

Chairman's Statement

Dr. Lee Chau Kee, Chairman and Managing Director



I am pleased to present to the Shareholders my report on the operations of the Group.

Profit & Turnover

The Group's consolidated net profit after taxation and minority interests for the year ended 30th June, 2001 amounted to HK\$1,978 million, representing an increase of 23% over that reported in the previous financial year. The turnover of your Group also showed an increase of 29% over that of the previous financial year and amounted to HK\$1,051 million.

Dividends

Your Board recommends the payment of a final dividend of HK\$0.12 per share to shareholders whose names appear on the Register of Members of the Company on 10th December, 2001. Other than a special dividend paid by way of distribution in specie of shares in Henderson Cyber Limited ("Henderson Cyber Share") to shareholders on the basis of 1 Henderson Cyber Share for every 200 shares in the Company held as at 11th July, 2000, the total distribution per share of HK\$0.23 for the

full year, including the interim dividend of HK\$0.11 per share already paid, is same as the total distribution in the previous year. Warrants for the final dividend will be sent to shareholders on 11th December, 2001.

Business Review

PROPERTY MARKET

The economy of Hong Kong was considerably stable in 2000. However, as the global economy experienced a slowdown since the beginning of 2001, the confidence of local home purchasers remained low notwithstanding that Hong Kong followed the footsteps of the United States of America in announcing consecutive reductions of interest rates as well as a series of measures implemented by the Government to stabilise local property prices. Sales turnover in the local property market was recorded at a slower pace this year as compared with that of the past year.

PROPERTY RENTAL

Although Hong Kong continued to be affected by the slowdown of the global economy in the

Chairman's Statement (cont'd)

past financial year, most of the retail shopping properties owned by the Group are located in new towns where continual growth of residents are maintained and consumer spending power are segregated, thereby providing a good support to stabilise rental of the retail shopping properties located in such new towns. The Group recorded total rental income of approximately HK\$447 million which represented an increase of 17% as compared to that registered in the previous financial year. As at the end of the period under review, the total attributable gross floor area of the Group's rental property portfolio which includes the Group's interests in property projects as well as property interests in the listed associates of the Group amounted to 1.8 million sq.ft..

HOTEL & DEPARTMENT STORE OPERATIONS

During the financing year under review, the local tourism industry continued to be affected by the economic slowdown abroad. The occupancy rates of Newton Hotel Hong Kong and Newton Hotel Kowloon showed a slight increase as compared with that of the previous year and recorded an overall average figure of around 87% as room tariffs also showed a slight increase. Separately, the Group's Citistores also showed satisfactory performance in the period under review and the sixth store outlet was also established at the end of last year at the Metro City Plaza in Tseung Kwan O.

Listed Associates

THE HONG KONG AND CHINA GAS COMPANY LIMITED ("HONG KONG AND CHINA GAS") — 33.34% owned by your Group: Hong Kong and China Gas reported a 6.7% increase in profit to approximately HK\$1.7 billion for the six months ended 30th June, 2001 as compared to the profit of the corresponding period in the previous financial year, serving over 1,360,000 customers. For its energy businesses, this group

has actively developed its fuel gas business by acquiring a 45% interest in Suzhou Industrial Park Hong Kong and China Gas Company Limited this June to meet the increasing demand for natural gas in Mainland China and actively participates in the local LPG filling stations operations through its wholly-owned ECO Energy Company Limited. Besides, this group also participates in several sizeable commercial and residential development projects which include Phase One of the Airport Railway Hong Kong Station project, namely One International Finance Centre and Phase Two of this project comprising office, hotel and retail properties that is under development in which this group holds a 15% interest; the 45% owned luxurious residential project named King's Park Hill that is currently put up for sale and lease, and its 50% interest in the newly acquired development site at Sai Wan Ho Ferry Concourse that would provide over 1.3 million sq.ft. in residential floor area. In addition, this group's application to the Town Planning Board to rezone the Ma Tau Kok (South) plant to a residential development site that yields over 1.1 million sq.ft. in gross floor area has made satisfactory progress. In August 2001, this group repurchased from its shareholders approximately 364 million shares at a total consideration of approximately HK\$3.53 billion, aiming to enhance return on capital and earnings per share. This move has caused the Group to increase its shareholding interest in Hong Kong and China Gas from 33.34% to 35.64%.

HONG KONG FERRY (HOLDINGS) COMPANY LIMITED ("HONG KONG FERRY")

— 30.98% owned by your Group: The interim results of Hong Kong Ferry for the six months ended 30th June, 2001 recorded HK\$258 million in profit, representing an increase of 132% over that in the same period last year. After the discontinuation of the passenger ferry

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operations early last year, this group presently conducts three main lines of business, being property development and investment; ferry, shipyard and related operations, as well as travel and hotel operations. The redevelopment project at 201 Tai Kok Tsui Road, which contributed to the majority of this group's profit, is progressing smoothly with its Phase 1 construction, and development of Phase 2 has also commenced. The valuable development sites held by this company which are presently at different stages of development will bring steady income to this company in the future.

