Management Discussion and Analysis

BUSINESS REVIEW

Property Sales

The economy of Hong Kong has been adversely affected by the 911 attack incident in the United States. For the six months ended 31st December, 2001, a total of approximately 1,200 units which was attributable to the Group and amounted to approximately HK$2,700 million were sold by the Group. Out of these, there were 500 completed units generating sales proceeds of approximately HK$1,400 million.

During the period, the Group completed the following development projects, namely, 99 Tai Tong Road, Yuen Long with an attributable gross floor area of approximately 210,000 sq.ft., 28 Mercury Street, Hong Kong with an attributable gross floor area of approximately 18,000 sq.ft. and Phase VIII of Lexi New City, Shajiao Island, Panyu, Guangdong Province with an attributable gross floor area of approximately 410,000 sq.ft.

The Group has commenced presale or sale of the following major development projects:

Location of Properties	Name of Building	Group's Interest (%)	Gross Floor Area (sq.ft.)
Hong Kong			
1. 3 Seymour Road	Palatial Crest	63.35	117,384
2. 117 Caine Road Mid-Levels	Casa Bella	50.00	50,945
3. 8 Hung Lai Road	Royal Peninsula	50.00	739,276
4. 28 Ma Tau Kok Road	Metropolitan Rise	80.00	146,675
5. 1-98 King's Park Hill Road	King's Park Hill	61.97	149,418
6. 108 Castle Peak Road	Wealth House	100.00	16,142

Property Sales (cont'd)

Location of Properties	Name of Building	Group's Interest (%)	Gross Floor Area (sq.ft.)
7. 28 Lo Fai Road Tai Po	Casa Marina I	100.00	226,561
8. 1 Lo Ping Road Tai Po	Casa Marina II	100.00	182,500
9. Tung Chung Town Lot No.1	Tung Chung Crescent - Blocks 7 to 9	20.00	172,631
10. 28 Mercury Street	Supernova Stand	36.38	17,804
11. 99 Tai Tong Road Yuen Long	Sereno Verde - Phase 1	44.00	205,805
12. Kowloon Inland Lot No. 11127 R.P.	Metro Harbour View - Phase 1 (Residential)	72.76	539,349
13. Tseung Kwan O Town Lot No. 57	Park Central - Phase 1	24.59	653,699
		Total attributable interest:	3,218,189
The People's Republic of China			
14. Lot HR-2 Li Wan District Guangzhou (Metro Line One - Changshou Road Station)	Heng Bao Garden	63.43	778,620
15. Phase VIII of Lexi New City, Shajiao Island, Panyu, Guangdong	Fanghua Garden - Luotao South Zone Villa	15.86	408,563
16. Phase IX of Lexi New City, Shajiao Island, Panyu, Guangdong	Green Island House	15.86	108,264
		Total attributable interest:	1,295,447

Land Bank

During the period under review, the Group negotiated with the Government on several agricultural land lots on the land usage conversion premium and for higher development plot ratio and made satisfactory progress in these respects. Amongst these, the conversion premium for the agricultural lands at Lam Tei was finalised and paid during the period under review and the site can be built as a residential project of around 800,000 sq.ft. in total gross floor area. Application for land usage conversion was also made in respect of phase two of the Tai Tong Road project which can be developed into a project with gross floor area of 640,000 sq.ft., of which 440,000 sq.ft. is attributable to the Group. The area of the site located in the northern side of Fanling on Ma Sik Road had been increased to 700,000 sq.ft. with additional acquisition of 250,000 sq.ft. of adjacent agricultural land lots during the period under review. Your Group will aim to develop this site into a residential project with a permitted plot ratio of 5 times with a total gross floor area of over 3 million sq.ft. In addition, the site in Wu Kai Sha is expected to be built as a residential development with a permitted plot ratio of 3 times and this will provide a total gross floor area of 4.2 million sq.ft., of which approximately 1.7 million sq.ft. is attributable to the Group. Also, the agricultural land lots totally consisting of an area of 170,000 sq.ft. and located at Wo Hing Road in Fanling is expected to be built as a residential development with a total gross floor area of approximately 580,000 sq.ft. The plan to develop the Ma Tau Kok South Plant site of 130,000 sq.ft. in site area which is owned by the Group's associated company, The Hong Kong and China Gas Company Limited, had been approved by the Town Planning Board. This site will be built into a residential-cum-commercial project with a total gross floor area of 1.1 million sq.ft. As this property is held under an old leasehold land grant, payment of land premium is not required for the development. Furthermore, the plans for the redevelopment of the shipyard site at Yau Tong Bay showed satisfactory progress. The site is planned for the development of 38 residential towers with a total gross floor area of 9.7 million sq.ft., of which 1.67 million sq.ft. is attributable to the Group. As at the end of the period under review, the total development land bank attributable to the Group amounted to approximately 20.7 million sq.ft. In addition, the Group also held a total of approximately 23.3 million sq.ft. of agricultural land.

