

**HENDERSON CHINA HOLDINGS LTD :  
LOOK UNDER THE ROCKS IN ORDER TO FIND THE WORMS**

It is said that, under every rock in a garden, there one will find a different worm.

The worms may all be of different hues and/or sizes, but a worm is still a worm, nevertheless.

That same analogy appears to be the case with regard to quite a number of companies, under the Henderson 'umbrella': If one looks carefully, one is likely to find at least one worm.

Henderson China Holdings Ltd (Code: 346, Main Board, The Stock Exchange of Hongkong Ltd), the last of the 3 publicly listed companies, controlled by paterfamilias Lee Shau Kee, is, probably, the worst-performing Company of the bunch.

For the Financial Year, ended June 30, 2000, this Company, which concentrates on land and property developments in the People's Republic of China (PRC), turned in a Profit Attributable to Shareholders of \$HK146.21 million.

This Bottom Line, on the surface, compared favourably with the 1999 Profit Attributable to Shareholders of about \$HK140.87 million.

On the surface, therefore, it would appear that the Bottom Line rose about 3.79 percent, Year-on-Year.

But looks, more often than not, can be deceiving – and TARGET has qualified its statements, with regard to the Company's profits' growth, Year-on-Year, with the term, '*on the surface*'.

In the case of Henderson China Holdings, if one looked at the Company without an eye for detail, one could be fooled, completely, at the seeming improvements.

This is because, of the 2000 Profit Attributable to Shareholders of \$HK146.21 million, \$HK44 million was simply a write-back in respect of prior, Financial Year Provisions.

This one may find by studying Note 3 at Page 44 of the 2000 Annual Report of the Company:

Income		
	Financial Year ended June 30	
	2000	1999
	All Figures are Denominated in \$HK'000	
<b>Other Revenue:</b>		
Refund of PRC Business Tax	Nil	18,407
Compensation Received	Nil	5,617
Other	3,703	1,502
<b>TOTAL</b>	<b>3,703</b>	<b>25,526</b>
<b>Other Net Income</b>		
Net Gain/(Loss) on Disposal of Fixed Assets	(6)	429
Exchange Gain	1,418	1,141
Write Back of Provision in Respect of Properties	44,000	Nil
<b>TOTAL</b>	<b>45,412</b>	<b>1,570</b>

The above table speaks for itself and requires no further extrapolation by TARGET's financial analyst.

Without the \$HK44-million write back in respect of Prior Year's Provisions, the Chairman of this Company, Mr Lee Ka Kit, would have had to announce that the Profit Attributable to Shareholders for the 2000 Financial Year had dropped by about 27 percent – from the 1999 figure of about \$HK140.87 million to the 2000 figure (minus the write back) of about \$HK102.21 million.

And that would have been the lowest level of Profit that this Company has enjoyed in the past 5 Financial Years, at least.

### **The Business**

Henderson China Holdings is engaged in property development and investment, property management, project management, finance, and investment holdings, just about all of which is carried out in the PRC.

Unlike New World China Land Ltd (Code: 917, Main Board, The Stock Exchange of Hongkong Ltd), Henderson China Holdings has been dragging its feet, badly, for the past 3 Financial Years (TARGET is not suggesting, here, that New World China Land Ltd is a good company, either).

In the 2000 Financial Year, the Turnover of Henderson China Holdings was about \$HK356.04 million and comprised:

1. Property Trading	\$HK104.78 million
2. Property Investment	\$HK 65.33 million
3. Investment and Finance	\$HK152.13 million
4. Management and Sales Commissions	<u>\$HK 33.80 million</u>
<b>TOTAL</b>	<b><u>\$HK356.04 MILLION</u></b>

The Company received rental income in the 2000 Financial Year of about \$HK65.33 million, as seen above (Item Number 2), which, on the surface – again -- represented an increase of about 335 percent, compared with the 1999 rental income of about \$HK15.02 million.

As at June 30, 2000, the Fixed Assets Schedule at Page 47 of the 2000 Annual Report states that the Book Cost of Investment Properties is about \$HK2.17 billion.

The Gross Return on the Book Cost, therefore, would appear to be about 3 percent.

Which is up from the 1999 figure of about one percent.

Further, it is noted that there had been a revaluation of the Company's PRC properties in the 2000 Financial Year; and, that exercise threw up a Revaluation Deficit of about \$HK283.88 million.

(One is tempted to comment, at this point, but TARGET will refrain from so doing, allowing subscribers to come to their own conclusions)

Still on this subject, taking the Company's 2000 Bottom Line figure of \$HK146.21 million, one notes that the Net Return on Assets Employed was about 2 percent: \$HK146.21 million divided into Net Assets of about \$HK7.24 billion, as at the 2000 Balance Sheet Date.

According to Chairman Lee Ka Kit, as at June 30, 2000, Henderson China Holdings's investment property portfolio comprised ... [CLICK TO ORDER FULL ARTICLE](#)

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