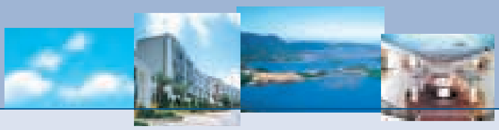


Profit and Turnover

The Group's consolidated net profit after taxation and minority interests for the year ended 30th June, 2004 amounted to HK$3,059 million, representing an increase of 51% over the restated profit figure that was recorded for the year ended 30th June, 2003 after adoption of revised accounting standard. The turnover of your Group decreased by 12% from that of the previous financial year and amounted to HK$6,727 million.

Dividends

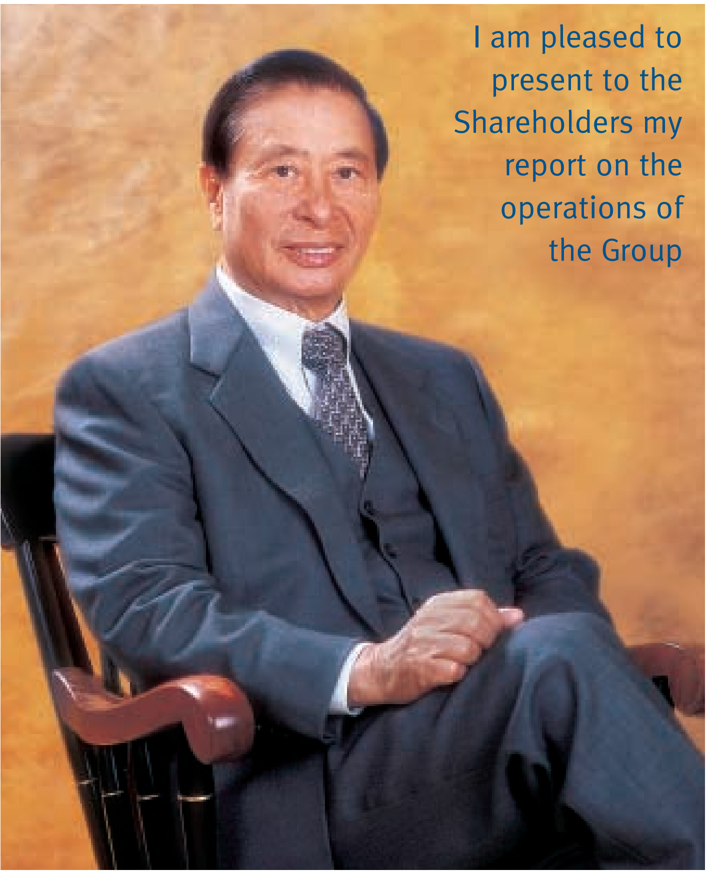
Your Board recommends the payment of a final dividend of HK$0.55 per share to shareholders whose names appear on the Register of Members of the Company on 6th December, 2004. The total distribution per share of HK$0.90 for the full year, including the interim dividend of HK$0.35 per share already paid, represents an increase of 13% over the total distribution in the previous year. Warrants for the final dividend will be sent to shareholders on or before 9th December, 2004.

Business Review

PROPERTY MARKET

As from the beginning of 2004, the local economy has sustained steady growth. During the period under review, favourable news on the local economic front emerged one after another and these include notable recovery of the retailing sector brought about by the implementation of the "Individual Visit Scheme" of Mainland China, gradual decline in unemployment rate and the reversal of the deflationary condition in Hong