Property Rental

In the first half of the financial year, the Group's total gross rental income amounted to approximately HK$1,040 million, showing an increase of 2% over that recorded in the corresponding period in the previous financial year and represented as 35% of the total income of the Group for the first half of the current financial year. Although there was a slight adjustment made to the rental level for the office properties of the Group in response to market conditions, the rental income and occupancy in respect of certain shopping arcades of the Group recorded an increase in the period under review. For the period under review, the average occupancy rate of the major rental properties of the Group was 94%. As at the end of the period under review, the total attributable gross floor area of the Group's rental property portfolio amounted to 6.4 million sq.ft. In respect of another rental property to be held for long term investment purpose, the Airport Railway Hong Kong Station project in which the Group and its listed associate, The Hong Kong and China Gas Company Limited, held a total interest of 47.5%, Phase One of the International Finance Centre was completed in 2000 and leasing was satisfactory, with occupancy being recorded at close to 96%. Phase Two of this project will include a 88-storey office tower with a total gross floor area of 1.95 million sq.ft., of which 14 floors with a total gross floor area of 340,000 sq.ft. were disposed to the Hong Kong Monetary Authority for a consideration of HK$3,699 million. Phase Two will also provide shopping space of 510,000 sq.ft. as well as a hotel complex with a total gross floor area of 1.1 million sq.ft. Being located in the heart of urban central district and coupled with superior quality in construction and design, the project will serve as an ideal office location for large international financial institutions. Leasing of the second phase of the shopping arcade of this project was met with active response.

Henderson Investment Limited

The consolidated net profit of Henderson Investment Limited for the six months ended 31st December, 2001 amounted to approximately HK$768 million. This represents a decrease of 34% as compared with that recorded in the corresponding period in the previous financial year which included a profit of approximately HK$582 million arising from disposal of part of its interest in a subsidiary. During the period under review, the total gross rental income of this group was approximately HK$286 million, representing an increase of 28% over that of the previous year. Average occupancy rate of the major rental properties of this group amounted to 94%.

The Newton Hotel Hong Kong and the Newton Hotel Kowloon operated by this group recorded an average occupancy rate of 92%. As affected by the unfavourable general economic conditions, room tariff rate had been appropriately adjusted during the period under review. Although the retailing business of this group, operated under its Citistore outlets, was also affected by the drop in consumer spending, its turnover for the period under review was only slightly lower than that of the corresponding period in the previous year.

Associated Companies

The Hong Kong and China Gas Company Limited recorded steady growth for the year 2001, with an increase of 5.1% in profit. The number of customers reached 1,407,408. Investment in gas projects in Mainland China is a long term business development strategy of this group and it is now proceeding with the registration of a holding company, Hong Kong & China Gas Investment Limited, in the Mainland for the purpose of investing in energy projects. This group is also participating in a major national project in Mainland China – the West-to-East gas pipeline project. This is the midstream project for the construction of a 4,200-kilometre pipeline, transmitting natural gas from the Tarim Basin, Xinjiang Province to the eastern China market. The total investment cost of this project will be approximately RMB46 billion, of which 45% will be owned by a foreign consortium. Construction of the project will commence in 2002 and the whole pipeline is scheduled to be in full operation in 2005. Concurrently, this group formed another joint venture in Yixing, taking an 80% interest to receive natural gas directly from West-to-East gas pipeline. This group also formed a joint venture in Qingdao-Jimo city. It is expected that natural gas will reach Qingdao and adjacent cities in 2005. In Hong Kong, this group is actively committed to providing clean fuel for light buses and taxis. Five liquefied petroleum gas ("LPG") filling stations have now been built and are now servicing 8,000 taxis per day on average. These stations will be ready to extend their services as filling station for public light buses when the switch from diesel to LPG as fuel for these vehicles takes place in future. This group's construction of the pipelines in the eastern New Territories as well as the pipelines for the Cyberport at Telegraph Bay and the Science Park at Pak Shek Kok is progressing smoothly. Planning for the construction of a submarine pipeline stretching from the West Kowloon Reclamation Area to Sai Ying Pun on Hong Kong Island is also under way. Through these, it is anticipated that the revenue of this group will increase. On the property development front, the projects participated by this group include the Airport Railway Hong Kong Station project held for investment purpose, the King's Park Hill, the Sai Wan Ho Ferry Concourse project and the project at Ma Tau Kok South Plant site. These projects are under various stages of development with satisfactory progress and are anticipated to contribute towards earnings to this group following the completion of the respective projects.

