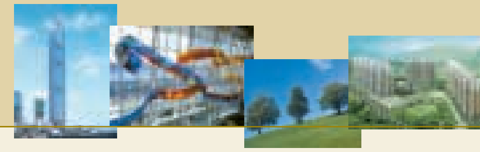
Management Discussion and Analysis



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, 2004, the Group's turnover amounted to approximately HK$6,727 million (2003: HK$7,667 million), showing a decrease of 12% when compared to that recorded in the previous financial year. This was mainly attributed to a reduction in the completion footage of the Group during the financial year under review. The Group's profit attributable to shareholders amounted to HK$3,059 million in the financial year under review, representing a substantial increase of 51% over the restated HK$2,033 million (previously stated as HK$2,242 million) recorded in the previous financial year. The above-mentioned restatement of profit was made in accordance with the revised SSAP 12 "Income Taxes" in relation to accounting for deferred tax which the Group has adopted with effect from 1st July, 2003.

The turnover of the Group's property development segment recorded in the financial year under review amounted to approximately HK$2,837 million (2003: HK$3,910 million), representing a decrease of 27% when compared to that recorded in the previous financial year. Nevertheless, benefiting from the gradual recovery of the local property market and property prices that brought about an increase in the profit margin of property sale transactions, this business segment reversed to record a profit of HK$956 million (2003: restated loss of HK$234 million, previously stated as HK$244 million) during the period under review.

As at the end of 30th June, 2004, the Group made provisions for certain property projects in the aggregate amount of approximately HK$28 million (2003: HK$665 million), whereas provisions earlier made on some other property projects in the aggregate amount of HK$788 million (2003: HK$337 million) were written back mainly as a result of general price rebound in property market.

In the financial year under review, property leasing revenue amounted to approximately HK$2,214 million (2003: HK$2,218 million). Profit contribution from operation relating to property leasing amounted to approximately HK$1,204 million (2003: HK$1,222 million) in the financial year under review, showing a decrease of 2% as compared with that recorded in the previous financial year. In respect of the core investment property portfolio of the Group in Hong Kong, its positioning strategy to accumulate rental retail shopping centre developments situated in the centre of new towns and located right at the transportation nodes has contributed to provide relatively stable recurrent income.

Profit from the finance services of the Group that was mainly related to the housing mortgage loan business extended to end-buyers of the Group's development properties amounted to approximately HK$76 million (2003: restated HK$90 million, previously stated as HK$88 million) for the financial year under review. The decrease in profit was mainly accounted for by the continuous decline in the mortgage interest rates and a moderate reduction in the size of the mortgage loan portfolio of the Group.

Building construction activities of the Group, which are mainly catered to the developments participated by the Group, made profit contribution of approximately HK$35 million (2003: HK$38 million) in the financial year under review.

The Group's segment result from its investment in infrastructure projects in Mainland China that is operated through the Group's subsidiary, China Investment Group Limited, amounted to approximately HK$172 million (2003: HK$139 million). During the financial year under review, China Investment Group Limited disposed of two bridges to the municipal government of Tianjin which gave rise to a gain on disposal of approximately HK$104 million to the Group. Separately, a toll road located at Fenghua, Zhejiang Province, owned by this company recorded an impairment loss of approximately HK$53 million as the board of directors of the company took a considered view to write down their value due to severe adverse position arising from neighbouring competing routes.

During the financial year under review, improved sentiment in the tourist industry and restored consumer confidence benefited the Group's business operations that are related to the tourist industry and retailing business. The Group's hotel operations registered a substantial increase of 33% in profit to approximately HK$45 million (2003: HK$34 million) during the financial year under review. The Group's department store business also recorded a substantial increase of 43% in profit to approximately HK$22 million (2003: HK$15 million) over the twelve-month period.