Dr. Lee Shau Kee, Chairman and Managing Director



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

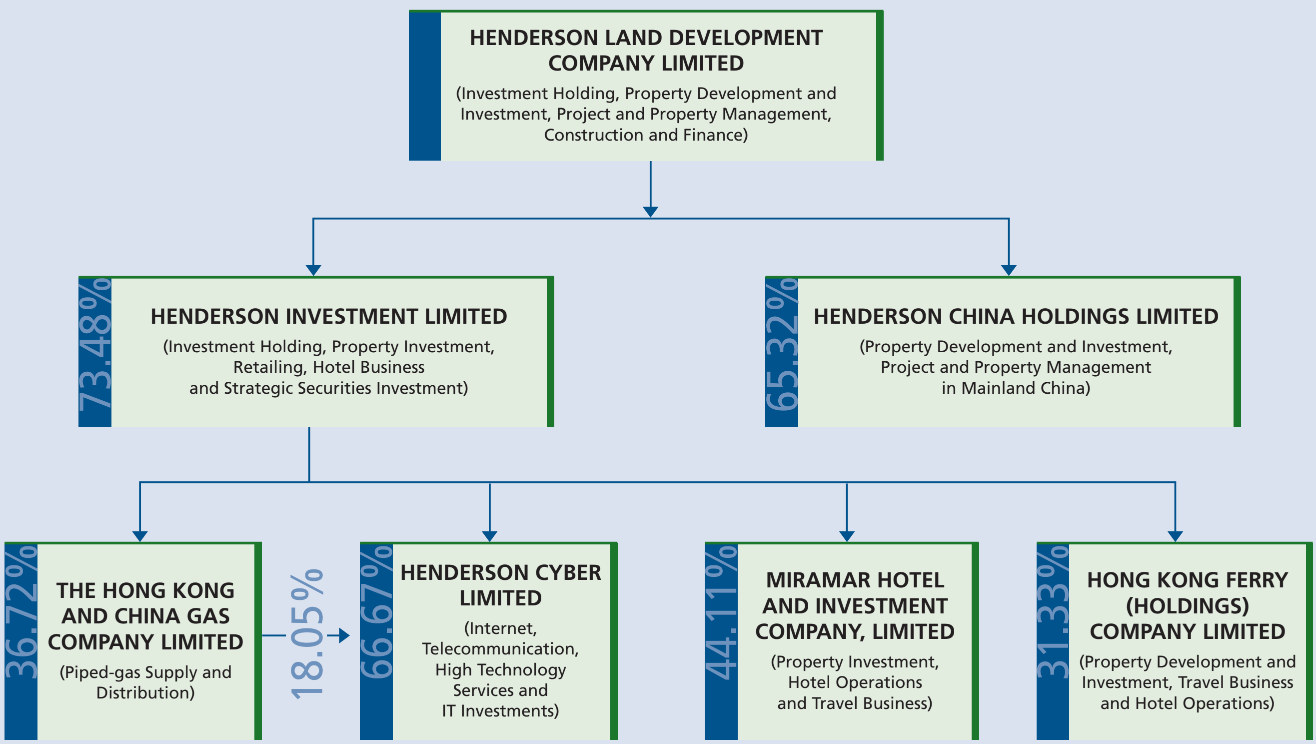
(All percentage shareholdings shown above were figures as of 23rd September, 2004)

HENDERSON LAND GROUP STRUCTURE

Market Capitalisation as at 23rd September, 2004

Henderson Land Development Company Limited : HK$69Bn.

Seven Listed Companies of Group : HK$191Bn.



Kong. These positive developments in the marketplace have led to increase in consumer spending by the local residents and increased desire to acquire properties. With respect to the property sector, there were also many factors leading to an increase in the level of sales activities and steady rise in local property prices. These factors include the passing of the revised Landlord and Tenant (Consolidation) Ordinance that removes the tenure provisions for domestic tenancies and certain restrictive requirements for terminating non-domestic tenancies, implementation of consistent government policies to bring about better balance to the supply and demand of housing units as well as the continuous low level of local mortgage interest rate. The magnitude of price increase was particularly significant in the luxurious residential properties.

During the past financial year, development properties sold by the Group amounted to approximately HK$3,592 million in total attributable sales proceeds, representing around 1,700 units which were mainly generated from the Group's completed projects that included the Metro Harbour View, King's Park Hill, Casa Marina, Paradise Square, Park Central - Phase 2 as well as the La Pradera.

DEVELOPMENT PROJECTS COMPLETED

The following development projects were completed during this financial year under review:

Location		Site Area (sq.ft.)	Gross Floor Area (sq.ft.)	Purpose	Group's Interest (%)	Group's Interest Gross Floor Area (sq.ft.)
Hong Kong						
1	8 Fuk Lee Street (Metro Harbour View - Phase 2)	228,595 (Note)	835,758	Residential	73.02	514,075
2	250 Shau Kei Wan Road (Scenic Horizon)	6,808	54,810	Commercial/ Residential	18.13	9,937
3	16 Shipyard Lane/ 39 Taikoo Shing Road	10,405	86,023	Commercial/ Residential	75.00	64,517
						588,529

Note: The site area for the whole of Metro Harbour View is 228,595 sq.ft.

