

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 to the accounts.

Review of Results

During the financial year ended 30th June, 2003, the Group's turnover increased by 23% and amounted to approximately HK\$7,667 million (2002: HK\$6,230 million) when compared to that recorded in the previous financial year. This was mainly attributed to a notable increase in the Group's property sales turnover achieved during the financial year under review as a result of a significant increase in the Group's project completion in Hong Kong that amounted to approximately 3,510,000 sq.ft. during the financial period under review as compared to the 580,000 sq.ft. completed in the previous financial period.

The Group's profit attributable to shareholders increased by 4% to approximately HK\$2,242 million (2002: HK\$2,153 million) in the financial period under review. As at the end of 30th June, 2003, the Group made provisions for certain property projects in the aggregate amount of approximately HK\$665 million, whereas provisions earlier made on some other property projects in the aggregate amount of HK\$337 million were written back at the same time; the net amount of provisions made for property projects as at the end of the financial year under review was thus derived at approximately HK\$328 million. Therefore, after taking into account bad debts written off in the amount of HK\$93 million (2002: HK\$5 million) and provisions for property projects in the net amount of approximately HK\$328 million (2002: HK\$58 million), the Group's profit from operations amounted to approximately HK\$1,243 million (2002: HK\$1,753 million). Share of profits less losses of associates of the Group amounted to approximately HK\$1,443 million (2002: HK\$1,563 million). In particular, the Group's share of profits from the

three listed associates amounted to approximately HK\$1,507 million (2002: HK\$1,510 million). Further, share of profits less losses of jointly controlled entities of the Group which are mainly engaged in property development and property investment activities amounted to approximately HK\$650 million (2002: Loss of HK\$153 million).

The property development segment of the Group recorded a turnover of approximately HK\$3,910 million (2002: HK\$1,745 million) in the financial year under review. However, after taking into account the effect of lower property sales price together with the provisions made for the completed properties of the Group in Hong Kong as well as in relation to certain property projects of Henderson China in the mainland, the Group reported a loss of approximately HK\$244 million (2002: Profit of HK\$58 million) in its property development business.

Profit from property leasing business of the Group amounted to approximately HK\$1,222 million (2002: HK\$1,329 million) in the financial year under review with rental turnover recorded at approximately HK\$2,012 million (2002: HK\$2,068 million). During the financial period under review, the overall rental property market suffered a setback amidst a declining economy that was aggravated by the outbreak of SARS. As most of the Group's major investment properties are retail shopping centres that are situate right in the centre of new towns and are located along the mass transportation railway networks, the performance of the rental properties of the Group still remained stable notwithstanding such difficult market conditions.

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\$88 million (2002: HK\$123 million) for the period under review. The decrease in profit was mainly accounted for by the continuous decline in the mortgage interest rates and write-off related to bad debts.

Building construction activities of the Group, which are mainly catered to the developments participated by the Group, made profit contribution of approximately HK\$38 million (2002: HK\$17 million) in the financial year under review.

The Group's profit which was contributed from its investment in infrastructure projects in Mainland China operated through a subsidiary of the Group, China Investment Group Limited, amounted to approximately HK\$139 million (2002: HK\$145 million). This reduced contribution was mainly attributed to slight drop in traffic flow and thus revenues in respect of the Group's toll roads and bridges recorded in the financial year under review.

With the local tourist industry and consumer spending having been adversely affected by the spread of SARS, the profit contribution from the Group's hotel operations amounted to approximately HK\$34 million (2002: HK\$42 million) during the financial year under review as a result of decline in both the overall turnover and room tariffs whilst the Group's profit contribution from the department store operation segment was reduced to approximately HK\$15 million (2002: HK\$26 million).

The combined profit of the other business activities of the Group, which mainly included fee income received from the provision of project management and property management services to joint venture and third-party property project as well as investment returns generated from securities, amounted to approximately HK\$167 million in combined profit (2002: HK\$209 million) in the financial year under review.

Liquidity, Financial Resources and Capital Structure

The Group's total net bank borrowings, after deducting approximately HK\$2,383 million in deposits and cash holdings, amounted to approximately HK\$9,037 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 and 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 presented respectively as follows:

	2003 HK\$'000	2002 HK\$'000
Bank Loans and Borrowings Repayable:		
Within 1 year	1,545,095	2,300,483
After 1 year but within 2 years	5,374,740	5,237,320
After 2 years but within 5 years	4,434,979	4,010,185
After 5 years	<u>65,275</u>	<u>615,275</u>
Total Bank Loans and Borrowings	<u>11,420,089</u>	<u>12,163,263</u>
Less: Cash At Bank and In Hand	<u>(2,382,794)</u>	<u>(1,372,177)</u>
Total Net Bank Borrowings	<u>9,037,295</u>	<u>10,791,086</u>

Management Discussion and Analysis *(cont'd)*

As of 30th June, 2003, shareholders' funds of the Group amounted to approximately HK\$53,866 million (2002 (restated): HK\$56,795 million) representing a decrease of 5.2% from the level recorded as at the end of the previous financial year. This was mainly attributed to the decrease in the investment property revaluation reserve of the Group that amounted to HK\$3,763 million (2002: HK\$898 million). The Group is in a strong financial position and possesses a large capital base whilst the net debt position remains at a low level. With abundant committed banking facilities in place, and continuous cash inflow generated from a solid base of recurrent income, the Group has adequate financial resources in meeting the funding requirement of its ongoing operations as well as future expansion.

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 16.8% (2002: 19%). Profit from operations of HK\$1,243 million covered the interest expense before capitalisation of HK\$347 million by 3.6 times for the financial year under review (2002: 3.4 times).

