Mainland fell significantly in a difficult market environment where sale results in some of the cities were below expectations.

The joint development project of Oriental Financial Center, a commercial property in Shanghai, was completed in the second half year and a profit of HK\$2,349 million was recognised by the CK Group upon completion of its sale.

Property sales contribution for 2015 will mainly be derived from the sale of residential units of DIVA, Mont Vert Phase II, Hemera, Stars by the Harbour and Argyle Street Project in Hong Kong, Thomson Grand in Singapore, Upper West Shanghai Phase 1B and Hupan Mingdi in Shanghai, La Grande Ville Phase 3 in Beijing, Emerald City Phases 1 and 2 in Nanjing and several other property projects scheduled for completion.

The presale of residential units of DIVA and Mont Vert Phase II has been launched in Hong Kong and almost all of the units have been sold whereas sales/presale of various residential property projects on the Mainland progressed slowly. The residential units of Thomson Grand in Singapore have been sold out in 2012.



## Management Discussion and Analysis (continued)

### Property Rental

The CK Group's turnover of property rental for the year was HK\$1,908 million (2013 – HK\$1,960 million), a decrease of HK\$52 million when compared with last year, mainly due to the disposal of Kingswood Ginza, a retail shopping mall in Hong Kong, to Fortune Real Estate Investment Trust in the second half of 2013. In the absence of rental contribution from Kingswood Ginza, contribution for the year was HK\$1,750 million (2013 – HK\$1,790 million), a decrease of HK\$40 million when compared with last year.

The CK Group's share of rental contribution from joint ventures amounted to HK\$300 million (2013 – HK\$322 million), adversely affected by the disposal of The Metropolitan Plaza in Guangzhou in 2013 and a decrease of HK\$22 million when compared with last year, and included mainly rental income derived from commercial properties on the Mainland.

At the year end date, the CK Group's investment properties comprised mainly commercial office properties and retail shopping malls in Hong Kong, including The Center in Central and 1881 Heritage in Tsim Sha Tsui. An increase in fair value of HK\$4,542 million (2013 – HK\$1,782 million) of the CK Group's investment properties was recorded based on a professional valuation and the capitalisation rates adopted for The Center and 1881 Heritage were 5% and 5.25% respectively. The CK Group also shared an increase in fair value of HK\$510 million (2013 – HK\$24 million) of investment properties held by joint ventures.

### Hotel and Serviced Suite Operation

The CK Group's turnover of hotel and serviced suite operation for the year was HK\$2,213 million (2013 – HK\$2,368 million), a decrease of HK\$155 million when compared with last year and contribution for the year was HK\$942 million (2013 – HK\$989 million), a decrease of HK\$47 million in line with the decrease in turnover. The CK Group also shared a contribution of HK\$279 million (2013 – HK\$284 million) from joint ventures with hotel and serviced suite operation, a slight decrease of HK\$5 million when compared with last year.

During the year, demand for hotels and serviced suites in Hong Kong remained steady with continual flow of inbound travelers from the Mainland whereas conditions for hotel operation on the Mainland were difficult and operating results were not satisfactory.

With uncertainties on the global economic development, it is expected that the operating conditions for hotels and serviced suites in Hong Kong and the Mainland will become more challenging, and the Group will endeavour to maintain satisfactory results for its hotel and serviced suite operation.

The CK Group's hotels and serviced suites are carried at cost less depreciation and operating profit (before interest, tax and depreciation) for the year generated a yield of 15.3% on the carrying amount of these property assets.

## Property and Project Management

The CK Group's turnover of property and project management for the year was HK\$528 million (2013 – HK\$397 million), of which income from property management was HK\$185 million (2013 – HK\$180 million), an increase of HK\$5 million when compared with last year, and income from project management related services was HK\$343 million (2013 – HK\$217 million), an increase of HK\$126 million when compared with last year.

Contribution from the CK Group's property management was HK\$119 million (2013 – HK\$114 million), an increase of HK\$5 million when compared with last year, and the CK Group's project management related services made a contribution of HK\$34 million (2013 – HK\$22 million) to group profit. The CK Group's share of contribution of joint ventures which were engaged in the management of various major property developments, including Beijing Oriental Plaza on the Mainland and Marina Bay Financial Centre in Singapore, amounted to HK\$61 million (2013 – HK\$46 million), an increase of HK\$15 million when compared with last year.

At the year end date, a total floor area of approximately 92 million square feet was under the CK Group's property management and this is expected to grow steadily following the gradual completion of the CK Group's property development projects in the years ahead. The CK Group is committed to providing high quality services to properties under our management.

## Infrastructure Business

The CK Group invests in infrastructure businesses through joint ventures with parties including Cheung Kong Infrastructure Holdings Limited ("CKI"), Power Assets Holdings Limited ("Power Assets") and Li Ka Shing Foundation Limited.

The CK Group's share of contribution from infrastructure joint ventures for the year was HK\$1,798 million (2013 – HK\$1,602 million), an increase of HK\$196 million when compared with last year, mainly attributable to a full year contribution from AVR-Afvalverwerking B.V., an energy-from-waste business acquired in the Netherlands in the second half of 2013.