Metro Harbour View, Tai Kok Tsui

Total G.F.A.: Approx. 1,940,000 sq.ft.; 73.02% beneficially owned by the Group.

This is a large-scale residential-cum-commercial project jointly developed from an old repairy shipyard site by Hong Kong Ferry (Holdings) and the Group in two phases. The entire project was completed in August 2003.

PROJECTS UNDER SALE & PRE-SALE

The Group has commenced pre-sale or sale of the following development projects which are under construction or have been completed:

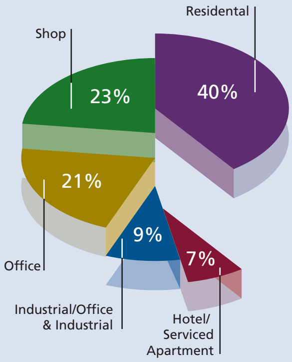
	Location	Site Area (sq.ft.)	Gross Floor Area (sq.ft.)	Purpose	Group's Interest (%)
Hong Kong					
1	28 Lo Fai Road, Tai Po (Casa Marina I)	283,200	226,561	Residential	100.00
2	1 Lo Ping Road, Tai Po (Casa Marina II)	228,154	182,545	Residential	100.00
3	1-98 King's Park Hill Road (King's Park Hill)	168,392	241,113	Residential	62.14
4	3 Seymour Road (Palatial Crest)	17,636	185,295	Commercial/ Residential	63.35
5	8 Hung Lai Road (Royal Peninsula)	162,246	1,478,552	Residential	50.00
6	99 Tai Tong Road, Yuen Long (Sereno Verde) Phases 1 & 2 Phases 3 & 4 (La Pradera)	380,335	1,141,407	Residential	44.00
7	933 King's Road (Royal Terrace)	16,744	138,373	Commercial/ Residential	100.00
8	Tseung Kwan O Town Lot Nos. 57 and 66 (Park Central - Phases 1 & 2)	359,883	2,932,813	Commercial/ Residential	24.63
9	2 Kwun Tsing Road, So Kwun Wat, Castle Peak Road (Aegean Coast)	456,964	1,249,560	Commercial/ Residential	25.00
10	8 Fuk Lee Street (Metro Harbour View - Phases 1 & 2)	228,595	1,714,463	Residential	73.02
11	3 Kwong Wa Street (Paradise Square)	17,297	159,212	Commercial/ Residential	100.00
12	38 Tai Hong Street, Sai Wan Ho (Inland Lot No. 8955) (Grand Promenade)	131,321	1,437,582	Commercial/ Residential	63.49

Grand Promenade, Sai Wan Ho

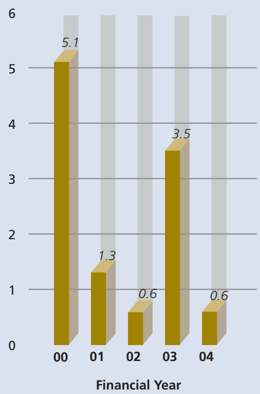
GRAND PROMENADE

- 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.
- Situates on the waterfront in the north-eastern part of the Hong Kong Island.
- Mainly consists of five high-rise residential towers ranging from 55 to 58-storeys, providing a total of 2,020 quality residential units, and car parking facilities.
- Enjoys unblocked panoramic view of the Victoria Harbour.
- Easy access to a wide range of public transportation services.
- Pre-sale was successfully launched in August, 2004.
- Construction is in progress and is expected to be completed in mid-2005.

Usage of Land Bank & Investment Properties



Annual Completion
(GFA in million sq.ft.)



