

Chairman's Statement (cont'd)

HENDERSON INVESTMENT LIMITED
("HENDERSON INVESTMENT") –

As at the end of the financial year, the Group held a 73.34% interest in this listed subsidiary. In the financial year ended 30th June, 2001, profit of this company increased by 23% when compared to that of the previous year and amounted to HK\$1,978 million. This was mainly attributed to an increase of 17% in rental income over that in the previous year. The average occupancy rate of Newton Hotel Hong Kong and Newton Hotel Kowloon eased up moderately to 87% compared to the previous period, along with slight increase in room tariff. Achieving satisfactory performance as a whole, Citistore opened its sixth outlet. Sale of part of the strategic investment holdings and investment return from several toll-bridges and toll-roads inside China have contributed satisfactory return to this group. Investments in the listed associates also achieved good performance. During the period, this group made a general offer for shares in Miramar Hotel and Investment Company, Limited 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 this 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, this 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.

THE HONG KONG AND
CHINA GAS COMPANY LIMITED
("HONG KONG AND CHINA GAS") –

33.34% owned by Henderson Investment: 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's subsidiary, Henderson Investment, to increase its shareholding interest in Hong Kong and China Gas from 33.34% to 35.64%.

Chairman's Statement (cont'd)

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

30.98% owned by Henderson Investment: 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 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 group which are presently at different stages of development will bring steady income to this group in future.

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

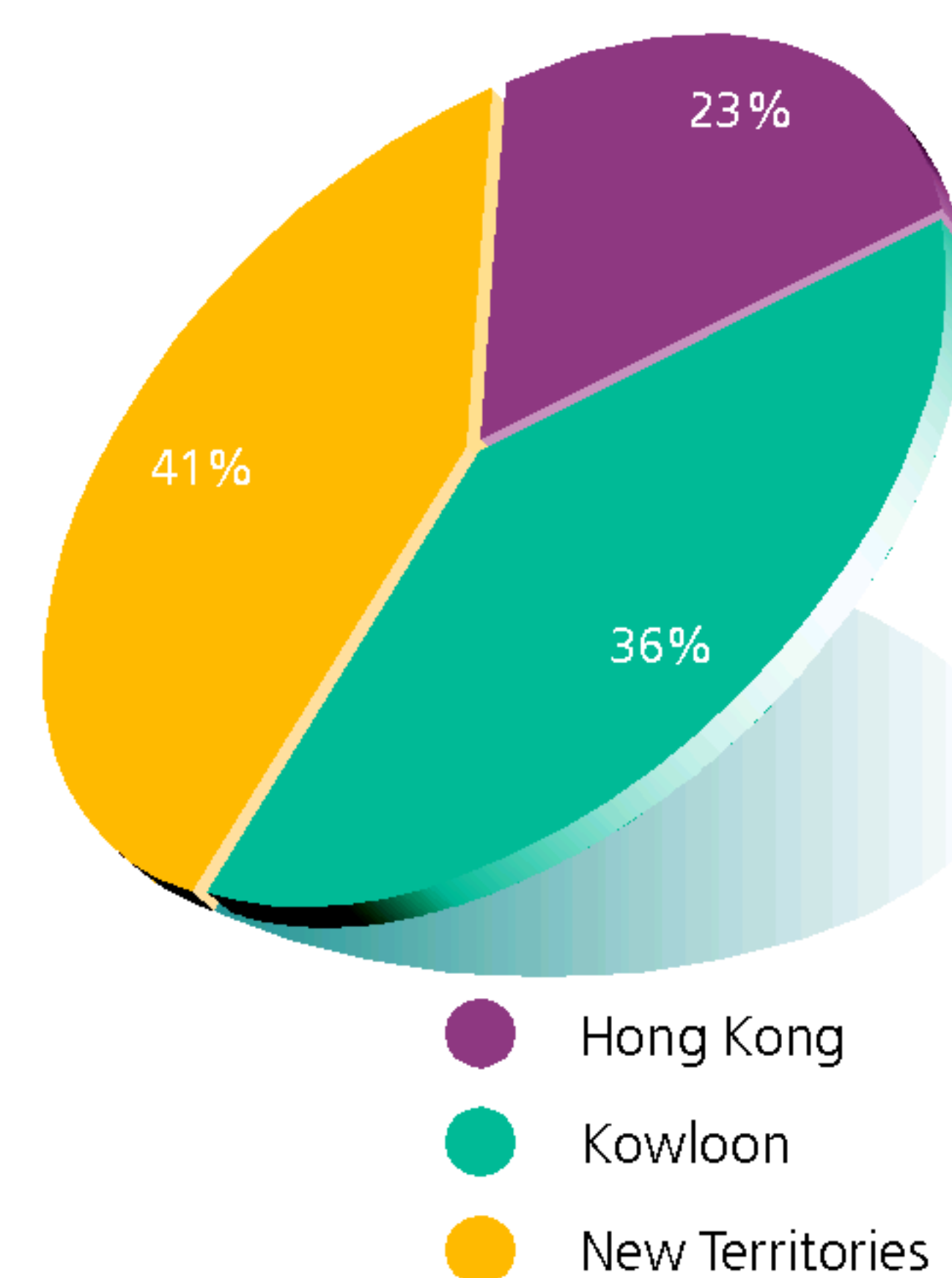
39.53% owned by Henderson Investment: For the financial year ended 31st March, 2001, Miramar reported an increase of 14% in profit when compared to that of the previous financial year and amounted to HK\$185 million. Property portfolio of this group continued to contribute steady rental income. Miramar 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 CHINA HOLDINGS LIMITED
 ("HENDERSON CHINA") –

