## Financial Review

### REVIEW OF RESULTS

During the six-month period which ended on 31st December, 2005, the Group's turnover amounted to approximately HK$2,733 million, representing an increase of 7% when compared to that recorded in the corresponding period ended 31st December, 2004. Profit attributable to equity shareholders of the Company amounted to approximately HK$7,649 million in the period under review, showing an increase of 328% from the restated profit of HK$1,789 million (previously stated as HK$1,296 million) which was recorded in the corresponding period of the previous financial year. As from the financial year under review, the Group has started to adopt Hong Kong Accounting Standard 16 "Property, Plant and Equipment" ("HKAS 16"), Hong Kong Accounting Standard 17 "Leases" ("HKAS 17"), Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39") and HK Interpretation 2 "The Appropriate Accounting Policies for Hotel Properties" ("HK Int 2"), which all had their respective effects on the interim results of the Group and also led to the above-mentioned restatement of profit for the previous financial year. The Group's attributable profit excluding the impact of adopting Hong Kong Accounting Standard 40 "Investment Property" ("HKAS 40") and HK (SIC) Interpretation 21 "Income taxes - recovery of revalued non-depreciable assets" ("HK (SIC) Int 21") on investment properties and income taxes amounted to HK$2,358 million, representing an increase of 83% over the restated figure of HK$1,286 million in the corresponding period of the year.

Turnover of the Group's property development segment recorded in the six-month period under review amounted to approximately HK$403 million which represented a decrease of 29% when compared to that recorded during the corresponding period of the previous financial year. In part, this reflects the marketing policy of the Group whereby certain property units of the Group's projects were promoted for sale only after completion. This business segment recorded a profit contribution of HK$117 million during the period under review as compared to the figure of HK$119 million that was recorded in the corresponding period of the previous financial year.

Gross rental revenue including attributable contributions from rental properties owned by subsidiaries and jointly controlled entities amounted to approximately HK$1,293 million in the interim period under review as compared to HK$1,214 million recorded in the corresponding period of the previous financial year, reflecting an increase of 6.5% under improving local economic conditions. Profit contribution from operation relating to property rental of the Group including attributable contributions from rental properties owned by subsidiaries and jointly controlled entities amounted to approximately HK$766 million in the six-month period under review and showed an increase of 4% from the figure of HK$735 million that was recorded in the corresponding period of the previous financial year.

Due to the adoption of HKAS 40, the subsidiaries of the Group recorded an amount of HK$5,019 million in respect of increase in fair value of investment properties in the financial period under review (corresponding period in FY2004 restated: HK$593 million).

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 development units, amounted to approximately HK$70 million in the interim period under review as compared to HK$42 million that was recorded in the corresponding period of the previous financial year.

Building construction activities of the Group which are mainly catered to the developments participated by the Group contributed approximately HK$15 million in profit in the interim period under review representing a decrease of 72% 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 China Investment Group Limited, amounted to approximately HK$52 million as compared to HK$107 million recorded for the corresponding period of the previous financial year mainly due to reduced traffic volume of a toll bridge in Hangzhou as a result of repair and maintenance work in progress.

Profit contribution from hotel operation of the Group showed an increase of 13% in the interim period under review as compared to the restated figure in the corresponding period of the previous financial year and amounted to approximately HK$24 million. Also, the Group's department store operation benefited from increased consumer spending and reported a satisfactory growth in profit.

The segment of other activities of the Group registered a combined loss of approximately HK$62 million in the financial period under review as compared to a profit of HK$58 million which was recorded in the corresponding period of the previous financial year.