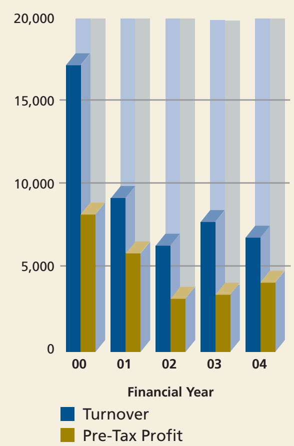
The segment of other business activities of the Group made a total profit contribution of approximately HK$107 million (2003: HK$167 million) in the financial year under review. This reduced level of profit contribution reflected a normalised position of these business activities in the absence of an one-off compensation received by the Group in respect of its undertaking in a previous redevelopment project in the previous financial year.

Share of profits less losses of associates of the Group increased by 10% and amounted to approximately HK$1,591 million when compared to the restated HK$1,445 million (previously stated as HK$1,443 million) in the previous financial year. In particular, the Group's share of profits from the three listed associates amounted to approximately HK$1,607 million (2003: HK$1,507 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 decreased by 78% to approximately HK$144 million (2003: HK$650 million). This was mainly because this profit figure posted in the previous financial year included the Group's attributable share of profits arising from the sale of part of the square footage in Two International Finance Centre to The Hong Kong Monetary Authority.

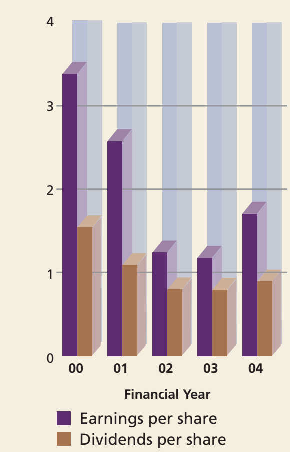
Liquidity, Financial Resources and Capital Structure

As of 30th June, 2004, the aggregate amount of the Group's outstanding bank borrowings and payment obligations under the HK$5,750 million Guaranteed Convertible Notes issued by the Group during the financial year under review totally amounted to HK$10,999 million as compared to the total bank borrowing of HK$11,420 million as at 30th June, 2003. The Group's total net bank borrowings together with outstanding amount in the Guaranteed Convertible Notes, after deducting approximately HK$3,803 million (2003: HK$2,383 million) in deposits and cash holdings, amounted to approximately HK$7,196 million (2003: 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 Guaranteed Convertible Notes bear a

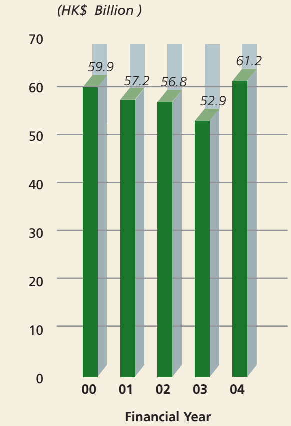
Turnover and Pre-Tax Profit
(HK$ Million)



Dividends and Earnings per share
(HK$)



Shareholders' Funds
(HK$ Billion)



full tenor of two years but the note holders also have an option to redeem the notes at the first anniversary after issuance. The maturity profiles of the Group's bank loans and borrowings outstanding as at the end of the two prior financial years respectively are presented below together with the Guaranteed Convertible Notes:

	As at 30th June, 2004 HK$'000	As at 30th June, 2003 HK$'000
Bank Loans & Borrowings Repayable:		
Within 1 year	**1,249,053**	1,545,095
After 1 year but within 2 years	**2,808,744**	5,374,740
After 2 years but within 5 years	**1,191,381**	4,434,979
After 5 years	**—**	65,275
Guaranteed Convertible Notes	**5,750,000**	—
Total Bank Loans & Borrowings and Guaranteed Convertible Notes	**10,999,178**	11,420,089
Less: Cash At Bank and In Hand	**(3,803,055)**	(2,382,794)
Total Net Bank Borrowings and Guaranteed Convertible Notes	**7,196,123**	9,037,295