The Group's financing and treasury activities were managed centrally at the corporate level. Bank loans and borrowings of the Group, which are primarily obtained from the Hong Kong office of international banks 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. 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. In order to contain its borrowing costs, the Group will consider making use of interest rate swap instruments, when appropriate to lock in short to medium term interest

rates for a portion of the Group's floating rate borrowings.

As of 30th June, 2003, the Group's outstanding bank borrowings which were mainly in Hong Kong Dollars amounted to HK\$11,420 million (2002: HK\$12,163 million). Further, the amounts due to fellow subsidiaries of the Group amounted to HK\$3,708 million (2002: HK\$3,716 million). During the period under review, the interest expenses incurred on the Group's borrowings amounted to HK\$347 million (2002: HK\$518 million). As for the Group's finance cost which was arrived at after interest capitalisation, this was recorded at approximately HK\$66 million (2002: HK\$98 million) for the financial year under review. With an aim to fix a portion of the Group's Hong Kong Dollar borrowings at the current low interest rate level, the Group has entered into Hong Kong Dollars interest rate swap agreements in respect of a portion of such borrowings during the financial year under review.

Financing facilities arranged by the Group were mainly denominated in Hong Kong Dollars. In respect of the Group's business activities in Mainland China that are conducted through its listed subsidiaries, Henderson China Holdings Limited, a portion of its borrowings was denominated in Renminbi to fund its property projects in Mainland China during the financial year under review. As a whole, the core operations of the Group are therefore considered to be not exposed to foreign exchange rate risk to any significant extent and the Group did not enter into any currency hedging agreement during the financial year under review.

Assets of the Group had not been charged to any third parties in the financial year under review except that security was provided in respect of a very small portion of project financing facilities that was extended by banks to a subsidiary of the Group engaging in infrastructural projects in Mainland China.

Future Plans of Material Investments or Capital Assets

In the financial year under review, the Group incurred HK\$380 million on new project acquisition relating to the Group's acquisition of a 27% interest in the net sale proceeds of the residential properties in the Ma Tau Kok South Plant development project of The Hong Kong and China Gas Company Limited whereas the Group incurred HK\$437 million in the previous financial year mainly in respect of the acquisition of agricultural land and payments made in respect of land conversion premiums.

As at 30th June, 2003, capital commitments of the Group amounted to HK\$7,607 million (2002: HK\$6,460 million). As the Group completed several property projects during the financial period under review, this had given rise to a significant decrease in capital commitments related to the amount of expenditure contracted for future development and related costs. Due to land-use conversion approved during the financial year under review in respect of several property sites that were originally designated as industrial/office developments into hotel development sites, the future development expenditure will be increased once decisions have been made to proceed with such hotel development. Resulting from this, as at the end of the financial year under review, outstanding commitments of the Group that 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 amounted to HK\$334 million (2002: HK\$1,022 million) and HK\$2,327 million (2002: HK\$2,825 million) respectively. The future development expenditure and related costs approved by the directors but not contracted for as at the end of the financial period under review increased to HK\$4,946 million (2002: HK\$2,613 million), mainly as a result of the conversion in land-use for hotel development purpose.

Contingent Liabilities

Contingent liabilities of the Group totally amounted to approximately HK\$4,138 million as at 30th June, 2003 (2002: HK\$4,881 million). In support of the banking facilities extended to the Group's treasury subsidiaries and certain operating subsidiaries, the Company has provided guarantees to commercial banks and as at the end of the financial year under review, the Company's contingent liabilities relating to the utilized amount of such banking facilities amounted to HK\$9,619 million (2002: HK\$8,927 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\$3,526 million (2002: HK\$3,964 million) as at the end of the financial year under review.

Employees

As at 30th June, 2003, the Group had about 6,300 full-time employees compared to about 6,410 full-time employees as at 30th June, 2002. 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.

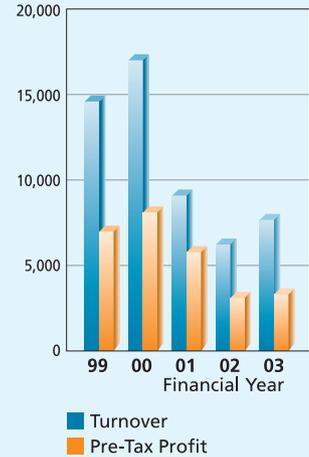
Employees of the Group who are employees and executive directors of Henderson China Holdings Limited ("Henderson China") or any of its subsidiaries may be granted share options to subscribe for shares in Henderson China in accordance with the terms and conditions of the share option scheme approved by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

Management Discussion and Analysis (cont'd)

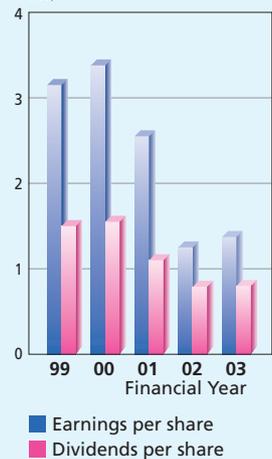
Employees of the Group who are full-time employees and executive directors of Henderson Cyber Limited ("Henderson Cyber") or any of its subsidiaries may be granted share options to subscribe for shares in Henderson Cyber in accordance with the terms and conditions of the share option scheme approved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

Total employees' costs amounted to HK\$751.3 million for the year ended 30th June, 2003. The total employees' costs for the previous financial year amounted to HK\$751.7 million.

Turnover and Pre-Tax Profit
HK\$ Million



Dividends and Earnings per share
HK\$



Shareholders' Funds
HK\$ Billion

