

## HENDERSON LAND DEVELOPMENT COMPANY LIMITED

### Interim Results and Dividend

The Board of Directors announces that for the six months ended 31st December, 2003, the unaudited consolidated net profit of the Group after taxation and minority interests amounted to HK\$1,052 million, representing an increase of 12% as compared with the restated net profit recorded in the same period of the previous financial year. Earnings per share was HK\$0.60.

The Board has resolved to pay an interim dividend of HK\$0.35 per share to shareholders whose names appear on the Register of Members of the Company on 21st April, 2004.

### Management Discussion and Analysis

#### BUSINESS REVIEW

##### Property Sales

During the period under review, the local economy made a gradual recovery from its trough level. Benefiting from the gradual recovery of consumer confidence following the elimination of the Severe Acute Respiratory Syndrome ("SARS"), the effect on the local economy resulting from the Closer Economic Partnership Arrangement ("CEPA") and Individual Visit Scheme that were initiated by the central government, the local property market, in light of government land policies emerging gradually with more clear objectives and a turn for market-driven emphasis, made a marked recovery. Further, the drop in value of the local currency alongside with the decline of the U.S. Dollars also highlights the relative attractiveness of local properties to foreign investors from certain overseas regions. As at the end of last year, property prices and property sale activities both recorded significant increase as compared with the situation in mid-2003 and this is particularly applicable to luxury residential properties. During the six-month period which ended on 31st December, 2003, approximately 1,000 units attributable to the Group and all being units from the Group's completed projects were sold for total sales proceeds amounting to approximately HK\$2.1 billion.

The following development projects were completed in the first half of the financial year:

Location of Properties	Name of Building	Group's Interest	
		(%)	Gross Floor Area (sq.ft.)
<b>Hong Kong</b>			
1. 8 Fuk Lee Street	Metro Harbour View - Phase 2 (Residential)	73.02	514,075
2. 250 Shau Kei Wan Road	Scenic Horizon	18.13	9,937
	Total attributable interest:		<u>524,012</u>

# Interim Report 2003/2004

The Group has commenced sale of the following major development projects:

Location of Properties	Name of Building	Group's Interest (%)	Gross Floor Area of the project attributable to the Group (sq.ft.)
<b>Hong Kong</b>			
1. 28 Lo Fai Road Tai Po	Casa Marina I	100.00	226,561
2. 1 Lo Ping Road Tai Po	Casa Marina II	100.00	182,545
3. 1-98 King's Park Hill Road	King's Park Hill	62.14	149,828
4. 3 Seymour Road	Palatial Crest	63.35	117,384
5. 8 Hung Lai Road	Royal Peninsula	50.00	739,276
6. 99 Tai Tong Road Yuen Long	Sereno Verde - Phases 1 & 2 - Phases 3 & 4 (La Pradera)	44.00	502,219
7. 933 King's Road	Royal Terrace	100.00	138,373
8. Tseung Kwan O Town Lot Nos. 57 & 66	Park Central - Phases 1 & 2	24.63	722,352
9. 2 Kwun Tsing Road So Kwun Wat, Castle Peak Road	Aegean Coast	25.00	312,390
10. 8 Fuk Lee Street	Metro Harbour View - Phases 1 & 2 (Residential)	73.02	1,054,567
11. 3 Kwong Wa Street	Paradise Square	100.00	159,212

