Financial Review

REVIEW OF RESULTS

During the six-month period ended 31st December, 2003, the Group's turnover amounted to approximately HK$3,500 million, representing a decrease of 26% when compared to that recorded in the corresponding period ended 31st December, 2002. This was mainly attributed to a reduction in the completion footage of the Group during the period under review. The Group's profit attributable to shareholders amounted to approximately HK$1,052 million in the period under review, showing an increase of 12% from the restated profit of HK$936 million (previously stated as HK$1,010 million) recorded in the corresponding period of the previous financial year. The above-mentioned restatement of profit was made in accordance with the revised SSAP 12 "Income Taxes" in relation to accounting for deferred tax which the Group has adopted with effect from 1st July, 2003.

Although the turnover of the Group's property development segment recorded in the six-month period under review amounted to approximately HK$1,484 million which represented a decrease of 43% when compared to that recorded during the corresponding period of the previous financial year, this business segment reversed from loss to register a profit of HK$16.6 million during the period under review. It is expected that alongside with the gradual recovery of the domestic property market, the performance of this segment will improve in the second half of the current financial year.

Gross rental revenue amounted to approximately HK$1,096 million in the interim period under review and was similar to that recorded in the corresponding period of the previous financial year. Profit contribution from operation relating to property rental amounted to approximately HK$643 million in the six-month period under review and showed an improvement of 9% as compared with that recorded in the first half of the previous financial year as bad debts written off mainly in connection with uncollected rents from one of the Group's investment property projects in Mainland China adversely affected the results of this segment in the corresponding period of the previous financial year. In respect of the core investment property portfolio of the Group in Hong Kong, its positioning strategy to accumulate rental retail shopping centres developments situate in the center of new towns and located right at the transportation nodes has contributed to provide stable recurrent income.

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$50 million in the interim period under review as compared to HK$98 million that was recorded in the corresponding period of the previous financial year partly due to the fall in interest income resulting from the low interest rate environment that prevailed in the market and the reduced interest income received by Henderson China from the associated project companies during 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$25 million in profit in the interim period under review, representing a 31% increase over that recorded in the corresponding period of the previous financial year mainly due to completion of a number of property development projects including the second phase of Metro Harbour View and effective cost control undertaken by the Group during the period under review.

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$69.7 million as compared to HK$74.7 million recorded for the corresponding period of the previous financial year. The reduced contribution was mainly attributed to a drop in traffic flow and revenues in respect of the toll roads and bridges in the period under review. During the period under review, China Investment Group Limited disposed of two bridges to the municipal government of Tianjin and gave rise to a gain on disposal of approximately HK$104 million to the Group. Separately, the toll roads located at Fenghua, Zhejiang Province, owned by this company recorded an impairment loss of approximately HK$54 million as the board of directors of the company took a considered view to write down their value due to severe adverse position arising from neighbouring competing routes.

Profit contribution from hotel operation of the Group showed a reduction of 11% in the interim period under review as compared to that posted in the corresponding period of the previous financial year and amounted to approximately HK$21.3 million as the room tariffs were still recorded at a relatively low level reflecting the aftermaths of the SARS outbreak in the first half of 2003. The department store operation of the Group made a profit contribution of approximately HK$10.7 million in the interim period under review, showing an increase of 26% as compared to that recorded in the corresponding period of the previous financial year alongside with recovery seen in consumer spending and increase in tourists arrival.

The segment of other business activities of the Group made a total profit contribution of approximately HK$36 million in the period under review as compared with HK$227 million recorded in the corresponding period of the previous financial year. This reduced level of profit contribution reflected a normalised position of these business activities in the absence of an one-off compensation received by the Group in respect of a previous redevelopment site in the corresponding period of the previous financial year.

Share of profits less losses of associates of the Group amounted to approximately HK$639 million, representing a decrease of 16% as compared to that recorded in the corresponding period of the previous financial year. In particular, the Group's share of profit from the three listed associates amounted to HK$619 million in the period under review due to the aftermaths of SARS as compared to HK$731 million recorded in the corresponding period of the previous financial year. Share of profits less losses of jointly controlled entities of the Group being mainly engaged in property development and property investment activities reversed from loss to profit that amounted to approximately HK$52 million after writing back during the period under review a certain portion of the provisions previously made in respect of diminution in value of properties.

FINANCIAL RESOURCES AND LIQUIDITY

As of 31st December, 2003, shareholders' funds of the Group amounted to approximately HK$56,181 million, representing an increase of 6% when compared with the adjusted shareholders' funds that stood at HK$52,981 million as at 30th June, 2003. As a result of the placement of shares in the Company by the Group in October, 2003, the shareholders' equity of the Group increased by approximately HK$2,954 million. 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$2,238 million, amounted to approximately HK$9,107 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, 2003 and 30th June, 2003 respectively are summarised as follows:

	As at 31st December, 2003	As at 30th June, 2003
	HK$'000	HK$'000
Bank Loans and Borrowings Repayable:		
Within 1 year	**3,537,315**	1,545,095
After 1 year but within 2 years	**1,827,744**	5,374,740
After 2 years but within 5 years	**5,980,279**	4,434,979
After 5 years	**—**	65,275
Total Bank Loans and Borrowings	**11,345,338**	11,420,089
Less: Cash at bank and in hand	**(2,238,233)**	(2,382,794)
Total Net Bank Borrowings	**9,107,105**	9,037,295

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 16.2% from 17% that was registered as at 30th June, 2003. The Group's interest expense before capitalisation was recorded at approximately HK$156 million for the period under review and showed a decrease compared to that recorded in the corresponding period of the previous financial year due to lower interest rate environment. Profit from operations of HK$805 million covered the interest expense before capitalisation of HK$156 million by 5.2 times as at the end of the period under review, as compared to 3.3 times that was posted as at the end of the corresponding period of the previous 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 from time to time locked 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 as well as entered into Hong Kong Dollar interest rate swap agreements in respect of a portion of such borrowings. As at 31st December, 2003, a number of Hong Kong Dollar interest rate swap contracts remained outstanding.

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 period under review to fund its property projects in Mainland China. Also, certain portion of bank borrowings obtained by the Group's subsidiary, China Investment Group Limited, was denominated in Renminbi to finance its infrastructure projects in Mainland China. As a whole, however, 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, and the Group did not enter into any currency swap agreement during the period under review.

CAPITAL COMMITMENTS

As at 31st December, 2003, capital commitments of the Group totally amounted to HK$6,653 million, as compared with HK$7,607 million recorded as at 30th June, 2003. Out of the total capital commitments of the Group, the future development expenditure in both Hong Kong and in Mainland China approved by the directors but not contracted for as at the end of the period under review amounted to HK$4,590 million which was similar to that recorded as at the end of the previous financial year.

CONTINGENT LIABILITIES

Contingent liabilities of the Group totally amounted to approximately HK$2,464 million as at 31st December, 2003, representing a decrease of 39% as compared to approximately HK$4,053 million that was outstanding as at 30th June, 2003. These mainly comprised guarantees given by Henderson Land Development Company Limited to commercial banks to secure banking facilities granted to an associate and jointly controlled entities of 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, 2003, the number of full-time employees of the Group was about 6,100 as compared to about 6,400 full-time employees as at 31st December, 2002. 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, directors (whether executive or non-executive) and consultants 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 a special general meeting held on 1st December, 2003.

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$371 million for the six months ended 31st December, 2003 and HK$405 million for the corresponding period of last year.