As of 30th June, 2004, shareholders' funds of the Group amounted to approximately HK$61,236 million, representing an increase of 16% when compared to the restated HK$52,929 million (previously stated as HK$53,866 million) recorded at the end of the previous financial year. Increase in shareholders' funds was partly resulted from the placement of shares in the Company by the Group in October, 2003 with net proceeds of approximately HK$2,954 million deriving from this exercise. The Group is in a strong financial position and possesses a large capital base whilst the net borrowings 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 and outstanding Guaranteed Convertible Notes as a ratio of the Group's shareholders' funds amounted to 11.8% (2003: 16.8% before restatement or 17.1% based on the restated shareholders' funds figure as at 30th June, 2003). Further, the amounts due to fellow subsidiaries of the Group amounted to HK$5,025 million (2003: HK$3,708 million). The Group's profit from operations of HK$2,464 million covered the interest expense before capitalisation of HK$249 million (2003: HK$347 million) by 9.9 times (2003: 3.6 times) for the financial year under review. As for the Group's finance cost which was arrived at after interest capitalisation, this was recorded at approximately HK$111 million (2003: HK$66 million) for the financial year under review.

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. 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. With the aim to control the Group's future cost of borrowing effectively, the Group has been taking advantage of the low local interest rates and has from time to time locked in interest rates of one year term and longer to match part of the medium-term funding needs of the Group by obtaining fixed-rate loans as well as maintaining a number of Hong Kong Dollar unexpired interest rate swap contracts.

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

As at 30th June, 2004, capital commitments of the Group amounted to HK$7,562 million (2003: HK$7,607 million). 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. 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 development expenditure and the Group's obligations to fund the Group's subsidiaries and associates established outside Hong Kong amounted to HK$92 million (2003: HK$334 million) and HK$1,764 million (2003: HK$2,327 million) respectively. The future development expenditure and related costs of internal fixtures and fittings approved by the directors but not contracted for as at the end of the financial period under review increased to HK$5,706 million (2003: HK$4,946 million).

The Beverly Hills - Phases I, II & III, Tai Po

Total G.F.A.: Approx. 1,164,000 sq.ft.; 90.10% owned by the Group.

This development is planned to be developed by phases into 535 luxurious houses and 999 carparking spaces. The first two phases comprising 372 houses and had been completed in July 2002. Phase III is planned to be developed into 163 luxurious houses, superstructure work is in progress and the development is expected to be completed in late 2005.

Contingent Liabilities

Contingent liabilities of the Group totally amounted to approximately HK$2,686 million as at 30th June, 2004 (2003 restated: HK$4,201 million, previously stated as 4,138 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, contingent liabilities of the Company relating to the utilised amount of such banking facilities were substantially reduced and amounted to HK$4,499 million (2003: HK$9,619 million). However, contingent liabilities have arisen in the amount of HK$5,773 million in relation to guarantee given by the Company to holders of the Guaranteed Convertible Notes which were issued during the financial year under review. Further, in support of banking facilities extended to an associate and a jointly controlled entity of the Group for funding property developments which mainly relate to the One IFC project, the Company has also given guarantees amounting to HK$2,322 million (2003: HK$3,526 million) as at the end of the financial year under review.

Employees

As at 30th June, 2004, the Group had about 6,400 (2003: 6,300) full-time employees. 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 and 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.

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.

Total employees' costs amounted to HK$756 million for the year ended 30th June, 2004 (2003: HK$751 million).

Paradise Square, Mongkok

Total G.F.A.: Approx. 160,000 sq.ft.; 100% owned by the Group.

This is one of the Urban Renewal Authority projects participated by private property developers which is developed into a 34-storey residential tower over a podium consisting of 4 levels of shops and 4 carparking levels with 72 carparking spaces. It was completed in June 2003.

EMPLOYEE ACTIVITIES

Barbecue Day – Charging on with team spirit

Cooking Contest – The Best Chef of the Year

Vegetarian Day – Let's go for a healthy diet

Po Leung Kuk – A caring visit