### Landbank

During the period under review, the Group mainly focused on application for land-use conversion of its agricultural land holdings and continuing its negotiations with the Government on fixing land conversion premium for certain agricultural land lots of the Group. The site that is situate in Wu Kai Sha, Shatin was approved for conversion with maximum permitted plot ratio for residential development of 3 times that amounts to a total gross floor area of approximately 3,500,000 sq. ft., of which approximately 1,400,000 sq. ft. is attributable to the Group. Plot ratio of the land lots situate at Ng Uk Tsuen in Sheung Shui had received approval for increase from 3.3 times to 5 times, with development gross floor area attributable to the Group increased to approximately 220,000 sq. ft. and agreement was reached with the Government on fixing the land modification premium. Furthermore, application for lease modification has also been made on a nearby agricultural land lot of the Group that could develop into approximately 150,000 sq. ft. in attributable gross floor area. In addition, application for land exchange had been made in respect of the second phase of Tai Tong Road project in Yuen Long that will become a development with a total gross floor area of approximately 640,000 sq. ft., of which approximately 440,000 sq. ft. is attributable to the Group. As for the agricultural land lots located in Lam Tei, Tuen Mun, which has a total site area of 84,000 sq. ft., application has already been made for conversion of the land usage of this site into development land with plot ratio of 2.1 times and this development will result in 170,000 sq. ft. in residential gross floor area attributable to the Group. The agricultural land lot located at Wo Hing Road in Fanling being of 170,000 sq. ft. in area is expected to be developed with a total residential gross floor area of approximately 580,000 sq. ft. attributable to the Group. Further, proposal will be made in respect of an agricultural land lot located at Fanling (North) District on Ma Sik Road that has a site area of approximately 700,000 sq. ft. for attaining a residential development plot ratio to 5 times. Upon approval by the Government, this project will bring about residential gross floor area attributable to the Group of approximately 3,000,000 sq. ft.. The timetable of this development is however dependent on the progress of the Fanling (North) Strategic Development Area planning which is currently undertaken by the Government.

During the period under review, the Group had obtained approval from the Town Planning Board to change the land use of several development sites for hotel development purpose which will totally provide approximately 5,500 hotel rooms upon completion. The redevelopment of the old shipyard sites at Yau Tong Bay in Kowloon had obtained the environmental permit for the relevant reclamation work of this project. Construction for this project will however commence at a later time pending government approval on land-use modification issues and payment of the relevant land premium. This project is planned to be developed into 38 residential towers with a total gross floor area of approximately 9,700,000 sq. ft., of which approximately 1,720,000 sq. ft. is attributable to the Group. Further, lease modification premium had been agreed with the Government in respect of the old staff-quarters site at Tai Kok Tsui that is owned by the listed associate of the Group, Hong Kong Ferry (Holdings) Company Limited, which will be developed into a commercial-cum-residential project of approximately 320,000 sq. ft. in gross floor area. This associated company of the Group had also acquired a commercial-cum-residential property site of 6,000 sq. ft. in land area at Tong Mi Road in Mongkok which will be developed into a project of approximately 53,000 sq.ft. in gross floor area. Furthermore, application for lease modification had also been made in respect of the property located at No. 6 Cho Yuen Street in Yau Tong, Kowloon, with total development footage of approximately 150,000 sq. ft. in gross floor area.

As at the end of the period under review, the total development land bank attributable to the Group amounted to approximately 18 million sq. ft. in gross floor area. In addition, the Group also held agricultural land lots of approximately 22 million sq. ft. in terms of total site area.

## Property Rental

During the period under review, the total rental income of the Group amounted to approximately HK\$1,096 million, which was similar to that recorded in the corresponding period of the previous financial year. During the first half of the current financial year, the average occupancy level of the core rental properties of the Group was maintained at approximately 94%, being almost at the same level as that recorded in the corresponding period of the previous financial year. As business turnover for tenants in the retail rental properties registered significant improvement, rental rates for new and renewal tenancy agreements contracted by the Group were also recorded at a higher level.

The Group and its associate, The Hong Kong and China Gas Company Limited, together owned 47.5% of the International Finance Centre project which is located at the Airport Railway Hong Kong Station. The 88-storey office tower in the second phase of this project, Two IFC, was completed in May 2003. Presently, the IFC Mall and Two IFC have been 80% and 70% let respectively.

As at the end of the period under review, the rental property portfolio of the Group totally amounted to 7.9 million sq. ft.. Under the favourable condition of increasing local investment and strengthening confidence that induce consumer spending as well as sustained economic growth in Mainland China, it is anticipated that both rental income and occupancy levels of retail and office rental properties will benefit and continue to show improvement.

