

# Management Discussion and Analysis

The following comments should be read in conjunction with the Audited Statement of Accounts of Henderson Land Development Company Limited and the related notes on the accounts.

## Review of Results

During the year ended 30th June, 2002, the Group's turnover showed a decrease and amounted to approximately HK\$6,230 million (2001: HK\$9,096 million) when compared to that recorded in the previous financial year.

The Group's profit attributable to shareholders decreased to approximately HK\$2,153 million (2001: HK\$4,394 million) in the period under review mainly due to a large reduction in the Group's development completion to a very low level of 580,000 sq. ft. and this can also be partly accounted for by a substantial non-recurrent item recorded in the previous financial year, namely, income generated from the spin-off and separate listing of the Henderson Cyber Limited.

Contribution from operation related to the property development business of the Group amounted to approximately HK\$58 million (2001: HK\$1,462 million) based on a turnover of approximately HK\$1,745 million (2001: HK\$4,998 million) recorded in the year under review due to very low development footage completed as compared to the previous year and the lower sale price of the property units sold by the Group under a period of slowdown in the local property market.

The Group's profit from rental properties amounted to approximately HK\$1,329 million (2001: HK\$1,303 million) in the financial year under review based on gross rental of approximately HK\$2,068 million (2001: HK\$1,960 million). Against a background of general decline in the investment property market, such resilience shown from the Group's rental property portfolio was mainly a result of the specific positioning strategy adopted by the Group whereby rental retail shopping centres of the Group situate right in the centre of new towns and with scheduled opening of mass transportation railway stations such as the Metro City Plaza and Sunshine City Plaza actually witnessed an increase in rent level over the period under review.

Profit from the finance services of the Group that was related to the housing mortgage loan business extended to end-buyers of the Group's development properties amounted to approximately HK\$123 million (2001: HK\$535 million) for the period under review mainly due to the reduction of the total loan portfolio as a portion of such loans were prepaid and the fall in interest income following the substantial decline in local rates in the market.

Building construction activities of the Group, which are mainly catered to the developments participated by the Group contributed approximately HK\$17 million (2001: HK\$16 million) in profit in the financial year in review.

## Management Discussion and Analysis (cont'd)

The Group's profit which was contributed from its investment in infrastructure projects in Mainland China held through a subsidiary of the Group, namely, China Investment Group Limited, increased to approximately HK\$145 million as compared to HK\$108 million recorded for the last eight months in the previous financial year after China Investment Group Limited became a subsidiary of the Group.

Contribution from operation in respect of hotel operation of the Group, before rental payable to fellow subsidiaries of the Group as represented by adjustment in inter-segment transaction of approximately HK\$51 million (2001: HK\$55 million), amounted to approximately HK\$42 million (2001: HK\$48 million) due to slight decrease in room tariffs recorded during the period under review. Contribution from operation in respect of the Group's department store operation, before rental payable to fellow subsidiaries of the Group as represented by adjustment in inter-segment transaction of approximately HK\$24 million (2001: HK\$88 million), was registered at a lower level as compared to that of the previous financial year and amounted to approximately HK\$26 million (2001: HK\$75 million) in the past financial

year due to fall in consumer spending under the prevailing deflationary environment.

Other business activities of the Group registered a combined profit of approximately HK\$209 million (2001: HK\$404 million) in the financial year under review. The decrease recorded over the past year was mainly reflected by sizeable interest income received in the previous financial year.

Share of profit less losses of associates of the Group reached a total amount of approximately HK\$1,563 million (2001: HK\$1,448 million). In particular, the Group's share of profit from the three listed associates continued to increase in the financial year under review and amounted to approximately HK\$1,510 million (2001: HK\$1,411 million) which evidenced the resilient and recurrent nature of this income source. However, share of profit less losses of jointly controlled entities of the Group being mainly engaged in property development and property investment activities recorded a loss of approximately HK\$153 million (2001: HK\$74 million) after inclusion of provisions made in respect of diminution in value of properties during the period under review.

