Chairman's Statement

Dr. Lee Shau Kee, Chairman and Managing Director

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

Profit and Turnover

The Group's consolidated net profit after taxation and minority interests for the financial year ended 30th June, 2003 amounted to HK$1,626 million, representing a decrease of 9% from that reported in the previous financial year. The turnover of your Group amounted to HK$1,181 million and showed a decrease of 1% as compared to that recorded in the previous financial year.

Dividends

Your Board recommends the payment of a final dividend of HK$0.11 per share to shareholders whose names appear on the Register of Members of the Company on 1st December, 2003. The total distribution per share of HK$0.22 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 3rd December, 2003.

Business Review

PROPERTY RENTAL

As at the end of the period under review, the total attributable gross floor area of the Group's rental property portfolio amounted to 1.94 million sq.ft. Total gross rental income of the Group amounted to approximately HK$620 million, reflecting an increase of 2% over that recorded in the previous financial year. During the period under review, the economy in Hong Kong remained on a declining path. Occurrence of the Severe Acute Respiratory Syndrome ("SARS") in March of this year led to a sharp drop in consumer spending and an increasing unemployment rate. The decline in the economy resulted in downward adjustment in the property market. Transaction volume was at a very low level. The leasing operation of your Group was adversely affected by such developments which took place during the period under review. During the low point of the economic downturn, certain rental shopping properties of the Group had been subject to pressure for downward adjustment in rental. Nevertheless, major retail shopping properties owned by the Group were able to maintain an overall occupancy rate of 94%. Such resilience shown from the Group's rental property portfolio is mainly a result of the strategic positioning adopted by the Group with most of the Group's retail shopping podiums being located in the new towns and right at the existing and planned mass transportation networks.

HOTEL & RETAILING OPERATIONS

The local tourist industry had been affected by the negative impacts of the economic developments occurring both locally as well as overseas. The average occupancy rate of the Group's two Newton Hotels was recorded at 75% during the financial year under review and showed a decrease when compared to that recorded in the previous financial year. As the room tariffs yielded to pressure for downward adjustment, the hotel operations of the Group incurred a loss in the period under review.

As for the retailing operation, the Group now operates a total number of six outlets of Citistore department stores. Notwithstanding a decrease recorded in turnover in the Group's retailing operation in light of the slowdown in the local economy and contraction in consumer spending, the overall operating result was recorded at a break-even as efficiencies were improved due to management efforts made.

INFRASTRUCTURAL PROJECTS

China Investment Group Limited is 64%-owned by the Group and this company is engaged in the toll-bridge and toll-road joint venture operations of the Group in Mainland China. This company continued to make contributions to the Group's recurrent income stream. The turnover and profit of the business operations of this company totally amounted to approximately HK$216 million and HK$139 million respectively, showing a slight decrease when compared to those levels which were recorded in the previous financial year. Further, provisions had been made in the latter half of 2002 by this company in an amount of approximately HK$10 million in relation to the re-organisation of its retailing business in Mainland China. This has resulted in a slight decrease recorded in the investment return of this company.

ASSOCIATED COMPANIES

The Hong Kong and China Gas Company Limited ("Hong Kong and China Gas")

36.72%-owned by the Group: Hong Kong and China Gas reported an increase of 6.7% in profit to approximately HK$1.8 billion for the six months ended 30th June, 2003 as compared to the profit of the corresponding period in the previous financial year. The number of customers increased to 1,492,860, representing an increase of 3.9% over that of the previous year. With respect to the energy business of this group, investment in the mainland piped gas projects has been a long term strategic priority and is in line with the environmental policy of Mainland China. In particular, this group has now invested in 16 cities including three in Maanshan (Anhui Province), Zhangjiagang (Jiangsu Province) and Tongxiang (Zhejiang Province). The joint venture agreements of these three projects were signed in the first half of 2003. In June 2003, this group also officially obtained approval to establish a sino-foreign equity joint venture with Nanjing Gas General Company for the development of the natural gas market. The total investment amount for this project is RMB1,200 million. This group has a 50% interest in this joint venture which will further consolidate its business development base in eastern China.

On the property development front, this group has a 15% interest in the International Finance Centre. Phase One office tower and shopping mall have been leased out. Phase Two comprises, inter alia, the Two IFC which was completed in the second quarter of 2003 and is now being leased. This group has a 50% interest in the Sai Wan Ho Ferry Concourse development project. Construction of

Hong Kong Ferry (Holdings) — Metro Harbour View

31.33% listed associate of the Group. Metro Harbour View is one of the major property development projects undertaken by this associate.

the superstructure, now in progress, is expected to be completed in 2005. Foundation work of the Ma Tau Kok South Plant site project has been completed and this project is due for completion in 2006. These two projects combined will provide a residential floor area of approximately 2.5 million sq.ft. in the urban areas.

Hong Kong Ferry (Holdings) Company Limited ("Hong Kong Ferry")

31.33%-owned by the Group: The interim results of Hong Kong Ferry for the six months ended 30th June, 2003 recorded HK$137 million in profit, representing a slight increase over that in the same period last year. Adversely affected by the SARS outbreak, both the travel and hotel businesses of this group recorded a loss of HK$2.4 million during the period. This group has decided to take an additional impairment loss of HK$19 million over the shipyard assets, thereby resulting in the operating loss of the Ferry, Shipyard and Related Operations for the period to increase to HK$28 million. About 460 residential units of Metro Harbour View were sold during the period, bringing the total number of residential units sold to around 2,000. Over 40% of Phase I of the commercial arcade of Metro Harbour View has been let. With regard to the projects at Tai Kok Tsui staff quarter and at 6 Cho Yuen Street, this group is negotiating with the Government on the land premium for the change in land use to residential/commercial use with gross floor areas of respectively 320,000 sq.ft. and 160,000 sq.ft. The local property market is expected to bottom out benefiting unsold residential units of Metro Harbour View.

Miramar Hotel and Investment Company, Limited ("Miramar")

43.69%-owned by the Group: For the year ended 31st March, 2003, Miramar reported a profit of HK$234 million, representing a decrease of 9% when compared to that of the previous financial year. Affected by the slack local economy, the U.S. led war against Iraq and the SARS outbreak, this group recorded a slight drop in operating result. Nevertheless, the occupancy rate of the shopping and office properties remained steady for the financial year and averaged about 90%. With mainland tourists free to visit Hong Kong, the number of mainland travelers continued to rise. This group's sales offices in Shanghai and Beijing had taken proactive sales and promotion efforts in developing the China market. The average occupancy of Hotel Miramar rose to 87% and room rates had also improved. It is anticipated that the Individual Visit Scheme will create opportunities for the local hotel, food and beverage businesses, thereby enhancing the steady growth of this group's profit.

HENDERSON CYBER LIMITED ("HENDERSON CYBER")

66.67%-owned by the Group: 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.

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.

Your Group holds diversified businesses which include the ownership of a quality investment property portfolio and owns businesses engaging in the hotel, department store operations as well as the telecommunication and technology sectors. Amongst these, the investment property portfolio brings in substantial income of a recurrent nature to the Group. In addition, both the infrastructural projects owned by the Group and strategic investments held in the listed associates contribute as sources of stable income. Barring unforeseen circumstances, it is anticipated that the Group will show steady performance in the current financial year.

Lee Shau Kee
Chairman

Hong Kong, 2nd October, 2003

Block C, Hang Wai Industrial Centre
Located in Tuen Mun, N.T., this 17-storey industrial building is a 100%-owned investment property of the Group. It has a total G.F.A. of approx. 292,000 sq.ft.