

Financial Review

REVIEW OF RESULTS

During the six-month period ended 31st December, 2002, the Group's turnover amounted to approximately HK\$4,707 million as compared to HK\$2,983 million recorded in the corresponding period ended 31st December, 2001, representing a substantial increase of 58% at a time when completion footage increased substantially to 2.28 million sq.ft. in the interim period under review. The Group's profit attributable to shareholders amounted to approximately HK\$1,010 million in the period under review and was reduced by 8% from that recorded in the corresponding period in the previous financial year.

The property development segment of the Group incurred a loss of approximately HK\$44 million based on a turnover of approximately HK\$2,601 million recorded in the period under review mainly as a result of provisions made in an amount of HK\$258 million for diminution in value of properties in respect of certain development projects of the Group. Further, increased marketing costs incurred under a period of slowdown in the local property market also added to the negative impact on this business segment during this interim period.

Gross rental revenue was maintained at a similar level as that recorded in the corresponding period of the previous financial year and amounted to approximately HK\$1,016 million in the interim period under review. Profit contribution from operation relating to property rental amounted to approximately HK\$588 million in the six-month period and showed a slight decline of 8% as compared with that recorded in the first half of the previous financial year which was partly attributed to the bad debts written off mainly in connection with uncollected rents from one of the Group's investment property projects in Mainland China. In respect of the core investment property portfolio, however, the Group's positioning strategy to accumulate rental retail shopping centres developments situate in the centre of new towns and located right at the transportation nodes has contributed to provide stable recurrent income, as evidenced by the resilience shown in the local property rental performance amidst a period of economic slowdown.

Profit from the finance segment of the Group, which was mainly attributed to interest received on property mortgage loans from purchasers of the Group's property units, amounted to approximately HK\$98 million in the interim period under review as compared to HK\$157 million that was recorded in the corresponding period in the previous financial year mainly due to the fall in interest income resulting from termination of involvement by the Group in funding a government property redevelopment project and the declining interest rates in the interim period under review.

Building construction activities of the Group which are mainly catered to the developments participated by the Group contributed approximately HK\$19 million in profit in the interim period under review, representing a sizeable increase over that recorded in the corresponding period of the previous financial year mainly as a result of effective cost control undertaken by the Group.

The Group's segment result from its investment in infrastructure projects in Mainland China, operated under the Group's subsidiary, China Investment Group Limited, amounted to approximately HK\$75 million as compared to HK\$81 million recorded for the corresponding period in the previous financial year. This reduced contribution was mainly attributed to slight drop in traffic flow and thus revenues in respect of the Group's toll roads and bridges in the period under review. Apart from engaging in infrastructural projects, China Investment Group Limited was also engaged in retailing business in Mainland China. After minority interests, deduction of operating expenses and depreciation as well as accounting for HK\$10.46 million in impairment loss provision in respect of the re-organisation of the retailing business of this subsidiary and a loss of approximately HK\$3 million was incurred in the interim period under review.

Contribution to profit deriving from hotel operation of the Group amounted to HK\$24 million in the interim period under review, being at almost the same level as that posted in the corresponding period of the previous financial year. The department store operation of the Group made a profit contribution of approximately HK\$8 million in the interim period under review before accounting for rental payment made to member companies of the Group, reversing the loss position of approximately HK\$4 million recorded in the corresponding period in the previous financial year.

Other business activities of the Group contributed a combined profit of approximately HK\$227 million in the period under review, reflecting an increase of approximately 30% against that recorded in the corresponding period of the previous financial year after accounting for sums received pursuant to the termination of involvement by the Group in managing and funding a government property redevelopment project.

Share of profits less losses of associates of the Group increased to approximately HK\$762 million from HK\$681 million recorded in the corresponding period of the previous financial year. In particular, the Group's share of profit from the three listed associates continued to increase in the financial period under review and amounted to approximately HK\$731 million which evidenced the resilient and recurrent nature of this income source. However, share of profits less losses of jointly controlled entities of the Group being mainly engaged in property development and property investment activities recorded a loss of approximately HK\$54 million after inclusion of provisions made in respect of diminution in value of properties during the period under review.