## Construction and Property Management

The construction arms of the Group, namely, E Man, Heng Tat, Heng Shung and Heng Lai had recently completed some of the major developments such as Metro Harbour View, Beverly Hills, Sereno Verde and other major developments completed together with its joint venture company such as Aegean Coast, Two International Finance Centre, all of which were well received with favourable positive comments. This has once again demonstrated its unparalleled capabilities in managing large-scale complex projects.

Hang Yick and Well Born, the wholly-owned subsidiaries of the Group, provide high quality property management services for the properties developed by the Group as well as for residential units of the Housing Department and also for private housing estates. They have been awarded international standard accreditation of ISO9001, ISO14001 and OHSAS18001 and have recently adopted a new integrated management system ("IMS") to maintain the management quality and efficiency. By the activities of on-job training, volunteer, environmental protection, occupational safety and health and Theme of the Year, they have continuously enhanced staff quality, service levels and mission of devotion to society. During the 2002-2003 Year of Team Spirit, they have actively involved in various community activities. They have obtained 60 open awards from July to December 2003 including the highest awards of 2003 Hong Kong Eco-Business Grand Award - Green Property Management for four consecutive years, the Employers Gold Star Award - Platinum Award for three consecutive years and so on.

## Henderson Investment Limited

The consolidated profit of this group for the six months ended 31st December, 2003 amounted to HK\$822 million, representing an increase of 6% over that recorded in the corresponding period of the previous financial year. During the period under review, the total gross rental income of this group amounted to approximately HK\$315 million, showing an increase of 3% as compared to that recorded in the corresponding period of the previous financial year with average occupancy level of the major rental properties of this group being recorded at approximately 94%. The Newton Hotel Hong Kong and the Newton Hotel Kowloon of this group recorded an average occupancy level of 90% during the period under review whilst the room tariffs had been kept at a relatively low level. On the other hand, the retailing business of this group which is operated under its Citistore outlets, benefitted from the Individual Visit Scheme and CEPA that were initiated by the central government and recorded an increase in turnover during the period under review as compared to that recorded in the corresponding period of the previous financial year.

Megastrength Security Services Company Limited is wholly owned by this group and provides comprehensive professional security management services which include the provision of security guards, security services for property premises, crisis management and contingency planning services as well as security services in shopping centres and quality hotels. Business of this company has further developed with its operating profit continued to increase.

China Investment Group Limited, being a 64% owned subsidiary of this group, reported a profit of HK\$69.7 million in the six-month period ended 31st December, 2003. During the period under review, this company transferred the operating and management rights of two toll bridges located in Tianjin to the local municipal government and approximately HK\$104 million in profit before tax was derived after a corresponding adjustment was made in the relevant accounting policy. However, a toll road of this company located in Fenghua, Zhejiang Province, recorded approximately HK\$54 million in impairment loss on assets.

## Associated Companies

*The Hong Kong and China Gas Company Limited* recorded profit attributable to shareholders that amounted to HK\$3,051 million in the financial year ended 31st December, 2003, representing an increase of HK\$3 million as compared to that recorded in the previous financial year. As at the end of 2003, the number of customers reached 1,520,166, an increase of over 49,400 customers over the previous year. Since the fourth quarter of 2003, the West-to-East gas pipeline has gradually started supplying gas to Eastern China; and natural gas supply to the other areas along the pipeline's route will also start from 2005 onwards, thus helping to drive rapid growth in commercial, industrial and residential gas consumption. This group continues to expand its foothold on the mainland and invest in natural gas projects as a long-term strategic priority for its core business development. In 2003, this group particularly focused on developing its mainland business within the economically prosperous regions of Guangdong, Eastern China, Shandong and Central China where natural gas supply is imminent; the group has thus far concluded 24 city piped-gas joint venture projects on the mainland, including those undertaken in sizeable cities such as Shenzhen, Nanjing, Wuhan and Jinan. In line with this group's development strategy, it has established Hong Kong & China Gas Investment Limited as an investment holding company to manage the development of this group's mainland business. In 2003, the group continued to be rated as one of Hong Kong's top ten leading companies in the Far Eastern Economic Review survey of Asian businesses.

