

## Financial Review

### REVIEW OF RESULTS

During the six-month period that ended on 31st December, 2002, the Group's turnover amounted to approximately HK\$601 million, similar to that recorded in the corresponding period in the previous financial year.

The Group's profit attributable to shareholders amounted to approximately HK\$794 million in the period under review, representing a 3.4% increase over that recorded in the corresponding period in the previous financial year. This increase was mainly attributed to a 10.8% increase in the share of results of the listed associates.

The Group's profit from rental properties amounted to approximately HK\$156 million in the interim period under review based on total income generating from property rental of approximately HK\$307 million. These compared with profit and total income generated from rental properties of HK\$169 million and HK\$286 million respectively recorded in the corresponding period in the previous financial year. In respect of the core investment property portfolio, the Group's strategy to invest in retail shopping centres situate in the centre of new towns and transportation nodes has contributed to stable recurrent income, as evidenced by the resilience in rental performance amidst a period of economic slowdown.

During the period under review, the hotel operation of the Group, after deducting all relevant operating costs and expenses, recorded a loss of approximately HK\$3 million in segmental result as compared to a loss of HK\$5 million in the interim period ending 31st December, 2001. As for the Group's department store operation, a small loss of approximately HK\$0.5 million was registered amidst the continuous deflationary environment prevailing, as compared to a profit of approximately HK\$1.3 million registered in the corresponding period in the previous financial year.

The Group's result from its 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 revenues in respect of the toll roads and bridges in the period under review. Apart from engaging in infrastructural projects, China Investment Group Limited was also involved in retailing business in Mainland China. After minority interests, deduction of operating expenses and depreciation as well as accounting for approximately HK\$10 million in impairment loss provision in respect of the re-organisation of its retailing business in Mainland China, a loss of approximately HK\$3 million was incurred by this subsidiary in the interim period under review.

Other business activities of the Group registered a combined profit of approximately HK\$16 million in the financial period under review, as compared to a loss of HK\$15 million recorded in the corresponding period in the previous financial year. Such business activities included the information technology services business which incurred a loss of approximately HK\$13 million whilst the Group's security services business and other businesses had shown satisfactory results during the period under review.

Share of profits less losses of associates of the Group was mainly represented by contributions from the Group's investment in the three listed associates, totalling approximately HK\$748 million, representing a 10.8% increase over that recorded in the corresponding period of the previous financial year, and evidencing the resilient and recurrent nature of this income source despite adverse economic conditions.

### FINANCIAL RESOURCES AND LIQUIDITY

As at 31st December, 2002, shareholders' fund of the Group amounted to approximately HK\$19,279 million showing a decrease of 3.4% from the level 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 remains low by comparison. The Group's total net bank borrowings, after deducting cash holdings of approximately HK\$448 million, amounted to approximately HK\$171 million as at 31st December, 2002. Except for the portion of the bank borrowings that amounted to approximately HK\$300 million related to a subsidiary of the Group that engages in infrastructure investments in Mainland China, all of the Group's borrowings were unsecured and with the vast majority being obtained on a committed term basis. With substantial committed banking facilities in place and continuous cash inflow from a solid base of recurrent income, the Group has adequate sources for funding its ongoing operations as well as 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	404,804	431,190
After 1 year but within 2 years	86,909	996,304
After 2 years but within 5 years	94,182	70,870
After 5 years	32,638	65,275
Total Bank Loans and Borrowings	618,533	1,563,639
Less: Cash at bank and in hand	(447,541)	(667,601)
Total Net Bank Borrowings	170,992	896,038

### GEARING RATIO

As at the end of the 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' fund amounted to 0.9%, showing a reduction from the 4.5% that was registered as at 30th June, 2002. The Group's total interest expense was recorded at approximately HK\$20 million for the six-month ended 31st December, 2002. Profit from operations of HK\$195 million covered the total interest expense by 9.8 times for the period under review.

## **INTEREST RATE EXPOSURE AND EXCHANGE RATE EXPOSURE**

The Group's financing and treasury activities were managed centrally at the corporate level. Banking facilities obtained by the Group to finance its Hong Kong operations 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. In respect of the Group's subsidiary, China Investment Group Limited, a portion of its borrowings was denominated in Renminbi during the period under review to fund its infrastructure projects in Mainland China. As a whole, the core operations of the Group can therefore be considered as not exposed to foreign exchange rate risk to any significant extent. 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. As at 31st December, 2002, the Group has no outstanding interest rate or currency swap contracts.

## **CAPITAL COMMITMENTS**

As at 31st December, 2002, capital commitments of the Group amounted to approximately HK\$19 million as compared with HK\$16 million as at 30th June, 2002. These were mainly made up of contracted commitments of the Group for acquisition of property, plant and equipment, and for property development and renovation expenditure. Other commitments of the Group were related to operating lease commitments being mainly rentals payable by the Group for retail shopping premises and telecommunication network facilities and these decreased to approximately HK\$415 million as at the end of the period under review from HK\$466 million that was recorded as at 30th June, 2002.

## **CONTINGENT LIABILITIES**

Contingent liabilities of the Group amounted to HK\$12 million as at 31st December, 2002 which stood at the same level as that recorded at 30th June, 2002. This was related to a performance bond guaranteed by a bank on behalf of a subsidiary company in accordance with the terms of the fixed telecommunications network services licence granted to the Group.

## **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 employees of the Group was about 1,600. 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 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\$103 million for the six months ended 31st December, 2002 and HK\$114 million for the corresponding period of last year.