

Listed Associate

Hong Kong and China Gas

- 36.42% held by the Group
- Being the sole supplier of piped-gas in Hong Kong serving over 1.43 million household and commercial customers
- Striving to strengthen its environmentally-friendly energy business by expanding its liquefied petroleum gas filling stations – ECO Stations – to serve the existing 16,000 taxis and 200 light buses
- Participating in prime development projects in Hong Kong – namely, the International Finance Centre commercial development, the Sai Wan Ho residential development and the Ma Tau Kok South Plant Site redevelopment – all of which are joint-venture projects with the Group



Materialising the long term strategic priority of the company's core business development in Mainland China, the company participates in numerous energy projects, including:

- Guangdong Liquefied Natural Gas Receiving Terminal and Trunkline Project
- West-to-East gas pipeline Project
- Sino-foreign joint venture projects in three of China's major commercial and industrial cities – Zhuhai, Taizhou and Zibo
- Sino-foreign city gas joint venture with Nanjing General Gas Company

Management Discussion and Analysis

The following comments should be read in conjunction with the Audited Financial Statements of Henderson Investment Limited and the related notes to the financial statements.

Review of Results

During the year ended 30th June, 2002, the Group's turnover showed an increase and amounted to approximately HK\$1,188 million (2001: HK\$1,051 million) when compared to that recorded in the previous financial year.

The Group's profit attributable to shareholders decreased to approximately HK\$1,780 million (2001: HK\$1,978 million) in the period under review and this can be partly accounted for by the substantial income brought about by one significant non-recurrent item recorded in the previous financial year, being income generated from the spin-off and separate listing of Henderson Cyber Limited. However, the Group also recorded in the financial year under review a non-recurrent profit amounting to approximately HK\$134 million on the disposal of its 25% interest in an associated company which owned the retail shopping podium of the City One Shatin project for long-term rental purpose.

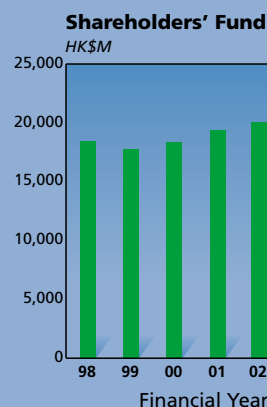
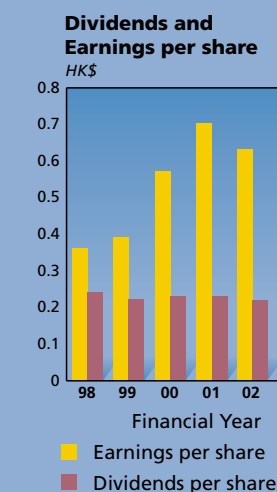
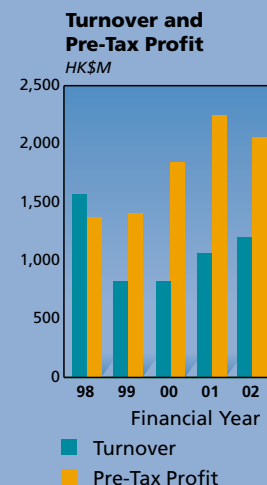
The Group's profit from rental properties amounted to approximately HK\$339 million (2001: HK\$344 million) in the financial year under review based on gross rental of approximately HK\$607 million (2001: HK\$515 million). Against a background of general decline in the investment property market, such resilience shown from the Group's rental property portfolio was mainly a result of the positioning strategy adopted by the Group whereby rental retail shopping centres of the Group situate in the centre of new towns and located right at the transportation nodes such as Trend Plaza and Shatin Centre actually recorded steady rent level over the period under review.

The Group's profit contributed from its investment in infrastructural projects in Mainland China 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.