MIRAMAR HOTEL AND INVESTMENT COMPANY, LIMITED ("MIRAMAR") —

39.53% owned by your Group: For the financial year ended 31st March, 2001, Miramar reported an increase of 14% in profit when compared to that of the previous financial year and amounted to HK\$185 million. Property portfolio of this group continued to contribute steady rental income. Miramar Shopping Centre achieved an average occupancy rate of more than 95%; rental income from Hotel Miramar Shopping Arcade improved and Miramar Tower recorded an increase in occupancies although the rental income was negatively affected by the adverse market rental pressure in the office segment. During the financial year under review, Hotel Miramar recorded an average occupancy rate of 88%, with the average room rate increased by 16% compared to that of last year. Performance of this group's food and beverage operation and travel business still showed improvement amidst the continuous deflation in the economy.

HENDERSON CYBER LIMITED ("HENDERSON CYBER") —

The Group held a 66.67% interest in this listed subsidiary company as at the end of the financial year. Since the Initial Public Offering and listing of Henderson Cyber on the GEM of

The Stock Exchange of Hong Kong Limited in July 2000, the telecommunication and technology sectors were faced with fierce competition in the local market, coupled with the fact that this group is at the early stage of operations, Henderson Cyber reported a loss of HK\$84 million in the financial year ended 30th June, 2001. During the year, the customers using iCare's TV Set-Top Box, Internet Service Provider and Internet Contents Provider services had increased to over 145,000 in number. Other areas of the business were cautiously pursued in accordance with plans, bearing in mind changes in the market condition. Supported by sufficient financial resources and strong business connections, this group is well positioned to attain better performance in the future.

INVESTMENTS

During the financial year under review, your Group made a general offer for shares in Miramar which were held in the hands of other shareholders with a total acquisition price of approximately HK\$1.97 billion thereby expanding the Group's investment base. However, as the response in terms of the number of shares that the other shareholders were willing to sell to the Group under the proposed share acquisition offer fell short of the targeted number of shares to be acquired by the closing date for acceptance of the offer, the Group subsequently purchased shares in Miramar from the open market and increased its shareholding to 39.53% as at the end of the period under review. Also, the Group continued to dispose of portions of strategic securities held and this brought in profit to the Group. In addition, investments made in various toll-bridge and toll-roads in Mainland China through the Group's subsidiary, China Investment Group Limited, also brought in satisfactory return.

Hong Kong Ferry's Tai Kok Tsui Redevelopment Project



This reclaimed old shipyard site of Hong Kong Ferry at Tai Kok Tsui, Kowloon is being developed into a commercial-cum-residential complex of approx. 1,950,000 sq.ft. in total G.F.A..

Chairman's Statement (cont'd)

Prospects

The sudden attacks on United States of America brought about adverse effects on the global economy in the short term. However, Mainland China has until now been able to maintain its economic growth on a steady course. The hosting of Olympic Games 2008 in Beijing will result in an abundant amount of work connected with construction of infrastructural projects to be undertaken and will contribute towards adding to the momentum of economic growth in Mainland China. Furthermore, Mainland China's forthcoming accession to the World Trade Organisation will lead to further opening of its domestic markets and this will also enhance economic development in the country, with Hong Kong also becoming a beneficiary as more business and investment opportunities become available.

The various measures relating to housing and land policies promulgated by the Government this year will all contribute towards stabilising local property prices. In this regard, the Government's temporary halt on sale of Home Ownership Scheme flats for a ten-month period and the declared reduction of the number of units to be put up for sale under the Home Ownership Scheme in the next few years will not exceed 9,000 residential flats per year are of particular relevance. Further, 12,000 home purchase loans will be offered by the Government and all of such measures will lead to an increase in demand for property units developed by the private sector. At the same time, local housing mortgage loan rates have come down substantially following very keen competition to acquire home mortgage loan business by commercial banks and the nine-time consecutive reduction of local interest rates following the footsteps of the United States of America to reach close to a 40-year low level. The cost for maintaining a housing

mortgage loan has now come down to a historic low level and the affordability of home purchasers is now enhanced as a result. Also, rental incomes which may generate from the ownership of properties are commonly in excess of mortgage interest payments and this will facilitate property investors to acquire properties for investment purpose.

The increase in the Group's interests held in Hong Kong & China Gas and Miramar will further enlarge the Group's recurrent income base. On top of this, the Group's listed associates also possess valuable development sites and investment properties with certain of these projects under different stages of development. These developments will in future also become a source of recurrent income for the Group. Also, the Group now owns an investment property portfolio amounting to 1.8 million sq.ft. in gross floor area and this brings about steady rental income to the Group. As to the strategic investments held by the Group, these are also anticipated to bring in reasonable return on investment.

Finally, on behalf of the Shareholders and the Board of Directors, I would like to express my sincere appreciation to all staff for their contributions and good work performed.

Lee Shau Kee
Chairman

Hong Kong, 4th October, 2001

Miramar Shopping Centre,
TST, Kowloon



This shopping mall provides a total G.F.A. of 350,000 sq.ft. that generates satisfactory rental income to the Group.