FINANCIAL RESOURCES AND LIQUIDITY

As of 31st December, 2002, shareholders' funds of the Group amounted to approximately HK\$55,088 million as compared with HK\$56,852 million recorded as at 30th June, 2002. The Group is in a strong financial position and possesses a large capital base whilst the net debt position was maintained at a low level in comparison. The Group's total net bank borrowings, after deducting cash holdings of approximately HK\$1,881 million, amounted to approximately HK\$9,661 million as at the end of the period under review. All of the Group's borrowings were unsecured except for a very small portion of the bank borrowings related to a subsidiary of the Group. The vast majority of the borrowings were obtained on a committed term basis. With substantial committed banking facilities in place and continuous cash inflow from a solid recurrent income base, the Group has adequate sources for funding its ongoing operations as well as its future expansion.

The Group did not undertake any significant acquisition or disposal of assets outside its core business during the interim period under review.

LOAN MATURITY PROFILE

The maturity profile of the Group's bank loans and borrowings outstanding as at 31st December, 2002 and 30th June, 2002 respectively are summarised as follows:

	As at 31st December, 2002 HK\$'000	As at 30th June, 2002 HK\$'000
Bank Loans and Borrowings Repayable:		
Within 1 year	852,187	2,300,483
After 1 year but within 2 years	6,106,792	5,237,320
After 2 years but within 5 years	3,050,283	4,010,185
After 5 years	1,532,638	615,275
Total Bank Loans and Borrowings	<u>11,541,900</u>	<u>12,163,263</u>
Less: Cash at bank and in hand	<u>(1,880,841)</u>	<u>(1,372,177)</u>
Total Net Bank Borrowings	<u>9,661,059</u>	<u>10,791,086</u>

GEARING RATIO

As at the end of the interim period 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 reduced to 17.5% from 19.0% that was registered as at 30th June, 2002. The Group's interest expense before capitalisation was recorded at approximately HK\$247 million for the period under review and showed a decrease compared to that recorded in the corresponding period in the previous financial year due to lower interest rate environment. Profit from operations of HK\$814 million covered the interest expense before capitalisation of HK\$247 million by 3.3 times as at the end of the period under review, as compared to 2.5 times that was posted as at the end of the past financial year.

INTEREST RATE EXPOSURE AND EXCHANGE RATE EXPOSURE

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 recently begun to lock 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. In respect of the Group's listed subsidiary, Henderson China Holdings Limited, a portion of its borrowings being of a comparatively small amount was denominated in Renminbi during the financial period under review to fund its property projects in Mainland China. As a whole, the core operations of the Group can therefore be considered as being not exposed to foreign exchange rate risk to any significant extent. The use of financial derivative instruments is strictly controlled and is solely for hedging the Group's interest rate and foreign currency exchange rate exposures in connection with its borrowings. As at 31st December, 2002, there were no interest rate or currency swap contracts outstanding.

CAPITAL COMMITMENTS

As at 31st December, 2002, capital commitments of the Group amounted to HK\$6,165 million, as compared with HK\$6,460 million recorded as at 30th June, 2002. A portion of these commitments, to the extent of HK\$2,760 million, was mainly accounted for by the capital commitments of the Group's subsidiary, Henderson China Holdings Limited. The future development expenditure approved by the directors but not contracted for as at the end of the financial period under review amounted to HK\$3,021 million as compared to HK\$2,613 million recorded as at the end of the previous financial year.

CONTINGENT LIABILITIES

Contingent liabilities of the Group amounted to approximately HK\$4,204 million as at 31st December, 2002, representing a decrease as compared to approximately HK\$4,702 million that was outstanding as at 30th June, 2002. These are mainly comprised of guarantees given by the parent company of the Group, Henderson Land Development Company Limited, to commercial banks to secure banking facilities granted to jointly controlled entities of the Group. Further, the parent company of the Group has also given guarantees to third parties in respect of contracted commitments of the Group to provide attributable portion of capital to joint venture property development projects.

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.

EMPLOYEES

As at 31st December, 2002, the number of full-time employees of the Group was about 6,400 as compared to about 6,300 full-time employees as at 31st December, 2001. 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 of the Group who are employees and executive 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 in accordance with the terms and conditions of the share option scheme approved by Henderson China at an extraordinary general meeting held on 15th March, 1996.

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\$405 million for the six months ended 31st December, 2002 and HK\$376 million for the corresponding period of last year.