

# 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

During the financial year under review, turnover of the Group decreased to approximately HK\$188 million (2002: HK\$578 million) and the Group posted a loss attributable to shareholders that amounted to approximately HK\$395 million (2002: Profit of HK\$133 million). The Group incurred a loss in its operating results in the financial period under review mainly as a result of a decrease in the Group's operating income, and provisions made on certain property projects as well as bad debts written off in relation to property rental.

Turnover from property sales for the financial year under review amounted to approximately HK\$91 million (2002: HK\$398 million) which was contributed mainly from sale of residential units in the Heng Bao Garden project in Guangzhou that was earlier completed by the Group as well as the stock units of other completed projects. The Group's property development segment generated a profit of HK\$61 million before making provisions on the property projects (2002: HK\$43 million), but after accounting for the provisions made by the Group on certain property projects which amounted to HK\$263 million during the financial year under review, the final segmental result of the Group's property development business reported a loss of HK\$202 million (2002: Profit of HK\$43 million).

On the Group's property investment front, the segmental result was affected by a reduction in gross rental income to approximately HK\$41 million (2002: HK\$68 million) during the financial year under review. Further, as some of the tenants in the Group's Beijing Henderson Centre breached the tenancy agreements and vacated the premises at the end of 2002, the Group has written off bad debts in relation to property rental in the amount of HK\$37 million during the financial year under review and recorded a loss of approximately HK\$124 million (2002: Profit of HK\$21 million) in its property investment business.

Profit from the finance services business of the Group, which were mainly attributed to interest income from advances made to the Group's project companies as well as from property mortgage loans extended to purchasers of the Group's property units, decreased to approximately HK\$36 million (2002: HK\$65 million) as compared to that recorded in the previous financial year owing to the fact that interest rate stayed at constantly low level during the financial year under review.

During the financial year under review, the reduced income received from the project management and property management services provided by the Group gave rise to a loss of approximately HK\$3 million (2002: Profit of HK\$25 million) in the management and sales commission segment of the Group during the period.

### Liquidity, Financial Resources and Capital Structure

As at 30th June, 2003, the Group's total net bank borrowings after deducting cash holdings of approximately HK\$761 million amounted to approximately HK\$993 million. 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:

	2003 HK\$'000	2002 HK\$'000
Bank Loans and Borrowings Repayable:		
Within 1 year	332,201	467,744
After 1 year but within 2 years	1,350,075	597,143
After 2 years but within 5 years	71,000	759,316
Total Bank Loans and Borrowings	<u>1,753,276</u>	<u>1,824,203</u>
Less: Cash At Bank and In Hand	<u>(760,751)</u>	<u>(394,664)</u>
Total Net Bank Borrowings	<u>992,525</u>	<u>1,429,539</u>

As of 30th June, 2003, shareholders' funds of the Group amounted to approximately HK\$7,036 million (2002: HK\$7,660 million) representing a decrease of 8.1% compared to that registered as at the end of the previous financial year. This was mainly attributed to diminution in the value of the Group's investment properties that amounted to HK\$181 million after these properties were revalued, and the operating loss incurred by the Group during the financial year under review. Nevertheless, the Group possesses a large capital base and is in a strong financial position with continuously reducing net debt position. With adequate cash on hand and committed banking facilities in place, the Group has sufficient financial resources to meet the funding requirements of its ongoing operations as well as future business development.

### 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 14.1% (2002: 18.7%).

The Group's financing and treasury activities were managed centrally at the corporate level. Bank loans of the Group were obtained in Hong Kong Dollars as well as in Renminbi. As at 30th June, 2003, the majority of the Group's bank borrowings was denominated in Hong Kong Dollars with the remaining balance being denominated in Renminbi. 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. 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 further 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 rate for a portion of the Group's floating rate borrowings.

## Management Discussion and Analysis (cont'd)

As at 30th June, 2003, the outstanding bank borrowings amounted to approximately HK\$1,753 million (2002: HK\$1,824 million). Further, loans from fellow subsidiaries amounted to approximately HK\$1,128 million (2002: HK\$617 million). During the financial period under review, the interest expenses incurred on the Group's borrowings amounted to approximately HK\$59 million (2002: HK\$92 million) for the financial year under review. As for the finance costs which was arrived at after interest capitalisation, this amounted to approximately HK\$17 million (2002: HK\$8 million). With an aim to fix a portion of the Group's Hong Kong Dollar loan rates at the current low 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.

As at the end of the financial year under review, the majority of the Group's borrowings was denominated in Hong Kong dollars with the remaining balance being denominated in Renminbi. As a whole, the core operations of the Group were not exposed to any significant foreign exchange risks. 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.

### Future Plans of Material Investments or Capital Assets

As at 30th June, 2003, commitment of the Group amounted to HK\$3,962 million (2002: HK\$3,725 million). Out of these commitments, HK\$2,313 million (2002: HK\$2,810 million) were mainly related to contracted obligations of the Group for future development costs and expenditures to be incurred on several projects of the Group in the short to medium term with the remaining amount of HK\$1,649 million (2002: 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.

### 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 Company's contingent liabilities relating to the utilised amount of such banking facilities summed up to HK\$1,031 million (2002: HK\$1,023 million). The other contingent liabilities of the Group were mainly represented by guarantees given by the Group to banks in support of the mortgage financing provided by them to purchasers of properties developed by the Group and this amounted to HK\$229 million (2002: HK\$269 million) as at the end of the current financial year. These guarantees are short term in nature and the Group's obligations continue to be gradually relinquished along with the issuance of the property title documents for each sold unit.

### Employees

As at 30th June, 2003, the number of employees of the Group was about 1,000, of which about 100 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, 2003 amounted to HK\$62.5 million as compared to HK\$53.3 million for the previous financial year.