## Management Discussion and Analysis (cont'd)

### Liquidity, Financial Resources and Capital Structure

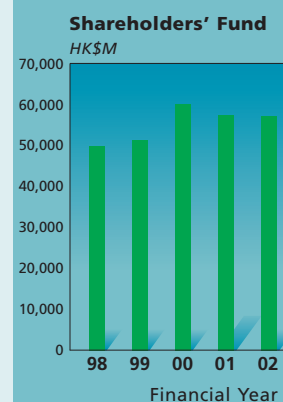
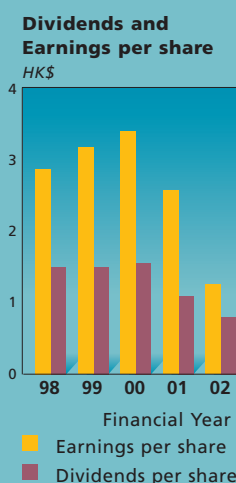
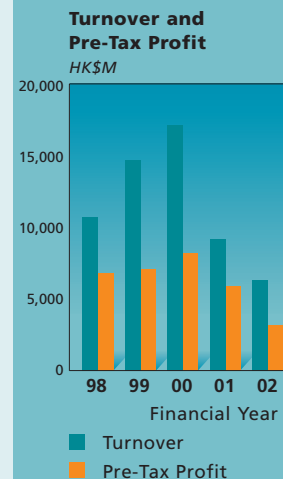
The Group's total net bank borrowings after deducting cash holdings of approximately HK\$1,372 million amounted to approximately HK\$10,791 million as at the end of the financial year under review. Except for a very

small portion of the bank borrowings related to a subsidiary of the Group, all of the Group's borrowings were unsecured with the vast majority being obtained on a committed term basis. The maturity profiles of the Group's bank loans and borrowings outstanding as at the end of the two prior financial years are summarised respectively as follows:

	2002 (In HK\$'000)	2001 (In HK\$'000)
Bank Loans and Borrowings Repayable:		
Within 1 year	2,300,483	1,808,398
After 1 year but within 2 years	5,237,320	7,548,962
After 2 years but within 5 years	4,010,185	4,018,752
After 5 years	615,275	96,980
Total Bank Loans and Borrowings	12,163,263	13,473,092
Less: Cash at bank and in hand	(1,372,177)	(1,581,501)
Total Net Bank Borrowings	10,791,086	11,891,591

The Group's interest expense was recorded at approximately HK\$98 million (2001: HK\$207 million) for the financial year under review and showed a substantial decrease under a low interest rate environment. Bank loans and borrowings of the Group, which are primarily obtained from international banks in Hong Kong with interests chargeable mainly based on certain agreed interest margins over the Hong Kong Interbank Offer Rate, are therefore mainly of floating rate in nature.

As of 30th June, 2002, shareholders' funds of the Group amounted to approximately HK\$56,852 million (2001: HK\$57,260 million) representing a slight decrease of 0.7% from the level recorded as at the end of the previous financial year. The Group is in a strong financial position and possesses a large capital base whilst the net debt position remains low in comparison. With substantial committed banking facilities in place, and continuous cash inflow from a solid base of recurrent income, the Group has adequate sources for funding its ongoing operations as well as its future expansion.



## Management Discussion and Analysis (cont'd)

### Gearing Ratio & Financial Management

As at the end of the financial year under review, the gearing ratio of the Group which was calculated on the basis of the total net bank borrowings as a ratio of the Group's shareholders' funds amounted to 19% (2001:20.8%). Profit from operations of HK\$1,753 million covered the net interest expense before capitalisation of HK\$679 million by 2.6 times for the financial year under review (2001: 3.0 times).