Hong Kong Ferry (Holdings) Company Limited reported a 123% increase in profit in the financial year ended 31st December, 2001. This was mainly attributed to the final instalment of the proceeds from the disposal of the right to 50% of the sales proceeds of the residential portion of Metro Harbour View at Tai Kok Tsui Road. Phase I of Metro Harbour View is expected to be completed in mid-2003 and its pre-sale in mid-December 2001 had met with overwhelming response. Being one of the best-selling local residential projects during the period under review, more than 1,100 units have been pre-sold to date. This group is now actively preparing for the launch of pre-sale of Phase II of this project in mid-2002. It is expected that sales of Metro Harbour View will be the major source of revenue for this group in 2002.

Miramar Hotel and Investment Company, Limited recorded HK$80,499,000 in the unaudited profit attributable to shareholders for the six months ended 30th September, 2001, representing an increase of 6.6% over that recorded in the corresponding period in the previous financial year. During the period, the average occupancy rate of the hotel had been slightly reduced to 85% due to the 911 attack incident in the United States. Miramar Shopping Arcade and Miramar Tower recorded occupancy rate of 95%, enabling steady rental income to this group. The overall business result of this group during the period had been satisfactory.

Henderson Cyber Limited

Henderson Cyber Limited reported a loss of approximately HK$30 million for the six months ended 31st December, 2001, compared with a loss of approximately HK$27 million for the corresponding period in the previous year. During the period, this group further developed its Internet services, data centre, high technology and network infrastructure businesses. iCare users and subscribers grew to a total of over 160,000 as at the end of 2001. This group seeks to integrate its existing businesses and wherever possible, to offer "one-stop shopping" services. It is also exploring a range of partnerships and alliances with leading technology companies while further enhancing the relationship with the large customer base of Henderson group and The Hong Kong and China Gas group.

Henderson China Holdings Limited

Henderson China Holdings Limited reported a consolidated net profit of HK$89.21 million for the six months ended 31st December, 2001, representing a substantial increase of 126% as compared with that in the corresponding period in the previous year. Sale of the newly completed and inventory units, rental income from retail and office properties and profit contribution from the "An-ju" housing project in Tianjin were the main contributing sources of profit recorded by this group for the period under review.

In the first half of the financial year, this group was actively engaged in the sales of Heng Bao Garden development project situated right on top of the Changshou Road Station of the Guangzhou Metro Line. The result of sales of this project, which is still in progress, has been satisfactory. As at the end of 2001, a total of over 900 units, representing more than 70% of all the residential units of this project, were sold. Phase VIII of the jointly-owned Lexi New City project located in Panyu District of Guangdong Province with a total gross floor area of 237,000 sq.m. was completed. During the period under review, the completed units of State Apartments of Henderson Centre in Beijing were re-launched. At the same time, the completed units of the Skycity in Shanghai benefitted from the recent favourable terms promulgated by the municipal government in promoting the property market in Shanghai and this boosted the sale of these property units, generating cashflow and profit for this group. The rental property business of this group also showed satisfactory progress for the period under review. Following the recent completion of construction work of the 5-storey Heng Bao Plaza shopping podium located in Guangdong, leasing of the ground floor and the first basement floor of this property was launched first during the time when the internal fitting and decoration work was still under way. Such leasing efforts were met with satisfactory results with a significant number of shop tenants opened for business during the period under review. In the meantime, progress continued to be made for the leasing of this investment property of this group.

As for the quality property projects of this group which are likely to benefit most from demand for properties arising from the new market developments, this group will take appropriate measures to expedite the relevant development plans. In this connection, this group's project site located at No. 2 Guan Dong Dian, Chao Yang District, Beijing is currently planned to be built as a commercial property project. Design plans for the foundation works as well as for building construction related to this project are presently in progress and it is anticipated that construction work for this project will commence in the second half of this year.

Corporate Finance

In August, 2001, the Group obtained a HK$5.5 billion five-year syndicated loan on favourable terms and only HK$1.2 billion was drawndown from such facility. Also, during the period under review, the Group has, on its own initiative, prepaid in full and cancelled two syndicated loans amounting to HK$10.5 billion in aggregate facility amount which were originally due to expire in mid-2002 and in the first quarter of 2003. However, the Group still possesses abundant committed stand-by funding facilities. Apart from banking facilities of a relatively small proportion which were raised in Renminbi, the vast majority of funding facilities are obtained in Hong Kong Dollars and the Group's exposure to foreign exchange fluctuation risks is therefore very small. Further, the Group does not participate in any derivatives trading activities for speculation purpose.