As at the end of this financial year, Henderson China was 58.53% held by the Group and recorded a profit of HK\$168 million, representing an increase of 15% compared to the corresponding period in the previous year. During the period, the development project that situates on top of the Guangzhou Metro Line One — Changshou Road Station was completed with approximately 2,240,000 sq.ft. in gross floor area; the pre-sale that started from February this year has met with overwhelming response. After receiving full return of its earlier investment together with profit from phase 1 of the An-ju housing project in Tianjin, this group is prepared to plan for investment in phase 2 of this project. At this financial year end, the investment properties held by this group

Distribution of Land Bank & Investment Properties



Chairman's Statement (cont'd)

aggregated up to approximately 1.64 million sq.ft.. Capitalizing on the increasing business opportunities and positive economic stimulants brought about by the impending entry of Mainland China into the World Trade Organisation and Beijing's successful bid in hosting the 2008 Olympic Games, it is envisaged that this group will generate higher rental income to further strengthen the overall development prospects of this group.

HENDERSON CYBER LIMITED ("HENDERSON CYBER") –

Henderson Investment 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.

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

Chairman's Statement (cont'd)

ownership of properties are commonly in excess of mortgage interest payments and this will facilitate property investors to acquire properties for investment purpose.

In the current financial year, the Group plans to launch approximately 4,000 residential units for sale from new developments which are mostly located in the urban areas. Major developments include the Metro Harbour View project at 201 Tai Kok Tsui Road in Kowloon, 1 Kwong Yung Street in Kowloon, 933 King's Road on Hong Kong Island and the Park Central project at Tseung Kwan O Town Lot No.57. In respect of land replenishment, your Group is making application for converting the land usage of certain of the Group's sites. Such sites include the old shipyard site at Yau Tong Bay, the site at Shatin Wu Kai Sha as well as agricultural land in Sheung Shui Kwu Tung and Fanling Ng Uk Tsuen. Further, in the area of quality improvement and enhancement of after-sales and property management services, the Group makes continuous efforts to improve the quality of construction as well as the quality of services offered in respect of the Group's properties. Such efforts have already borne fruits and property units developed by Henderson Land Group already became a brand name much sought after by local home purchasers. In this connection, the main property management companies of your Group, namely, Hang Yick Properties Management Limited and Well Born Real Estate Management Limited jointly gained some sixty different awards of merits from various institutions during the period under review. Such awards included amongst others, the Green Property Management Award (The Grand Award) granted by Hong Kong Productivity Council and the Award for Excellence in Training 2001 (The Panda-Recruit Most Innovative Award) granted by Hong Kong

Management Association.