In Hong Kong, several substantial pipe-laying projects undertaken by this group are at the planning stage or are currently in progress, and these gas supply pipe-laying projects are extended to eastern New Territories and the international theme park on Lantau Island. On the property development front, this group has 15% interest in the Airport Railway Hong Kong Station development project, and the office towers and shopping mall in Phase One as well as in Phase Two of the International Finance Centre had been completed by stage and put up for lease. The mixed-use hotel development portion of this project which is expected to be completed by the end of 2004 will be managed by Four Seasons Hotels and Resorts. The Sai Wan Ho project in which this group holds 50% interest is expected to be completed in 2005, providing 2,020 residential units. Further, the Ma Tau Kok South Plant site is being developed into five residential apartment buildings, providing a total gross floor area of approximately 1.1 million sq. ft. upon its scheduled completion in 2006. It is envisaged that steady growth will be maintained by this group in 2004.

*Hong Kong Ferry (Holdings) Company Limited* reported a consolidated profit after taxation for the year ended 31st December, 2003 amounting to approximately HK\$265 million, representing a decrease of 22% as compared to that recorded in 2002. During the year under review, profit from sale of residential units of Metro Harbour View remained to be the primary source of income to this group. The entire development project, including the commercial arcade, had been completed in the latter half of 2003. This group has recently accepted the land premium offer in the amount of approximately HK\$390 million for No. 222 Tai Kok Tsui Road and soon after the related procedures are completed, construction work will commence on this site to develop a total gross floor area of 320,000 sq. ft.. Further, the site located at Nos. 43-51A Tong Mi Road which was acquired by this group in October 2003 will be developed into a residential-cum-commercial building with a total gross floor area of approximately 53,000 sq. ft.. The total investment amount of this project is around HK\$120 million and it is expected to be completed at the end of 2005.

*Miramar Hotel and Investment Company, Limited* recorded HK\$97 million in unaudited profit attributable to shareholders for the six months ended 30th September, 2003, representing an increase of 11.5% over that recorded in this corresponding period of the previous financial year. Although the different business operations of the group recorded varied degree of decline in sales during the period when the Hong Kong economy was adversely affected by SARS epidemic, yet it could then immediately take measures to counter the negative impact by offering a number of promotional privileges to attract local customers to its hotel as well as food and beverage outlets, and at the same time undertook various extra stringent cost control measures to minimize decline in its profit effectively. Satisfactory land sales in the United States during the period under review also made positive profit contribution to this group. It is envisaged that the core business operations of this group will benefit from the gradual recovery of the economy and tourist industry of Hong Kong.

### **Henderson China Holdings Limited**

For the six months ended 31st December, 2003, the unaudited consolidated net loss of this group after taxation and minority interests amounted to HK\$32 million, compared to a net loss of HK\$104 million that was recorded in the corresponding period of the previous financial year. The outbreak of SARS in the first half of 2003 adversely affected tourism and consumer spending in Mainland China, but the market rebounded rapidly in the second half of the year and demand for Grade A office as well as retail shopping properties showed a marked increase. Several residential development projects of this group that were previously completed had been sold out during the period under review, whilst the joint venture development project of Lexi New City Phase IX was also more than 70% sold.

During the period under review, construction work of Office Tower II of The Grand Gateway project in Shanghai had made satisfactory progress. Plans for the sale and leasing of this project are at present being actively reviewed by this group and preliminary discussions have already been initiated with several institutions. Also, this group has actively pursued with the preparation for development of a number of sites. The large-scale comprehensive property development project in the Chao Yang District in Beijing and the commercial-cum-residential development project located at 210 Fangcun Avenue, Fangcun District in Guangzhou are expected to commence construction within this year.

This group will acquire quality development sites when suitable opportunities arise and steps will also be taken to attain an optimal mix in respect of the land bank holdings of this group. Apart from adding pace to its property development efforts, emphasis will also be made on expanding the recurrent rental income of this group in order to enhance overall return.

