

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 financial year ended 30th June, 2003, the Group's turnover showed a slight decrease and amounted to approximately HK\$1,181 million (2002: HK\$1,188 million) when compared to that recorded in the previous financial year.

The Group's profit attributable to shareholders reduced by 9% to approximately HK\$1,626 million (2002: HK\$1,780 million) in the financial year under review. During the year, 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 prevailing adverse market condition had relatively limited impact on the rental property business of the Group. The Group's profit from rental properties amounted to approximately HK\$314 million (2002: HK\$339 million) based on a rental turnover of HK\$620 million (2002: HK\$607 million) during the financial year under review. Further, the Group's share of profits less losses of associates of the Group amounted to approximately HK\$1,539 million (2002: HK\$1,580 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), thus showing that this source of recurrent income is very stable.

The Group's profit contributed from its investment in infrastructure projects in Mainland China through the Group's subsidiary, China Investment Group Limited, amounted to approximately HK\$139 million (2002: HK\$145 million) in the financial year under review. The slight decline in profit of this business was mainly attributed to a slight drop in traffic flow and thus revenues in respect of the toll roads and bridges operations. As this company also engages in the retailing business in Mainland China, an impairment loss provision in the amount of HK\$10 million was made as a result of the re-organisation of its retailing business in the latter half of 2002.

As the negative sentiment in the tourism industry and consumer spending in an already depressed economy was further aggravated by the outbreak of SARS during the financial year under review, the Group's business operations that are related to the tourist industry and retailing business were affected. The Group's hotel operations registered a loss of approximately HK\$9 million (2002: HK\$11 million) during the financial year under review as a result of the overall decline in both the turnover and room tariff experienced in the local hotel industry during the year. Notwithstanding that the Group's department store business had been operating under a deflationary environment in the financial year under review, this business area of the Group maintained at breakeven level due to effective cost control exercised by the Group.

Other business activities of the Group registered a combined profit of approximately HK\$15 million (2002: Loss of HK\$45 million) in the financial year under review. Such business activities included information technology services business which incurred a loss of approximately HK\$33 million whilst the Group's security services business and securities investments had brought about satisfactory returns to the Group during the financial year under review.

Management Discussion and Analysis (cont'd)

Liquidity, Financial Resources and Capital Structure

As at the end of the financial year under review, the cash holdings of the Group amounted to approximately HK\$815 million (2002: HK\$668 million), after netting off the total bank borrowings that stood at HK\$600 million (2002: HK\$1,564 million), the Group was in a net cash position of

HK\$214 million (2002: Net bank borrowings of HK\$896 million). Except for a 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:

	2003 HK\$'000	2002 HK\$'000
Bank Loans and Borrowings Repayable:		
Within 1 year	360,290	431,189
After 1 year but within 2 years	65,485	996,304
After 2 years but within 5 years	109,289	70,870
After 5 years	65,275	65,275
Total Bank Loans and Borrowings	<u>600,339</u>	<u>1,563,638</u>
Less: Cash at Bank and in Hand	<u>(814,563)</u>	<u>(667,601)</u>
Total Net Bank Borrowings/(Deposits)	<u>(214,224)</u>	<u>896,037</u>

As at 30th June, 2003, shareholders' fund of the Group amounted to approximately HK\$19,640 million (2002: HK\$19,882 million). The Group is in a strong financial position and possesses a large capital base. With substantial committed banking facilities in place and continuous cash inflow from a solid base of recurrent income, the Group has adequate financial resources in meeting the funding requirements of its ongoing operations as well as future expansion.

Gearing Ratio & Financial Management

Since the Group was in a net cash position 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 was zero (2002: 4.5%). Profit from operations of HK\$466 million (2002: HK\$306 million) covered the total interest

expense before capitalisation of HK\$33 million (2002: HK\$66 million) by 14.1 times (2002: 4.6 times) for the financial year under review. 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 at 30th June, 2003, the outstanding bank borrowings amounted to approximately HK\$600 million (2002: HK\$1,564 million). Further, the amounts due to fellow subsidiaries of the Group amounted to HK\$199 million (2002: HK\$159 million). During the financial year under review, the interest expenses incurred amounted to approximately HK\$33 million (2002: HK\$66 million). With an aim to fix 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 major portion of such borrowings during the period under review.

Financing facilities arranged by 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 toll road projects in Mainland China. 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 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 that security was provided in respect of a portion of project financing facilities that was extended to a subsidiary of the Group engaging in infrastructural projects in Mainland China.

Future Plans for Material Investments or Capital Assets

As at 30th June, 2003, capital commitment of the Group amounted to HK\$15 million (2002: HK\$16 million). These were mainly made up of contracted commitment of the Group for acquisitions of property, plant and equipment, and for property development and renovation expenditure. As at the end of the financial year under review, other commitments of the Group, which were related to future minimum lease payments in connection with leasing of retail shop premises on a long term basis by the department store operation of the Group, amounted to approximately HK\$349 million (2002: HK\$466 million).

Contingent Liabilities

In support of the banking facilities extended to the Group's treasury subsidiaries and certain specific operating subsidiaries, the Company has given guarantees to commercial banks. As at the end of the financial year under review, the Company's contingent liabilities relating to the utilised amount of such banking facilities totally amounted to HK\$314 million (2002: HK\$1,242 million).

Employees

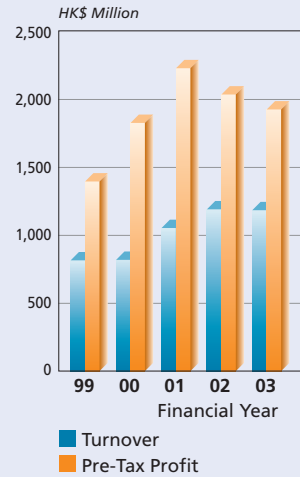
As at 30th June, 2003, the number of employees of the Group was approximately 1,400. The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Discretionary year-end bonus was paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme, training programmes and educational subsidies.

Management Discussion and Analysis (cont'd)

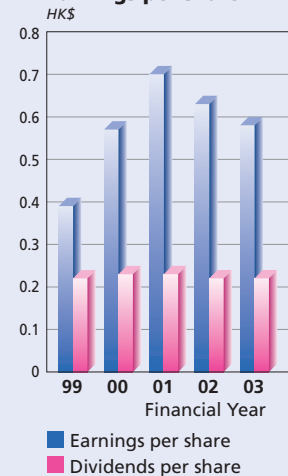
Employees of the Group who are full-time employees and executive directors of Henderson Cyber Limited ("Henderson Cyber") or any of its subsidiaries may be granted share options to subscribe for shares in Henderson Cyber in accordance with the terms and conditions of the share option scheme approved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

Total employees' costs amounted to HK\$215 million for the year ended 30th June, 2003. The total employees' costs for the previous financial year amounted to HK\$220.8 million.

Turnover and Pre-Tax Profit



Dividends and Earnings per share



Shareholders' Fund