The rental property portfolio of the Group amounts to 6.3 million sq.ft. in total attributable gross floor area. A large part of the Group's sizeable retail shopping centres are located at or are situate close to the routes of mainline railway and mass transit railway systems. The network of these railway systems play an important role in enhancing the pedestrian traffic and popularity of such retail shopping centres. The immense size of the consumer spending potential of the residents of these neighbourhood communities lying along the routes of these railway systems where the Group's retail shopping centres are located will all contribute towards attaining steady growth in rental income of such investment properties. Further, additional rental income which would generate from future completion of Phase Two of the International Finance Centre will also enlarge the rental income base of the Group. This Phase Two of the International Finance Centre project is located at the core of the city centre situate above the Hong Kong Station of the terminal of the Airport Express Line. The project enjoys an impressive sea view of the Victoria Harbour and this second phase of the project is comprised of 1.95 million sq.ft. of office properties, 0.5 million sq.ft. of retail shopping premises, 0.14 million sq.ft. of open landscaped garden and also contains a 6-star hotel of 1.1 million sq.ft.. The hotel portion comprises 400 luxurious hotel guest rooms and also 600 well-appointed rooms catered for travellers who plan for long term stay. It will be managed by the world-renowned Four Seasons Hotel Group and will be named as the Four Seasons Hotel, Hong Kong. The office portion of this project is built based on advanced as well as modern construction and design and is installed with equipment and facilities bearing the latest technology. This office portion of Phase II of the

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)

International Finance Centre is scheduled to be completed by the end of 2003 whereas the retail shopping premises of this phase of the project will open for business slightly earlier in the first half of 2003. Full completion of the entire International Finance Centre project is anticipated in 2004 and your Group together with the associate of the Group, The Hong Kong & China Gas, hold a combined 47.5% interest in this project.

Your Group's subsidiary, Henderson China, has been operating in Mainland China for a number of years and has already established a strong foothold there. This company is now at the stage of actively reviewing its development strategies in light of the business and investment opportunities which may generate from Mainland China's accession to the World Trade Organisation and the hosting of the Olympic Games. Henderson China holds valuable development sites in busy and populous locations in Beijing, Shanghai and Guangzhou. The portfolio of investment properties which this company holds will contribute significant rental income to the Group. The various development projects owned by Henderson China will be developed in stages in line with market development and these will also bring in substantial sales revenues to the Group in future.

Your Group has arranged to obtain a \$5.5 billion five-year syndicated loan on favourable terms in August of this year and such credit facility has not yet been drawn to-date. Notwithstanding that the Group has taken its own initiative last month to cancel two syndicated loan facilities totally amounting to \$7.75 billion which were originally due to expire in mid-2002 and in the first quarter of 2003 respectively, your Group still holds abundant funding resources in hand being of long term in nature which may be utilised at any time to capture suitable investment opportunities

for expanding the Group's business. Furthermore, 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 the development of certain of these projects currently under different stages of implementation. These developments owned by the Group's listed associates will in future also become a source of recurrent income for the Group.

The recurrent income of the Group comprises gross rental income of approximately HK\$2.0 billion and profit contributions mainly generating from the listed associates which amounted to approximately HK\$1.5 billion. The overall results of your Group in the current financial year will be generated from the continuously growing rental income of the Group as well as the steady profit contributions originating from the Group's listed associates. These will further be supported by contributions from the property development front based on the adequate land holdings owned by the Group. Under such a setting, the Group's performance will continue to improve in future upon return of the local economy on an upward recovery track.

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