### **Henderson Cyber Limited**

Henderson Cyber Limited reported loss attributable to shareholders of approximately HK\$11 million for the six months ended 31st December, 2003, showing a slight improvement as compared with that for the corresponding period of the previous financial year. During the period, the group actively implemented its marketing strategy to continue to expand the iCare broadband and Internet services, IDD telephone services and retail businesses, with users and subscribers of such various services grew to a total of 358,000 as at the end of December, 2003; these business operations represent the major source of income for this group.

### **Share Placement by Henderson Land**

On 6th October, 2003, the Group placed 92,440,000 shares in Henderson Land Development Company Limited at a price of HK\$32.45 per share through a share placement arrangement ("Share Placement") and received a net amount of approximately HK\$2,954 million in aggregate after expenses. One-third of such proceeds was planned to be applied to hotel developments that are catered to the mainland visitors travelling to Hong Kong, with the remaining two-thirds of the proceeds to be used for its acquisition of new development land and making payment to the Government in settlement of land use conversion premium, as well as for the general working capital use of the Group.

### **Corporate Finance**

The Group possesses abundant banking facilities to fund its future business development. In July 2003, the Group cancelled a HK\$1 billion syndicated loan facility in advance of the original maturity date. During the period under review, the Group has taken advantage of the low interest rates and locked in interest period of one year or longer at different time intervals, with an objective to control the borrowing cost for the Group. Apart from banking facilities of a relatively small proportion which were raised in Renminbi, funding facilities are obtained in Hong Kong Dollars and the Group's exposure to foreign exchange risk is therefore extremely small. During the period under review, the Group did not make use of any derivative instruments for speculative purpose.

## PROSPECTS

As the local economy embarks on a recovery path, the local property market has made steady improvement amidst the development of favourable factors and economic benefits deriving from the implementation of CEPA and increase in tourists arrival under the Individual Visit Scheme at a time when local interest rates are maintained at current low levels. These will all benefit the property development and property leasing business of the Group. At present, plans are made by the Group for the pre-sale launch of the large-scale residential development project in Sai Wan Ho. This development will provide 2,020 residential units and will be the only sizeable new residential property development in the eastern district of the Hong Kong Island over the coming three years. Further, the Group is making preparation for the sale of its residential development project in Lam Tei, Tuen Mun with 1,576 units which will be set amidst an open greenery surrounding. Access to this project will be further enhanced after the West Rail comes into operation. This project will fit in well with the demand of new home purchasers.

With regard to the rental property market, the demand for Grade A office and retail property premises has seen an increase and this has led to significant improvement recorded for leasing rates and occupancies. The Group holds close to 8 million sq. ft. of rental properties, most of which are retail shopping centres and high-grade office buildings located at the heart of downtown area or situate along the mass railway network with heavy pedestrian traffic and such rental property portfolio will bring in steady and increasing rental income to the Group. Moreover, profit contributions from the Group's listed associated companies, which include The Hong Kong and China Gas Company Limited, Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, will in the long term provide as a stable source of profit to the Group. Further, new development projects of the Group such as the development projects located at Sai Wan Ho and Lam Tei are expected to generate higher return to the Group due to the relatively low development costs.

It is envisaged that the supply of newly completed residential properties will decrease in the next two years whereas market demand will continue to rise. It is therefore anticipated that local property prices will maintain its upward path over the next few years, and this will be particularly applicable to luxury residential properties. The Group will get hold of such market opportunities to actively increase its development land bank and aim to conclude negotiation with the Government on the fixing of land modification premium for urban sites and land conversion premium for agricultural sites. Further, the Group will also participate in pursuing the tender for the West Kowloon Cultural District project as well as other large-scale development sites. As a further step taken to prepare for expansion of its business, the Group had, in February, 2004, launched a convertible bond issue in the amount of HK\$5.75 billion with 2-year tenor which was given an A- credit rating by Standard and Poors. In the absence of unforeseen circumstances, it is anticipated that the performance of the Group will show satisfactory growth in the current financial year.