



The following comments should be read in conjunction with the Audited Statement of Accounts of Henderson China Holdings Limited and the related notes to the accounts.

Review of Results

During the financial year under review, turnover of the Group decreased to approximately HK\$93 million (2003: HK\$188 million). Profit attributable to shareholders amounted to approximately HK\$16 million as compared to the restated loss attributable to shareholders of HK\$399 million in the previous financial year. The Group recorded a profit in its operating results in the financial period under review mainly as a result of the writing back of provisions previously made on certain property projects of the Group.

Turnover from property sales for the financial year under review amounted to approximately HK\$29 million (2003: HK\$91 million) which was contributed mainly from sale of residential units from projects situate in Guangdong Province as well as the stock units of other completed projects that were earlier completed by the Group. The Group's property development segment generated a loss of HK\$35 million before writing back of provisions on the property projects (2003 restated: Profit of HK\$71 million before provision on the property projects). After accounting for the write back of provisions

previously made by the Group on certain property projects which amounted to HK\$264 million during the financial year under review, the final segmental result of the Group's property development business reported a profit of HK\$229 million (2003 restated: Loss of HK\$192 million).

On the Group's property investment front, gross rental income of the Group amounted to approximately HK\$44 million (2003: HK\$41 million) and a loss of approximately HK\$123 million (2003: HK\$124 million) was reported in the Group's property investment business during the financial year under review.

Profit from the finance services business of the Group, which were mainly attributed to interest income from advances made to the Group's project companies as well as from property mortgage loans extended to purchasers of the Group's property units, amounted to approximately HK\$6 million (2003 restated: HK\$38 million).

During the financial year under review, the increased income received from the project management and property management services provided by the Group gave rise to a profit of approximately HK\$7 million (2003: Loss of HK\$3 million) in the management and sales commission segment of the Group during the period.

Liquidity, Financial Resources and Capital Structure

As at 30th June, 2004, the outstanding bank borrowings amounted to approximately HK\$1,590 million (2003: HK\$1,753 million). As at the end of the financial year under review, the Group's total net bank borrowings after deducting cash holdings

of approximately HK\$340 million amounted to approximately HK\$1,250 million. All of the Group's borrowings were unsecured and were mainly obtained on a committed term basis. The maturity profile of the Group's bank loans and borrowings outstanding as at the end of the two prior financial years are presented respectively as follows:

	As at 30th June, 2004 HK\$'000	As at 30th June, 2003 HK\$'000
Bank Loans and Borrowings Repayable:		
Within 1 year	497,008	332,201
After 1 year but within 2 years	900,000	1,350,075
After 2 years but within 5 years	193,375	71,000
Total Bank Loans and Borrowings	<u>1,590,383</u>	<u>1,753,276</u>
Less: Cash At Bank and In Hand	<u>(340,254)</u>	<u>(760,751)</u>
Total Net Bank Borrowings	<u>1,250,129</u>	<u>992,525</u>

As of 30th June, 2004, shareholders' funds of the Group amounted to approximately HK\$6,985 million (2003 restated: HK\$6,992 million). The Group possesses a large capital base and is in a strong financial position whereas net borrowing position remains low. With adequate cash on hand and committed banking facilities in place, the Group has sufficient financial resources to meet the funding requirements of its ongoing operations as well as future business development.

Gearing Ratio & Financial Management

As at the end of the financial year 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 amounted to 17.9% (2003 restated: 14.2%). Amounts due to fellow subsidiaries of the Group was approximately HK\$891 million (2003: HK\$1,128 million) as at 30th June, 2004. The Group's profit from operations of HK\$42 million just exceeded the interest expense before capitalisation of HK\$41 million recorded in

the financial year under review. As for the finance costs which was arrived at after interest capitalisation, this amounted to approximately HK\$19 million (2003: HK\$17 million).

The Group's financing and treasury activities were managed centrally at the corporate level. Bank loans of the Group were obtained in Hong Kong Dollars as well as in Renminbi. As at 30th June, 2004, the majority of the Group's bank borrowings was denominated in Hong Kong Dollars with the remaining balance being denominated in Renminbi. For bank loans which were obtained by the Group in the Hong Kong currency, loan interests were chargeable mainly based on certain agreed interest margins over the Hong Kong Interbank Offer Rate and such banking facilities were therefore of floating rate in nature. As for the bank borrowings which were denominated in Renminbi, these are linked to fixed interest rates for commercial loans as announced by The People's Bank of China from time to time. 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 further 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 rate for a portion of the Group's floating rate borrowings. With an aim to fix a portion of the Group's Hong Kong Dollar loan rates at the current low level, the Group maintained a number of unexpired Hong Kong Dollars interest rate swap agreements in respect of a portion of such borrowings during the financial year under review.

As at the end of the financial year under review, the majority of the Group's borrowings was denominated in Hong Kong dollars with the remaining balance being denominated in Renminbi. As a whole, the core operations of the Group were not exposed to any significant foreign exchange risks and the Group did not enter into any currency hedging agreement in the financial year under review.

Assets of the Group had not been charged to any third parties in the financial year under review.

Future Plans of Material Investments or Capital Assets

As at 30th June, 2004, commitment of the Group amounted to HK\$4,527 million (2003: HK\$3,962 million). Out of these commitments, HK\$1,750 million (2003: HK\$2,313 million) were mainly related to contracted obligations of the Group for future development costs and expenditures to be incurred on several projects of the Group in the short to medium term with the remaining amount of HK\$2,777 million (2003: HK\$1,649 million) being related to the Group's commitment in respect of future development costs and expenditures of the

new development projects of the Group which was authorized but not yet contracted for as at the end of the financial year under review.

Contingent Liabilities

In support of the banking facilities extended to the Group's treasury subsidiaries and project subsidiaries, the Company has given guarantees to commercial banks, and as at 30th June, 2004, the Company's contingent liabilities relating to the utilised amount of such banking facilities amounted to HK\$1,290 million (2003: HK\$1,031 million). The other contingent liabilities of the Group were mainly represented by guarantees given by the Group to banks in support of the mortgage financing provided by them to purchasers of properties developed by the Group and this amounted to HK\$214 million (2003: HK\$229 million) as at the end of the financial year under review. These guarantees are short term in nature and the Group's obligations will be gradually relinquished along with issuance of the property title documents in respect of the units sold.

Employees

As at 30th June, 2004, the number of employees of the Group was about 1,000, of which about 100 were employed in Hong Kong and the others were employed in Mainland China. 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. Employees of the Group may be granted share options. Other benefits to employees include medical insurance, retirement schemes, training programmes and educational subsidies.

Total employees' costs for the year ended 30th June, 2004 amounted to HK\$64 million as compared to HK\$63 million for the previous financial year.