



Property Development Project

Sai Wan Ho Project in Urban Area

THE SAI WAN HO DEVELOPMENT PROJECT

63.49% beneficially owned by the Group.

This is a 50/50 joint development project of the Group and The Hong Kong and China Gas Company Limited.

Mainly consists of four high-rise residential towers ranging from 55- to 58-storeys, providing around 2,000 units with each averaging 700 sq.ft. in size, and car parking facilities.

Construction is in progress and is expected to be completed in 2005.

Located on the waterfront in the north-eastern part of the Hong Kong Island.

Ready to capture panoramic view of the Victoria Harbour.

Easy access to a wide range of public transportation services.

Pre-sale launch is planned to commence in late 2003.

HENDERSON CHINA HOLDINGS LIMITED ("HENDERSON CHINA")

65.45%-owned by the Group: Henderson China recorded a turnover of HK\$188 million for the financial period ended 30th June, 2003, representing a decrease of 67% compared to the corresponding period in the previous year. Sales of units of Everwin Garden, Shanghai, Heng Bao Garden, Guangzhou and Phases VIII and IX of Lexi New City, Panyu in Guangzhou were the main contributing sources of revenue to this group. During the period under review, this group recorded net loss of approximately HK\$395 million, mainly due to the provisions made on property projects of this group and bad debts written off by this group. With the economy in Mainland China maintaining steady growth, it is anticipated that the overall property market in the mainland will progress at a steady pace. Properties in certain major cities in the mainland saw keen demand by domestic as well as foreign purchasers, particularly in the cities of Beijing and Shanghai. This group has a plentiful land bank in such major cities and has already taken steps in the period under review to put in place pre-construction preparation work in respect of certain development project sites of the group. Construction work is anticipated to commence on the two sites at 2 Guan Dong Dian, Chao Yang District in Beijing (the old Beijing Lightbulb Factory site) and 210 Fangcun Avenue, Guangzhou (the old Guangzhou Preservation Fruit Factory site) at the beginning of 2004. Renovation work will shortly be made in the shopping podium of the Henderson Centre in Beijing and renewed marketing efforts will be taken to attract more fashionable retailers. Such new developments are expected to bring improvement to the performance of this group.

HENDERSON CYBER LIMITED ("HENDERSON CYBER")

66.67%-owned by Henderson Investment: Henderson Cyber reported a turnover of HK\$84 million for the financial year ended 30th June, 2003, representing an increase of 24.1% compared to that registered in the previous financial year mainly as a result of the increase in its retailing business. Other revenue, mainly represented by interest income from deposits and debt securities, decreased by 13.6% compared to that of the previous year due to the significant fall in interest rates during the year under review. Due to the harsh business environment, this group has taken a HK\$3.9 million provision for impairment loss in respect of data centre and network facilities. The loss attributable to shareholders for the financial year ended 30th June, 2003 significantly decreased to HK\$17 million. The Internet, telecommunication and high technology industries are dynamic and fast-changing, subject to intense competition and often require large capital investments. This group must be flexible and versatile to respond to such changes and must also ensure that businesses are sustainable and attractive.

CORPORATE FINANCE

The Group has always adhered to prudent financial management principles in making arrangements for its financing requirements. With abundant unutilised banking facilities in hand, the Group prepaid and cancelled a syndicated loan facility in the amount of HK\$1 billion which was originally due to expire in 2004. Apart from banking facilities of a relatively small proportion which were raised in Renminbi, the majority of the Group's funding facilities are obtained in Hong Kong Dollars and the Group's exposure to foreign exchange fluctuation risks is therefore extremely small. Further, the Group does not participate in any trading activities in foreign exchange derivatives.

Chairman's Statement *(cont'd)*

Prospects

The global economy began to show signs of recovery as from the middle of this year and Mainland China further showed that it was able to sustain good economic growth. The Central Government in Beijing has taken a posture to show strong support of Hong Kong. Recent arrangements made to enhance the economic and trading co-operation under the Closer Economic Partnership Arrangement ("CEPA") between Mainland China and Hong Kong will bring new momentum and plentiful business opportunities to the local economy. The agreement for allowing the export of 273 types of goods made in Hong Kong to the mainland without having to pay tariffs will attract some manufacturers to relocate and establish their facilities back to Hong Kong. Further, with the advantages of low tax and international standards, foreign corporations will be attracted to establish their offices in Hong Kong as a springboard to the market in Mainland China. Demand for office premises as well as industrial-cum-office properties is expected to increase in future.

After the decline in the past few years, the worst moment in the economy of Hong Kong is now behind us. The local property market is expected to show a steady upward trend as from this point. The administration of the Government came to realise last year of the importance for balancing the supply and demand of land in Hong Kong. With the implementation of the nine measures by the Government at the end of last year to control land supply and to stabilise property prices, and with the new regulations allowing overseas investors in the purchase of local properties or other pre-approved investment assets of over HK\$6.5 million to qualify for the right of abode for the whole family, it is anticipated that local property prices will in the next few years increase year on year.

Your Group is currently putting together efforts to obtain official approval for change in land use in respect of many sites owned by the Group, thereby enlarging its land bank. Such efforts involve negotiation with the Government for fixing the conversions of agricultural lots as well as lease modification in respect of certain urban sites. These included the Yau Tong Bay site and the Wu Ka Sha site which lie on future railway network and also the Tai Tong Road site located in Yuen Long, with a total attributable gross floor area of 3,560,000 sq.ft. In addition, the Group has the flexibility to convert the land use of certain sites for hotel development purpose. If implemented, this will provide a total of around 10,000 hotel rooms. The Group will, in the light of demand, decide on such conversion. Initially, the Group will develop 2,000 to 3,000 hotel rooms in the near future. Amongst these, the hotel development situate at 165-167 Wai Yip street and 66 How Ming Street in Kwun Tong has commenced and will be completed within the next eighteen months.

With residential property prices having dropped by around two-thirds from their peak in 1997 and local interest rates dropping to their historic low, mortgage payment currently falls below rental payment. This positive carry has led to property purchases by both home purchasers as well as investors. Further, with the local stock market becoming active again and reaching its highest level in the past 17 months, this has resulted in an increase in the number of transactions and price increase for the luxury properties. Around 4,600 new residential units are currently being planned to be launched for pre-sale by the Group between now and the end of 2004, including the Sai Wan Ho project, the Ma Tau Kok South Gas Plant redevelopment project and the Lam Tei project. As the costs of these developments are relatively low, satisfactory returns are expected to be generated.

Chairman's Statement *(cont'd)*

The Group possesses substantial recurrent income. Major shopping investment properties of the Group are situated right at the major transportation networks. The investment property portfolio of the Group will benefit from the recovery in the economy and increase in consumer spending. Increase in inbound tourists from the mainland will be a positive factor. Also, stable contribution to profits of the Group can be expected from the listed associates, namely, The Hong Kong and China Gas Company Limited, Miramar Hotel and Investment Company Limited and Hong Kong Ferry (Holdings) Company Limited. The Group holds in hand abundant financial

and land resources. These will enable the Group to fully capture business opportunities arising from the recovery of the property market. Barring unforeseen circumstances, it is anticipated that performance of the Group will show steady growth in the current financial year.

Lee Shau Kee
Chairman

Hong Kong, 2nd October, 2003

King's Park Hill, Kowloon

This 62.14%-owned project of the Group was completed in early 2000 with a total G.F.A. 241,000 sq.ft.. It provides 42 luxurious garden houses and 7 low-rise apartment blocks situated in one of the rare elite districts in Kowloon.

