

Management Discussion and Analysis

The following comments should be read in conjunction with the Audited Statement of Accounts of Henderson China Holdings Limited and the related notes to the accounts.

Review of Results

Turnover of the Group showed an increase and amounted to approximately HK\$578 million (2001: HK\$483 million) as profit attributable to shareholders registered a decrease and amounted to approximately HK\$133 million (2001: HK\$168 million) as compared to that recorded in the previous financial year. The increase in the Group's turnover was mainly attributed to sale of the residential units of the Group's Heng Bao Garden project as residential property prices experienced an increase in Guangzhou during the period under review. Performance of the Group during the financial year under review was however adversely affected by higher marketing expenses incurred by the property investment business segment and reduced contributions from the other business segments of the Group.

Profit generated from property sales, which amounted to approximately HK\$43 million (2001: HK\$74 million) based on turnover of approximately HK\$398 million (2001: HK\$269 million) recorded in the financial year was contributed mainly from sale of completed residential units of the Group's Heng Bao Garden project as well as stock from other earlier completed projects.

Gross rental income of the Group showed a slight increase and was recorded at approximately HK\$68 million (2001: HK\$66 million) during the financial year under review. However, the Group's profit from rental properties amounted to approximately HK\$21 million (2001: HK\$36 million) and recorded a decrease as compared to that of the previous financial year due to increased marketing expenses incurred in promoting the initial opening of the Group's retail shopping podium at the Heng Bao Garden.

Profit from the finance services of the Group amounted to approximately HK\$65 million in the financial year under review as compared with approximately HK\$102 million recorded in the previous financial year under an environment of declining interest rates.

Profit from management and sales commissions of the Group was mainly related to the project management and property management service provided by the Group and amounted to approximately HK\$25 million (2001: HK\$29 million) during the financial year under review.

The Group's profit contributed from guaranteed return on investment which was related to the government-guaranteed investment return from the Group's participation in the An-Ju housing project of the Tianjin municipal government was reduced to approximately HK\$4 million (2001: HK\$14 million) in the financial year under review mainly due to completion of the final phase of the related project in the first half of the financial year under review.

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\$395 million amounted to approximately HK\$1,430 million as at 30th June, 2002. All of

the Group's borrowings were unsecured and were mainly 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:

	2002 (In HK\$'000)	2001 (In HK\$'000)
Bank Loans and Borrowings Repayable:		
Within 1 year	467,744	528,228
After 1 year but within 2 years	597,143	700,000
After 2 years but within 5 years	759,316	735,582
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Total Bank Loans and Borrowings	1,824,203	1,963,810
Less: Cash at bank and in hand	(394,664)	(201,692)
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Total Net Bank Borrowings	<u>1,429,539</u>	<u>1,762,118</u>

Interest expenses of the Group before interest capitalisation amounted to approximately HK\$92 million (2001: HK\$130 million) for the financial year under review. For bank loans which were obtained by the Group in the Hong Kong currency, loan interests were chargeable mainly based on certain agreed interest margins over the Hong Kong Interbank Offer Rate and such banking facilities were therefore of floating rate in nature. As for the bank borrowings which were denominated in Renminbi, these are linked to fixed interest rates for commercial loans as announced by The People's Bank of China from time to time.

As of 30th June, 2002, shareholders' funds of the Group, amounted to approximately HK\$7,660 million (2001 (restated to reflect position before final dividend payment): HK\$7,329 million) being recorded at around the same level as that registered as at the end of the previous financial year. The Group is in a strong financial position and possesses a large capital base whereas net debt position remains low. With adequate committed banking facilities in place and income to the Group generating from its property business, the Group has sufficient financial resources to fund 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' funds amounted to 18.7% (2001: 24.0%). Profit from operations of HK\$159 million covered the net interest expenses before capitalisation of HK\$92 million by 1.7 times for the financial year under review (2001: 1.9 times).

The Group's financing and treasury activities were managed centrally at the corporate level. Assets of the Group had not been charged to any third parties in the financial year under review. Bank loans of the Group were obtained in Hong Kong Dollars as well as in Renminbi. As at 30th June, 2002, the majority of the Group's bank borrowings was denominated in Hong Kong Dollars with the remaining balance being denominated in Renminbi. The Group did not enter into any currency hedging agreements in the financial year under review.

Future Plans of Material Investments or Capital Assets

As at 30th June, 2002, commitment of the Group amounted to HK\$3,725 million as compared with HK\$3,495 million recorded as at 30th June, 2001. Out of these commitments, HK\$2,810 million were mainly related to contracted obligations of the Group for future development costs and expenditures to be incurred on various projects of the Group in the short to medium term with the remaining amount of HK\$915 million being related to the Group's commitment in respect of future development costs and expenditures of the new development projects of the Group which was authorized but not yet contracted for as at the end of the financial year under review.

Management Discussion and Analysis (cont'd)

Contingent Liabilities

In support of the banking facilities extended to the Group's treasury subsidiaries and project subsidiaries, the Company has given guarantees to commercial banks, and as at the balance sheet date, the Group's contingent liabilities relating to the utilised amount of such banking facilities summed up to HK\$1,023 million (2001: HK\$1,463 million). The other contingent liabilities of the Group were mainly represented by guarantees given by the Group to financial institutions in support of the mortgage financing provided by them to purchasers of properties developed by the Group and this amounted to HK\$269 million as at the end of the past financial year, representing an increase of 85.5% when compared to HK\$145 million that was recorded as at the end of the previous financial year because a large quantity of units sold from the Heng Bao Garden during the period required mortgage financing. A portion of these guarantees are short term in nature and the Group's obligations will be gradually relinquished as the relevant property title documents of each sold unit are gradually issued by the Ministry of Land and Resources in Mainland China.

Employees

As at 30th June, 2002, the number of employees of the Group was about 890, of which about 70 were employed in Hong Kong and the others were employed in Mainland China. 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. Employees of the Group may be granted share options. Other benefits to employees include medical insurance, retirement schemes, training programmes and educational subsidies.

Total employees' costs for the year ended 30th June, 2002 amounted to HK\$53.3 million as compared to HK\$54.7 million for the previous financial year.