Expenditures incurred on land acquisitions, which relate to payments in respect of acquisition of agricultural land and land conversion premiums as well as acquisition of development land, amounted to approximately HK\$437 million (2001: HK\$45 million) in the financial year under review. Assets of the Group had not been charged to any third parties in the financial year under review except for a very small portion of banking facilities that was extended to a subsidiary of the Group engaging in infrastructural projects in Mainland China.

The Group's financing and treasury activities were managed centrally at the corporate level. Financing facilities extended to the Group were mainly denominated in Hong Kong Dollars. In respect of the Group's listed subsidiary, Henderson China Holdings Limited, a portion of its borrowings was denominated in Renminbi during the financial year under review to fund its property projects in Mainland China. As a whole, the core operations of the Group can therefore be considered as not exposed to foreign exchange rate risk to any significant

extent. The use of financial derivative instruments is strictly controlled and is solely for management of the Group's interest rate and foreign currency exchange rate exposures in connection with its borrowings. As of 30th June, 2002, the outstanding currency swap of the Group amounted to HK\$758 million in relation to an outstanding bond issued by the Group in overseas financial market.

### Future Plans of Material Investments or Capital Assets

As at 30th June, 2002, capital commitments of the Group amounted to HK\$6,460 million which was substantially reduced from that recorded as at 30th June, 2001. This was mainly due to the reduction of funding obligations extended by the Group to a government institution in relation to a large property development project. As at the end of the financial year under review, outstanding commitments of the Group were mainly made up of the Group's obligations contracted for acquisition of property and future property development expenditures as well as for funding the Group's subsidiaries and associates established outside Hong Kong which amounted to HK\$1,022 million and HK\$2,825 million respectively, being at such levels similar to those outstanding as at 30th June, 2001. The future development expenditure approved by the directors but not contracted for as at the end of the financial period under review amounted to HK\$2,613 million as compared to HK\$2,710 million recorded as at the end of the previous financial year.

## Management Discussion and Analysis (cont'd)

### Contingent Liabilities

Contingent liabilities of the Group totally amounted to approximately HK\$4,881 million as at 30th June, 2002, representing a significant decrease when compared to HK\$9,548 million outstanding as at 30th June, 2001. This was mainly due to the reduction of guaranteed obligations of the Company in relation to the above-mentioned large development project related funding arrangement made between the Group and a government institution. In support of the banking facilities extended to the Group's treasury subsidiaries and, to a less extent, specific operating subsidiaries, the Company has given guarantees to commercial banks and as at the balance sheet date, the Company's contingent liabilities relating to the utilized amount of such banking facilities summed up to HK\$8,927 million (2001: HK\$9,960 million). Further, in support of banking facilities extended to an associate and jointly controlled entities of the Group for funding property developments which mainly included the One IFC project, the Company has also given guarantees amounting to HK\$3,964 million as at the end of the past financial year, being at a level slightly higher than that recorded as at 30th June, 2001.

### Employees

As at 30th June, 2002, the Group has about 6,410 full-time employees compared to about 6,600 full-time employees as at 30th June,

2001. The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Discretionary year-end bonus was paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme, training programmes and educational subsidies.

Employees of the Group who are employees and executive directors of Henderson China Holdings Limited ("Henderson China") or any of its subsidiaries may be granted share options to subscribe for shares in Henderson China in accordance with the terms and conditions of the share option scheme approved by Henderson China at an extraordinary general meeting held on 15th March, 1996.

Employees of the Group who are full-time employees and executive directors of Henderson Cyber Limited ("Henderson Cyber") or any of its subsidiaries may be granted share options to subscribe for shares in Henderson Cyber in accordance with the terms and conditions of the share option scheme approved by Henderson Cyber at an extraordinary general meeting held on 28th June, 2000.

Total employees' costs amounted to HK\$751.7 million for the year ended 30th June, 2002. The total employees' costs for the previous financial year amounted to HK\$743.2 million which did not include the employees' costs of a subsidiary prior to 1st November, 2000 when it was an associated company.