Share of profits less losses of associates net of taxation of the Group amounted to approximately HK$1,101 million, representing an increase of 42% as compared to that recorded in the corresponding period of the previous financial year. Such share of profits less losses figures include HK$313 million increase in fair value of investment properties (corresponding period in FY2004 restated: HK$95 million) as a result of the adoption of HKAS 40 by the associates of the Group. In particular, the Group's share of profit net of taxation from the three listed associates amounted to HK$1,010 million in the period under review as compared to the restated HK$670 million recorded in the corresponding period of the previous financial year. Such share of profits less losses figures include an amount of HK$223 million representing increase in fair value of investment properties (corresponding period in FY2004 restated: HK$119 million) as a result of the adoption of HKAS 40 by the three listed associates. Share of profits less losses net of taxation of jointly controlled entities of the Group which are mainly engaged in property development and property investment activities showed significant improvement and amounted to approximately HK$2,217 million as compared to HK$81 million in the corresponding period of the previous financial year. The increase of such share of profits less losses figures was partly due to substantial attributable share of profits arising from the sale of part of the Grand Promenade project. Moreover, the figures include an amount of HK$1,810 million representing attributable share of increase in fair value of investment properties, being mainly International Finance Centre, as a result of the adoption of HKAS 40 (corresponding period in FY2004 restated: nil).

As a result of privatization of Henderson China Holdings Limited and Henderson Cyber Limited, the Group recorded approximately HK$813 million gain and around HK$162 million impairment loss respectively.

## FINANCIAL RESOURCES AND LIQUIDITY

As at 31st December, 2005, shareholders' funds of the Group amounted to approximately HK$72,478 million, representing an increase of 10% when compared with the restated shareholders' funds of HK$65,692 million as at 30th June, 2005 (previously stated as HK$66,699 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 together with outstanding amount in Guaranteed Convertible Notes, after deducting cash holdings of approximately HK$5,523 million, amounted to approximately HK$12,231 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.

Apart from the aforesaid privatization of Henderson China Holdings Limited and Henderson Cyber Limited, 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, 2005 and 30th June, 2005 respectively are summarised as follows and are shown together with outstanding Guaranteed Convertible Notes:

| | **As at 31st December, 2005** | As at 30th June, 2005 (restated) |
|---|---|---|
| | HK$'000 | HK$'000 |
| Bank Loans and Borrowings Repayable: | | |
| Within 1 year | **4,393,283** | 3,097,364 |
| After 1 year but within 2 years | **3,346,086** | 4,920,139 |
| After 2 years but within 5 years | **5,362,467** | 6,744,260 |
| After 5 years | **4,497,510** | 1,250,000 |
| Guaranteed Convertible Notes | **154,472** | 186,875 |
| Total Bank Loans and Borrowings and Guaranteed Convertible Notes | **17,753,818** | 16,198,638 |
| Less: Cash At Bank and In Hand | **(5,523,259)** | (4,355,663) |
| Total Net Bank Borrowings & Guaranteed Convertible Notes Outstanding | **12,230,559** | 11,842,975 |

## GEARING RATIO

As interest rate continued to move upward during the period under review, the Group had adopted a more prudent financial management strategy. 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 borrowings and Guaranteed Convertible Notes Outstanding as a ratio of the Group's shareholders' funds decreased to 17% as at 31st December, 2005 as compared to 18% that was registered as at the end of the previous financial year. The Group's profit from operations of HK$746 million, when added to an aggregate amount of HK$1,804 million representing the Group's share of operating profits less losses of associates as well as jointly controlled entities, covered the interest expense before capitalization of HK$379 million (corresponding period in FY2004: HK$88 million) by 7 times (corresponding period in FY2004 restated: 22 times).

## 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. In order to contain its borrowing costs, the Group will consider making use of interest rate swap instruments, when appropriate, to lock in short to medium term interest rates for a portion of the Group's floating rate borrowings.

In respect of the Group's business activities in Mainland China that are conducted through its subsidiaries, a portion of the borrowings was denominated in Renminbi during the financial year under review. 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, 2005, capital commitments of the Group totally amounted to HK$7,061 million as compared with HK$7,189 million that was recorded as at 30th June, 2005. 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$5,103 million and this compares with HK$4,860 million that was recorded as at 30th June, 2005.

## CONTINGENT LIABILITIES

Contingent liabilities of the Group totally amounted to approximately HK$2,104 million as at 31st December, 2005, representing a decrease of 15% as compared to approximately HK$2,476 million that was outstanding as at 30th June, 2005. 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, 2005, the number of full-time employees of the Group was about 6,600, which remained static when compared with that as at 31st December, 2004. 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.

Total staff costs amounted to HK$439 million for the six-month period which ended on 31st December, 2005 and HK$408 million for the corresponding period of last year.