

Financial Review

REVIEW OF RESULTS

During the six-month period that ended on 31st December, 2003, the Group's turnover amounted to approximately HK\$602 million, similar to that recorded in the corresponding period of the previous financial year. The Group's profit attributable to shareholders amounted to approximately HK\$822 million in the period under review, representing an increase of 6.2% over the restated profit of HK\$774 million (previously stated as HK\$794 million) recorded in the corresponding period of the previous financial year. This increase was partly attributed to the booking of unrealized holding gain on investments in securities of approximately HK\$133 million and profit recorded on disposal of two toll bridges of the Group. 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.

The Group's total income generated from property rental during the period under review amounted to approximately HK\$315 million, showing a slight increase of 2.6% over that recorded in the corresponding period of the past financial year. Profit contribution from this business segment increased by 14% to approximately HK\$178 million in the interim period under review from HK\$156 million that was recorded in the corresponding period of the past 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 proven to contribute to stable recurrent income.

During the six-month ended 31st December, 2003, the hotel operation of the Group, after deducting all relevant operating costs and expenses, recorded a loss of approximately HK\$1.8 million in segmental result as room tariffs were recorded at a relatively low level reflecting the aftermath of the Severe Acute Respiratory Syndrome ("SARS") outbreak in the first half of 2003 and compared with a loss of HK\$2.9 million registered for the six-month period ending 31st December, 2002. The Group's department store operation reported a profit of approximately HK\$2.5 million as compared to a loss of approximately HK\$0.5 million registered in the corresponding period of the previous financial year alongside with recovery seen in consumer spending and increase in tourists arrival.

The Group's result from its infrastructure projects in Mainland China, which are 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, a toll road located at Fenghua, Zhejiang Province, owned by this company recorded an impairment loss in the amount of approximately HK\$54 million as the board of directors of the company took a considered view to write down its value due to severe adverse position arising from neighbouring competing routes.

The segment of other activities of the Group, which mainly include securities investment and information technology business, registered a combined loss of approximately HK\$5 million in the financial period under review as compared to a profit of HK\$16 million recorded in the corresponding period of the previous financial year mainly due to reduced level of dividend income from securities investment.

Share of results of associates of the Group, which was mainly represented by contributions from the Group's investment in the three listed associates, amounted to approximately HK\$632 million as compared to HK\$748 million that was recorded in the corresponding period of the previous financial year. The total profit attributed to the three listed associates amounted to HK\$619 million during 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.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31st December, 2003, shareholders' fund of the Group amounted to approximately HK\$19,774 million, which was similar to the level that was recorded as at 30th June, 2003. The Group is in a strong financial position and possesses a large capital base. As at the end of the six-month period under review, the cash holdings of the Group amounted to approximately HK\$1,022 million, after netting off the total borrowings that stood at approximately HK\$324 million, the Group was in a net cash position of approximately HK\$698 million. Except for the portion of the bank borrowings that amounted to approximately HK\$243 million related to a subsidiary of the Group that engages in infrastructure investments in Mainland China, banking facilities made available to the Group 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 generated from a solid base of recurrent income, the Group has adequate sources for funding its ongoing operations as well as future expansion.

Other than the disposal of two toll bridges of the Group, the Group did not undertake any significant acquisition or disposal of assets outside its core business during the 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 HK\$'000	As at 30th June, 2003 HK\$'000
Bank Loans and Borrowings Repayable:		
Within 1 year	140,570	360,290
After 1 year but within 2 years	47,744	65,485
After 2 years but within 5 years	135,679	109,289
After 5 years	—	65,275
Total Bank Loans and Borrowings	<u>323,993</u>	600,339
Less: Cash at bank and in hand	<u>(1,022,104)</u>	<u>(814,563)</u>
Total Net Bank Deposits	<u>(698,111)</u>	<u>(214,224)</u>

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 was zero, in a position that was the same as that registered as at 30th June, 2003. The Group's total interest expense was recorded at approximately HK\$9 million for the six-month ended 31st December, 2003 and profit from operations of HK\$428 million covered the total interest expense by 47.6 times for the period under review, as compared to 9.8 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. 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. In order to fix the Group's Hong Kong Dollar borrowings at the current low interest rate level, the Group has entered into Hong Kong Dollars interest rate swap agreements in the previous financial year, and a number of these interest rate swap contracts remained outstanding as at 31st December, 2003.

CAPITAL COMMITMENTS

As at 31st December, 2003, capital commitments of the Group amounted to approximately HK\$15 million which was similar as that outstanding as at 30th June, 2003. 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 these decreased to approximately HK\$124 million as at the end of the period under review from HK\$349 million that was recorded as at 30th June, 2003 as a result of closure of the retailing operations by China Investment Group Limited in Mainland China which led to early termination of the lease agreements of the retail premises.

CONTINGENT LIABILITIES

The Group did not record any outstanding contingent liabilities as at 31st December, 2003.

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 employees of the Group was about 1,300. 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\$105 million for the six months ended 31st December, 2003 and HK\$103 million for the corresponding period of last year.