Construction and Property Management

The Group is constantly making efforts to enhance the quality of properties of the Group by improving property design and layout, building materials, environment design and ancillary facilities and management services. In addition, with an objective set to strictly control construction costs, efforts have also been made to identify the most suitable albeit practical building materials and to research and bring in new methods of construction and design. The aim of these exercises is to ensure that property purchasers consider that they get very good value for their money whilst allowing the Group to lower the costs of production, thereby enhancing the competitiveness of the Group. Recently, the construction arm of the Group known as Heng Tat Construction Company Limited received a Considerate Contractors Site Award from the Works Bureau and the Group's property management companies, namely Hang Yick Properties Management Limited and Well Born Real Estate Management Limited, also received over fifty awards of merits. Such awards mainly included the Employers Gold Star Award - Platinum and Gold Awards presented by the Employees Retraining Board, the Green Property - Grand Award for Eco-Business presented by the Hong Kong Productivity Council & Environmental Campaign Committee, the Good People Management Award presented by the Labour Department, the Best & Good Security Management Company Awards presented by the Hong Kong Association of Property Management Companies, and the Panda-Recruit Most Innovative Award for Excellence in Training presented by The Hong Kong Management Association. Also, the property management arm of the Group recently expanded its business and was awarded the property management contracts for a number of property projects of the Housing Department.

PROSPECTS

Recent economic figures released from the United States showed that economic recovery is currently under way. At the same time, signs of improvement also began to emerge in the major European economies. Notwithstanding the global economic slowdown, economic growth in Mainland China has maintained on a steady course. Coupled with the vast business opportunities which will become available resulting from Mainland China's accession to the World Trade Organisation, this is likely to bring about gradual enhancement in the economic vitality of Hong Kong.

In respect of the local property market, the various measures relating to housing policies as promulgated by the Hong Kong SAR Government which included the 10-month halt on sale of Home Ownership Scheme ("HOS") flats together with the reduction of sale of HOS flats to not more than 9,000 units annually and the lowering of household income ceiling limits for qualifying candidates for subsidised public housing all contributed positively to increase demand for residential flats in the private sector. Further, implementation of a flexible government land sale policy also provided a good foundation for the healthy development of the local property market. Concurrently, the eleven consecutive downward adjustments in interest rates and the extremely competitive and favourable terms offered by commercial banks to attract housing mortgage loan business have resulted in the occurrence of housing mortgage loan rates to a historic-low level whilst the ability of local citizens to afford to service housing mortgage loans became unprecedentedly high. Furthermore, with monthly debt servicing for mortgage loans generally being at a level lower than market rent, this has attracted both the end-user buyers as well as the property-investor buyers to acquire properties. In 2002, the Group plans to launch in aggregate approximately 4,300 residential flats for sale from new projects as well as from the existing inventory of completed units. The majority of these units are located at busy urban sites, with a substantial portion being typical small residential flats suited for first-time buyers, which fits well with market demand under the current economic environment.

The Group's 1.22 million sq.ft. Metro City Plaza in Tseung Kwan O is one of the largest shopping centres in Hong Kong and the Tseung Kwan O extension line of the Mass Transit Railway is expected to come into operation by August, 2002 ahead of original schedule, thereby increasing visiting patrons to this shopping centre. Other major shopping centres of the Group are all situate at prime locations with easy access to mass transit and railway networks and enjoy high pedestrian traffic flow. These retail shopping properties are expected to generate increasing rental income to the Group. With the completion of Phase Two of International Finance Centre, total investment properties of the Group will be in excess of 7.5 million sq.ft., with the rental income base of the Company showing a further increase as a result. The operating businesses of the Group's listed associate companies are all making good progress and bring in stable recurrent income to the Group. Such recurrent income from the listed associates added together with rental income generating from the Group's investment property portfolio already provide as a base for steady profit growth for your Group. In addition, the Group is actively planning for the development of several large-scale projects at Tai Tong Road in Yuen Long, Lam Tei, Fanling, Wu Kai Sha and Yau Tong Bay, with a view to increasing property sales of the Group for the next few years. The gross floor area of these projects attributable to the Group will amount to approximately 8 million sq.ft. in aggregate. It is the opinion of the Group that the present time is opportune for business expansion as the local economy being in tune with the latest developments in the global economy already passed its trough in the near term and is now emerging into a new phase of economic environment. In the long run, the Group is capable of utilising its abundant financial resources and business expertise to get the best out of opportunities that are available from the market to expand the Group's businesses in a prudent manner, bringing performance of the Group to re-embark on a growth path.