During the financial year under review, the hotel operation of the Group, after deducting all relevant operating costs and expenses, recorded a loss of approximately HK\$11 million (2001: HK\$1 million) in respect of segmental result due to a slight decrease in room tariffs. As for the Group's department store operation, a small profit of approximately HK\$2 million was registered notwithstanding the deflationary environment prevailing during the financial year under review as compared to a loss of approximately HK\$13 million registered in the previous financial year.

Other business activities of the Group registered a combined loss of approximately HK\$45 million (2001: Loss of HK\$116 million) in the financial year under review. Such business activities included information technology services business which incurred a loss of approximately HK\$72 million whilst the Group's security services business and other businesses had shown satisfactory results during the period under review.

Share of profit less losses of associates of the Group was mainly represented by contributions from the Group's investment in the three listed associates and this reached a total amount of approximately HK\$1,580 million (2001: HK\$1,481 million) in the financial year under review, evidencing the resilient and recurrent nature of this income source.



Management Discussion and Analysis (cont'd)

Liquidity, Financial Resources and Capital Structure

The Group's total net bank borrowing after deducting cash holdings of approximately HK\$668 million amounted to approximately HK\$896 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	430,772	273,150
After 1 year but within 2 years	996,304	751,421
After 2 years but within 5 years	70,870	858,170
After 5 years	65,275	96,980
Total Bank Loans and Borrowings	<u>1,563,221</u>	<u>1,979,721</u>
Less: Cash at bank and in hand	<u>(667,601)</u>	<u>(1,080,547)</u>
Total Net Bank Borrowings	<u><u>895,620</u></u>	<u><u>899,174</u></u>

The Group's interest expense was recorded at approximately HK\$66 million (2001: HK\$136 million) for the past financial year 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' fund of the Group amounted to approximately HK\$19,959 million (2001: HK\$19,250 million) showing a similar level as that 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 financial resources for funding its ongoing operations as well as 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' fund amounted to 4.5% (2001: 4.7%). Profit from operations of HK\$306 million (2001: HK\$366 million) covered the total interest expense of HK\$66 million (2001: HK\$136 million) by 4.6 times for the financial year under review (2001: 2.7 times).

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 subsidiary, China Investment Group Limited, a portion of its borrowings was denominated in Renminbi during the financial year under review to fund its infrastructural 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.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the financial year under review, the Group disposed its 25% equity interest in an associate that owned the shopping podium in City One Shatin for a consideration of HK\$289 million which mainly formed as the Group's non-recurrent profit of HK\$134 million.

Future Plans for Material Investments or Capital Assets

As at 30th June, 2002, capital commitment of the Group amounted to HK\$16 million as compared with HK\$24 million as at 30th June, 2001. These were mainly made up of contracted commitment of the Group for acquisition of property, plant and equipment, and for property development and renovation expenditure. Other commitments of the Group were related to future minimum lease payments which increased significantly to HK\$466 million as at the end of the financial year under review (2001: HK\$68 million). This increase was mainly due to certain agreements contracted for in respect of property leasing in Mainland China relating to the business operations of a subsidiary of the Group, namely, China Investment Group Limited.

Management Discussion and Analysis (cont'd)

Contingent Liabilities

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; as at the balance sheet date, the Group's contingent liabilities relating to the utilised amount of such banking facilities summed up to HK\$1,242 million (2001: HK\$1,544 million). Further, the Group also provided a guarantee to a bank in support of a performance bond issued on behalf of a subsidiary of the Group in the amount of HK\$12 million as at the end of the past financial year which was reduced from HK\$19 million recorded as at the end of the previous financial year after the fulfilment of certain obligations stipulated under the Fixed Telecommunication Network Service licence.

Employees

As at 30th June, 2002, the number of employees of the Group was about 1,600. 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 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\$220.8 million for the year ended 30th June, 2002. The total employees' costs for the previous financial year amounted to HK\$196.8 million which did not include the employees' costs of a subsidiary prior to 1st November, 2000 when it was an associated company.