

Financial Review

FINANCIAL RESOURCES AND LIQUIDITY

As of 31st December, 2001, shareholders' fund of the Group amounted to approximately HK\$57,564 million, as compared to HK\$57,260 million that was registered as at 30th June, 2001. As at the end of the interim period under review, the total amount of banking facilities available to the Group amounted to approximately HK\$21,776 million, of which HK\$17,688 million were obtained from commercial banks on a committed basis. As at the end of the last financial year, the total banking facilities available were HK\$27,238 million, of which HK\$23,438 million were committed lines. Total net bank borrowings of the Group as of 31st December, 2001 amounted to HK\$12,353 million, representing an increase of 3.9% when compared to the net bank borrowings of HK\$11,891 million that was recorded as at 30th June, 2001. Bank loans and borrowings are obtained by the Group on an unsecured basis; except for a very small portion of bank borrowings raised in Renminbi in connection with the financing of certain infrastructural projects in Mainland China by a previous associate of the Group which was converted to a subsidiary in late-2000. Otherwise, as at the end of the period under review and as at 30th June, 2001, assets of the Group were not charged to third parties. As at the end of the interim period under review, apart from financing raised by two jointly controlled entities of the Group which are engaged in the development of local property projects in total sum of HK\$3,376 million, being at a similar level as that recorded as at 30th June, 2001, for which the Group has given guarantees, the Group has no other off-balance sheet borrowings or any such related contingent liabilities.

During the interim period under review, the Group's subsidiary, Henderson Cyber Limited, acquired certain investment-grade U.S. Dollar debt securities totalling HK\$280 million with an aim to enhance treasury investment yield. As a result, investment in securities increased to HK\$1,225 million as at 31st December, 2001 and this compared with HK\$934 million recorded as at 30th June, 2001. Other than such investments made, the Group did not undertake any significant acquisition or disposal of assets outside its core businesses during the interim period under review.

LOAN MATURITY PROFILE

To continuously implement the Group's financial strategy for lengthening the maturity profile of bank borrowings in a timely manner, the Group has taken advantage of the competitive local banking environment during the period under review and successfully arranged a new HK\$5.5 billion five-year revolving loan facility in August, 2001 to cater for the general corporate requirements of the Group at the Group's historical low loan-pricing to replace the HK\$5.25 billion syndicated facility that was due to expire in mid-2002. The maturity profile of the Group's outstanding bank loans and borrowings is shown below:

	As at 31st December, 2001 HK\$'000	As at 30th June, 2001 HK\$'000
Bank Loans and Borrowings Repayable:		
Within 1 year	2,078,797	1,808,398
After 1 year but within 2 years	6,391,446	7,548,492
After 2 years but within 5 years	4,870,086	4,018,752
After 5 years	865,275	96,980
Total Bank Loans and Borrowings	<u>14,205,604</u>	13,472,622
Less: Bank Deposits and Cash	<u>(1,852,892)</u>	(1,581,501)
Total Net Bank Borrowings	<u><u>12,352,712</u></u>	<u><u>11,891,121</u></u>

GEARING

The total net bank borrowings to shareholders' fund was recorded at 21% as at 31st December, 2001, being at the same level as that registered at 30th June, 2001. Profit from operations covered 2.25 times of the net interest expenses before capitalization for the interim financial period under review, this compared with the 2.7 times cover for the corresponding period ended 31st December, 2000.

INTEREST RATE EXPOSURE AND FOREIGN CURRENCY EXPOSURE

Interests on bank loans and borrowings of the Group are chargeable mainly based on certain agreed interest margins over the Hong Kong Inter-bank Offer Rate, which is therefore of floating rate in nature. The core operations of the Group are not exposed to any significant foreign exchange rate risks. In respect of the Group's listed subsidiary, Henderson China Holdings Limited, its existing bank borrowings are obtained in both Hong Kong Dollars and Renminbi. Currently, the non-Renminbi borrowings are gradually being replaced by Renminbi-denominated banking facilities in order to reduce the foreign currency exposure. For the outstanding Japanese Yen Fixed-Rate Bonds amounting to Japanese Yen 10 billion, cross-currency swaps have been utilized to convert such borrowing to Hong Kong floating rate basis. The use of financial derivative instruments is strictly controlled and solely for management of the Group's interest rate and foreign exchange rate exposures. As of 31st December, 2001, total outstanding cross-currency swaps amounted to HK\$758 million, being the same as that outstanding as at 30th June, 2001.

CAPITAL COMMITMENTS

As at 31st December, 2001, capital commitments of the Group amounted to HK\$ 11,861 million, compared with HK\$12,243 million as at 30th June, 2001. These are made up mainly by contracted obligations of the Group for funding property development projects as well as for funding the Group's subsidiaries and associates established outside Hong Kong amounting to HK\$5,507 million and HK\$2,818 million respectively, both being recorded at similar level as at 30th June, 2001. Other capital commitments of the Group related to acquisition of property and future development expenditure that totally amounted to HK\$3,536 million of which HK\$1,271 million was contracted for as at the end of the interim period under review; the same nature of commitments of the Group amounted to HK\$3,912 million of which HK\$1,203 million was contracted for as at the end of the previous financial year.

CONTINGENT LIABILITIES

Contingent liabilities of the Group amounted approximately to HK\$9,607 million as at 31st December, 2001, representing a slight increase when compared with HK\$9,511 million that was outstanding as at 30th June, 2001. These mainly comprised guarantees given to third parties in respect of contracted commitments of the Group to provide attributable portion of capital to joint venture property development projects as well as funding of property development projects and guarantees given by the Group to banks to secure banking facilities of jointly controlled entities, each being recorded at a similar level as that registered as at 30th June, 2001.

USE OF CAPITAL AND FUNDING

Capital of the Company and retained profits of the Group will continue to be put to good use to develop the Group's business. The Group has adequate capital resources and abundant unutilised banking facilities for funding its ongoing operations and further expansion.