

Chairman's Statement



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Sir Gordon Ying Sheung WU GBS, KCMG, FICE *Chairman*

Financial Highlights

It gives me great pleasure to report to shareholders that the Group had an excellent year with net profit attributable to shareholders of HK\$1,454 million for the financial year ended 30th June, 2004, an increase of 138% over the HK\$612 million reported last year. The improved results come from increased contributions from expressway infrastructure projects and hotel operations during the year, the successful IPO of Hopewell Highway Infrastructure Limited ("HHI"), disposal of Tanjung Jati B power project ("TJB") in Indonesia, and further reduction in financial expenses. Basic earnings per share was HK\$1.65, an increase of 136% over HK\$0.70 reported last year.

The Board of Directors has proposed a final dividend of HK30 cents per share which, together with the interim dividend of HK10 cents and a special interim dividend of HK30 cents per share, will result in total dividends for the year of HK70 cents per share.

The Register of Members of the Company will be closed from Monday 11th October, 2004 to Monday 18th October, 2004, both dates inclusive, during which no transfer of shares of the Company will be effected. Subject to approval of the shareholders at the annual general meeting to be held on 18th October, 2004, the final dividend will be paid on or about 18th October, 2004 to shareholders as registered at the close of business on 18th October, 2004.

Business Review

Hong Kong's economy made significant recovery over the past year. Businesses experienced the turnaround after the impact of the SARS outbreak in the first half of 2003 proved to be relatively short-term. The increased individual tourist arrivals from The People's Republic of China ("PRC") provided fuel for the recovery in Hong Kong's tourism and retail sales while the implementation of the Closer Economic Participation Arrangements ("CEPA") provided new opportunities for Hong Kong companies to do business in PRC, and the unemployment rate has steadily improved from 8.7% in mid 2003 to 6.9% in June 2004.

The Group's strong performance benefited from the economic rebound. The three core businesses of the Group, namely Infrastructure, Property and Hospitality all recorded encouraging results for the financial year. Infrastructure performed very well with excellent growth in traffic and revenue, and continued to be the largest profit contributor at HK\$799 million compared with HK\$635 million last year. HHI's Phase I of the Western Delta Route commenced operation, ahead of the original schedule, on 30th April, 2004. Property income contributed HK\$173 million compared with HK\$217 million last year, reflecting lower rental rates on tenancies, although we have maintained occupancy levels at almost the same level as last year. Rental rates are expected to improve as the office rental market has shown strong signs of rebound. The hospitality business recovered quickly from the SARS outbreak, and benefited from the relaxation of individual tourist visa policy by PRC. Hospitality contributed HK\$76 million compared with HK\$19 million last year.

During the year, in August 2003, the Group listed its subsidiary, HHI, on the Main Board of the Stock Exchange of Hong Kong Limited, raising over HK\$3 billion. The Group now consists of two listed companies each with its own portfolio of businesses. HHI focuses on the initiation, promotion and development of toll roads and bridges. Hopewell Holdings continues to operate its own core businesses of Property and Hospitality while retaining approximately 75% shareholding in HHI. Further, the disposal of TJB was concluded and became effective in August 2003. Up to the financial year-end, the disposal has generated a net cash surplus of HK\$940 million to the Group.

With improving economic conditions in Hong Kong and the strong financial position of the Group, we proceeded with the development and implementation of a number of planned projects during the year. Construction has started on Phase 2C of Nova Taipa Gardens in Macau and on the townhouses and high-rise apartment blocks of the first phase of Hopewell New Town in Huadu district of Guangzhou. On our proposed Mega Tower Hotel project, the approval of which is pending the decision of the Town Planning Board, I believe that the project

Chairman's Statement (continued)

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when implemented will contribute to the betterment of both the Wanchai district community and the Group. We are also pursuing investment opportunities for development of new power plants in PRC currently experiencing power capacity shortage.

Continued Improvement in Financial Strength

The Group's financial position has made significant further improvement during the financial period. The IPO of HHI in August 2003 raised over HK\$3 billion, and net cash of HK\$940 million was derived from disposal of our interests in TJB up to the financial year-end. Bank loans were reduced from HK\$3 billion to HK\$1.2 billion at year-end, with cash and bank deposits of HK\$1.2 billion. The Group is in a net cash position, with no gearing and ready to take on investments in new projects.

Taking into the Group's improved financial position and taking advantage of the favourable loan market conditions, the Group has re-financed its existing banking facilities and successfully obtained a 5-year unsecured syndicated loan facility of HK\$2,880 million in October 2003. The Group has subsequently increased other unsecured banking facilities with a view to enhance financial flexibility to take on our planned projects for the Group's expansion.

The Group's US dollar denominated unsecured Notes due 2004 of US\$194 million bearing a fixed interest rate of $9\frac{7}{8}\%$ per annum matured on 15th August, 2004; there will be no interest expenses in connection with these Notes after 15th August, 2004.

Prospects

With only Beijing, Shanghai and certain cities in 4 provinces out of 29 provinces in the PRC that have relaxed their travel policy on individual visits to Hong Kong, the hotel and retail sectors in Hong Kong will benefit from expected further relaxations. The economic impact as Hong Kong companies pursue opportunities created by CEPA is also expected to grow significantly. These, coupled with the continued rapid economic development in the Pearl River Delta Region (PRD), will benefit the long-term future development of the Group's existing core businesses.

Hong Kong SAR Government's efforts to promote Hong Kong and to secure its position in the 9+2 Pan-Pearl River Delta Regional Economic and Trade Co-operation, an economy

comprising 9 provinces and SARs of Hong Kong and Macau, is encouraging for the long term prospects of Hong Kong. Government plans to introduce additional incentives with a view to maintaining a sustainable and healthy growth in the property market will also bolster confidence in the market. These are positive indicators for not only the property market but also for the growth of the economy. Hong Kong, recovering from a period of prolonged deflation, will benefit from improving integration with the rapidly developing PRC economy; in particular, the PRD.

With our Group's focus on infrastructure, property and hospitality businesses, we will pursue our goal of maintaining a leading position in these sectors in the PRD. The Group is well positioned to push ahead with its major property developments, including Hopewell New Town in Huadu district of Guangzhou and Nova Taipa Gardens in Macau while HHI develops Phases II and III of the Western Delta Route. The remaining issues of Mega Tower project are being resolved, and HHI can play a vital role in the Hong Kong-Zhuhai-Macau Bridge project when it proceeds. I remain optimistic about the prospects of further growth and new investment opportunities presented by these developments.

I am also pleased to advise that the disposal of the Group's interest in Shunde 105 Road project was effective subsequent to the financial year-end and the consideration of HK\$438 million was received in full.

The disposal of the Group's interest in the Shunde Roads project has also become effective subsequent to the financial year-end. Part of the consideration amounting to HK\$583 million was received in August 2004 and the remaining balance of HK\$240 million is receivable by 3 equal annual installments commencing from December 2005.

Acknowledgement

I would like to take this opportunity to thank our shareholders, customers and suppliers as well as our working partners for their continuing support, and to express my sincere appreciation to my fellow directors, the management team and all staff members for their loyalty, diligence, and hard work in contributing to the excellent performance of the Group for the past financial year.

Sir Gordon Ying Sheung WU GBS, KCMG, FICE
Chairman

Hong Kong, 6th September, 2004