During the second half year, the CK Group completed the acquisition of a 50% interest in the "Park'N Fly" off-airport parking business in Canada, a joint venture with CKI, and the takeover of a natural gas distributor in Australia, the Australian Gas Networks Limited (formerly known as Envestra Limited), of which the CK Group held an effective interest of 27.5% through a joint venture with CKI and Power Assets. These new investments in infrastructure business have already made some contribution to group profit in 2014 and will further enhance contribution from infrastructure business in the future.

## Management Discussion and Analysis (continued)

### Aircraft Leasing

During the year, the CK Group entered into agreements to acquire forty-five aircraft with existing lease agreements for a total consideration of approximately HK\$14.7 billion, of which the acquisition of twenty-six aircraft was practically completed in 2014 and the remaining nineteen aircraft will be completed in 2015. Acquiring these aircraft generates steady leasing income to the CK Group and strengthens up the CK Group's recurrent income base.

Turnover of aircraft leasing for 2014 was HK\$221 million and profit contribution net of depreciation charge amounted to HK\$112 million. This is expected to increase upon completion of the aforesaid acquisition and more in 2015.

The CK Group also invested in aircraft leasing business through a joint venture with independent third parties, which made a contribution of HK\$222 million to group profit for the year. At the year end date, the CK Group was committed to acquiring fifteen aircraft for a total consideration of approximately HK\$5.7 billion through a new joint venture, of which the CK Group has a 50% interest.

### Major Associates

The Hutchison Whampoa Group, a listed associate, reported profit attributable to shareholders for the year ended 31st December, 2014 of HK\$67,156 million (2013 – HK\$31,112 million).

The CK Life Sciences Group, another listed associate, reported profit attributable to shareholders for the year ended 31st December, 2014 of HK\$263.6 million (2013 – HK\$229 million).

## FINANCIAL REVIEW

### Liquidity and Financing

The CK Group monitors its liquidity requirements on a short to medium term basis and arranges refinancing of the Group's borrowings as appropriate.

At the year end date, the CK Group's borrowings of bank loans, issued notes and other loans were HK\$25.3 billion, HK\$12.0 billion and HK\$0.6 billion respectively, and the total borrowings amounted to HK\$37.9 billion, a decrease of HK\$4.0 billion from last year end date. The maturity profile is spread over a period of seven years, with HK\$18.4 billion repayable within one year, HK\$17.5 billion within two to five years and HK\$2.0 billion beyond five years.

The CK Group's net debt to net total capital ratio at the year end date was approximately 1.1% (2013 – 2.3%). Net debt is arrived at by deducting bank balances and deposits of HK\$33.2 billion from the total borrowings and net total capital is the aggregate of total equity and net debt.

With cash and marketable securities in hand as well as available banking facilities, the CK Group's liquidity position remains strong and the CK Group has sufficient financial resources to satisfy its commitments and working capital requirements.

## Treasury Policies

The CK Group maintains a conservative approach on foreign exchange exposure management and ensures that its exposure to fluctuations in foreign exchange rates is minimised. At times of interest rate or exchange rate uncertainty or volatility and when appropriate, hedging instruments including swaps and forwards are used in the management of exposure to interest rate and foreign exchange rate fluctuations.

The CK Group's borrowings are principally on a floating rate basis and when appropriate, swaps are arranged to convert the rates and related terms of fixed rate notes issued to a floating rate basis.

At the year end date, approximately 76.1% of the CK Group's borrowings were in HK\$ and US\$, with the balance in EUR, GBP and SGD mainly for the purpose of financing investments and joint venture projects in Europe, the United Kingdom and Singapore. The CK Group derives its revenue from property development mainly in HK\$ and RMB and maintains cash balances substantially in HK\$ and RMB. Income in foreign currencies, including EUR, GBP and SGD, is also generated from the CK Group's investments and joint venture projects outside Hong Kong and cash in these foreign currencies is maintained for business requirements.

## Charges on Assets

At the year end date, there was no charge on the CK Group's assets (2013 – Nil).

## Contingent Liabilities

As at the period end date, the Company did not have any contingent liability.

At the year end date, the CK Group's contingent liabilities were as follows:

- (1) guarantee provided for the minimum share of revenue to be received by the partner of a joint development project amounted to HK\$588 million (2013 – HK\$600 million); and
- (2) guarantees provided for bank loans utilised by joint ventures and investee company amounted to HK\$2,578 million (2013 – HK\$875 million) and HK\$436 million (2013 – HK\$390 million) respectively.

## Employees

The Company did not have any employee in the period under review and as at the period end date.

At the year end date, the CK Group employed approximately 8,100 employees for its principal businesses. The related employees' costs for the year (excluding directors' emoluments) amounted to approximately HK\$2,260 million. The CK 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 CK Group, remuneration benchmarks in the industry, and prevailing market conditions within the general framework of the CK Group's salary and bonus system. The CK Group does not have any share option scheme for employees.