

## Financial Review

### REVIEW OF RESULTS

During the six-month period which ended on 31st December, 2004, the Group's turnover amounted to approximately HK\$2,562 million, representing a decrease of 27% when compared to that recorded in the corresponding period ended 31st December, 2003. This was mainly attributed to a substantial reduction in the development completion footage of the Group during the period under review. The Group's profit attributable to shareholders amounted to approximately HK\$1,296 million in the period under review, showing an increase of 22% from the restated profit of HK\$1,058 million (previously stated as HK\$1,052 million) which was recorded in the corresponding period of the previous financial year. The above-mentioned restatement of profit was made in accordance with the SSAP Interpretation 22 in relation to change in accounting policy regarding the amortisation or depreciation methods which the Group adopted with effect from 1st July, 2004 in connection with subsidiaries of the Group engaging in the infrastructural business.

Turnover of the Group's property development segment recorded in the six-month period under review amounted to approximately HK\$569 million which represented a decrease of 62% when compared to that recorded during the corresponding period of the previous financial year reflecting the reduction in development completion footage. However, this business segment registered a profit of HK\$119 million during the period under review as compared to the figure of HK\$16.6 million that was recorded in the corresponding period of the previous financial year due to improving profit margin.

Gross rental revenue amounted to approximately HK\$1,113 million in the interim period under review as compared to HK\$1,096 million recorded in the corresponding period of the previous financial year, reflecting an increase of 2% under improving local economic conditions. Profit contribution from operation relating to property rental amounted to approximately HK\$670 million in the six-month period under review and showed an increase of 4% from the figure of HK\$643 million that was recorded in the corresponding period of the previous financial year.

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\$42.2 million in the interim period under review as compared to HK\$50.1 million that was recorded in the corresponding period of the previous financial year due to the fall in loan outstanding amount recorded 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\$55.7 million in profit in the interim period under review representing an increase of 121% over that recorded in the corresponding period of the previous financial year.

The Group's segmental result from its investment in infrastructure projects in Mainland China, mainly operated under the Group's subsidiary, China Investment Group Limited, amounted to approximately HK\$107.2 million as compared to the restated figure of HK\$58.6 million (previously stated as HK\$69.7 million) recorded for the corresponding period of the previous financial year mainly due to increased vehicular traffic of the Group's toll bridge in Hangzhou.

Profit contribution from hotel operation of the Group showed an increase of 44% 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\$30.6 million resulting from increase in room tariffs and occupancy as the tourism industry recorded a strong recovery. The department store operation of the Group made a profit contribution of approximately HK\$12.7 million in the interim period under review, showing an increase of 19% as compared to that recorded in the corresponding period of the previous financial year alongside with increase in tourists arrival and local consumer spending.

The segment of other business activities of the Group made a total profit contribution of approximately HK\$66 million in the period under review as compared with HK\$36 million recorded in the corresponding period of the previous financial year.

Share of profits less losses of associates of the Group amounted to approximately HK\$841 million, representing an increase of 32% 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\$730 million in the period under review as compared to HK\$619 million recorded in the corresponding period of the previous financial year, reflecting the improved operating conditions in the local utility as well as the property and hotel sectors. Share of profits less losses of jointly controlled entities of the Group which are mainly engaged in property development and property investment activities showed a significant improvement and amounted to approximately HK\$91 million as compared to HK\$52 million in the corresponding period of the previous financial year.

#### FINANCIAL RESOURCES AND LIQUIDITY

As at 31st December, 2004, shareholders' funds of the Group amounted to approximately HK\$62,110 million, representing an increase of 1% when compared with the restated shareholders' funds of HK\$61,207 million as at 30th June, 2004 (previously stated as HK\$61,236 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 loan and borrowings outstanding together with outstanding amount in the Guaranteed Convertible Notes, after deducting cash holdings of approximately HK\$3,188 million, amounted to approximately HK\$12,114 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 financial resources 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, 2004 and 30th June, 2004 respectively are summarised as follows and are shown together with outstanding Guaranteed Convertible Notes:

	As at 31st December, 2004 HK\$'000	As at 30th June, 2004 HK\$'000
Bank Loans and Borrowings Repayable:		
Within 1 year	1,104,639	1,249,053
After 1 year but within 2 years	5,270,061	2,808,744
After 2 years but within 5 years	3,176,822	1,191,381
Guaranteed Convertible Notes	<u>5,750,000</u>	<u>5,750,000</u>
 Total Bank Loans and Borrowings and Guaranteed Convertible Notes	 <u>15,301,522</u>	 10,999,178
Less: Cash At Bank and In Hand	<u>(3,187,793)</u>	<u>(3,803,055)</u>
 Total Net Bank Loans and Borrowings and Guaranteed Convertible Notes	 <u>12,113,729</u>	 <u>7,196,123</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 total net bank loans and borrowings and outstanding Guaranteed Convertible Notes as a ratio of the Group's shareholders' funds increased to 19.5% as at 31st December, 2004 as compared to 11.8% that was registered as at the end of the previous financial year. The aggregate amount of bank borrowings and Guaranteed Convertible Notes showed an increase of approximately HK\$4,302 million which was almost entirely set off by a reduction of HK\$4,107 million in amounts due to fellow subsidiaries at the end of the period under review. The Group's interest expense before capitalisation was recorded at approximately HK\$88 million for the period under review and showed a decrease as compared to that recorded in the corresponding period of the previous financial year. Profit from operations of HK\$963 million covered the interest expense before capitalisation of HK\$88 million by 11 times as at the end of the period under review and this compares with the restated interest coverage of 6 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 borrowings or entering into Hong Kong Dollars interest rate swap agreements in respect of a portion of such borrowings. The HK\$5,750 million Guaranteed Convertible Notes that remained outstanding as at 31st December, 2004 were issued at a fixed interest rate of 1% p.a.

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. 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, 2004, capital commitments of the Group totally amounted to HK\$7,321 million as compared with HK\$7,562 million that was recorded as at 30th June, 2004. Out of the total capital commitments of the Group, the future development expenditure in both Hong Kong and Mainland China approved by the directors but not contracted for as at the end of the financial period under review amounted to HK\$5,470 million and this compares with HK\$5,705 million that was recorded as at 30th June, 2004.

#### **CONTINGENT LIABILITIES**

Contingent liabilities of the Group totally amounted to approximately HK\$2,469 million as at 31st December, 2004, representing a decrease of 3% as compared to approximately HK\$2,538 million that was outstanding as at 30th June, 2004. These mainly comprised guarantees given by Henderson Land Development Company Limited to commercial banks to secure banking facilities granted to an associate and a jointly controlled entity 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, 2004, the number of full-time employees of the Group was about 6,600 as compared to about 6,100 full-time employees as at 31st December, 2003. 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 the special general meeting held on 1st December, 2003.

Total employees' costs amounted to HK\$408 million for the six-month period which ended on 31st December, 2004 and HK\$371 million for the corresponding period of last year.