LOCAL LAND BANK

During the period under review, the Group continued to negotiate with the Government on the fixing of land premium for conversion of agricultural land sites into development land as well as proposals relating to changes in land usage. In the period under review, the agricultural land situate at Wu Kai Sha, Shatin District, was granted approval for residential development, with maximum permitted plot ratio of 3 times. This development will, upon completion, provide approximately 3.5 million sq.ft. in total development gross floor area of which approximately 1.4 million sq.ft. is attributable to the Group. As for the agricultural land lots located in Ng Uk Tsuen, Sheung Shui, agreement was reached with the Government on the fixing of additional land conversion premium for a maximum permitted plot ratio of 5 times instead of 3.3 times. As a result, the development gross floor area which is attributable to the Group has been increased to approximately 220,000 sq.ft. Further, the Group has submitted an application for land exchange in respect of the agricultural land plots situate at Tai Tong Road, Yuen Long. Upon government approval, the developable gross floor area of this site will be approximately 640,000 sq.ft. of which approximately 440,000 sq.ft. is attributable to the Group. The Group has also submitted application for change of land usage relating to two agricultural land plots situate at Lam Tei, Tuen Mun and Wo Hing Road, Fanling for maximum permitted plot ratio of 2.1 times and 3 times respectively. It is anticipated that these two land plots will provide 170,000 sq.ft. and 580,000 sq.ft. respectively in residential development gross floor area to the Group.

During the period under review, the Group obtained approval from the Town Planning Board for change in land usage relating to several of its sites for hotel development purpose. Negotiation on fixing of land modification premium has already commenced in respect of these sites. The redevelopment plan for the project site situate at Yau Tong Bay, Kowloon will involve the development of 38 residential tower blocks which will amount to approximately 9.7 million sq.ft. in gross floor area and approximately 1.72 million sq.ft. will be attributable to the Group. Approval from the Environmental Protection Department of the Government in respect of the granting of the land reclamation permit for the project site was obtained during the period under review but this project is still subject to other approval procedures and the payment of land modification premium before construction work can commence. As for the listed associate of the Group, namely, Hong Kong Ferry (Holdings) Company Limited, lease modification premium has been fully paid up in respect of the redevelopment of the old staff quarters' site located in Tai Kok Tsui and this project will be developed into a residential-cum-retail property of approximately 320,000 sq.ft. in gross floor area. In addition, lease modification premium has also been paid during the period under review for another redevelopment site located at 6 Cho Yuen Street, Yau Tong which is also owned by this associate of the Group and this redevelopment project will provide approximately 150,000 sq.ft. in total development gross floor area. Further, Hong Kong Ferry (Holdings) Company Limited had also acquired a new site located at Tong Mi Road in Mongkok with a site area of approximately 6,000 sq.ft. This development site will soon be built as a residential-cum-retail project of 53,000 sq.ft. in development gross floor area. After the end of the financial year under review, the Group acquired in August a residential-cum-commercial development site that is situate at 33 Lai Chi Kok Road through private tender. This project has a site area of 9,600 sq.ft. and will be developed into approximately 86,000 sq.ft. in development gross floor area.

As at the end of the financial year under review, the total development land bank of the Group amounted to approximately 18.5 million sq.ft. in attributable gross floor area. In addition, the Group holds agricultural land that amounted to approximately 22 million sq.ft. in site area.

WEST KOWLOON CULTURAL DISTRICT PROJECT

Under the name of World City Culture Park Limited, the Group has in the middle of 2004, on its own as a proponent, submitted a proposal to the Hong Kong Government for development of the West Kowloon Cultural District project. The Group proposed that 3.45 million sq.ft. in development gross floor area of the project will be dedicated for cultural and arts purposes whereas commercial and residential development will amount to 7.35 million sq.ft. in gross floor area. The total development gross floor area proposed for the project thus amounts to 10.8 million sq.ft. which equates to a plot ratio of 2.5 times. The mission is to create connectivity economically between culture and commerce, and socially between artists and the general public. Focusing on the notion "People is our priority", it aims to encourage Hong Kong citizens to participate actively in cultural and arts activities and promote Hong Kong as the cultural metropolis of Asia. According to the announcement made, the Government received a total of five development proposals for this project. It is anticipated that public consultation on this project will take place at the beginning of next year and the selected proponent will be invited to further detailed negotiation with the Government.

PROPERTY RENTAL

In the financial year under review, total gross rental income of the Group amounted to approximately HK$2,214 million which was similar to the previous financial year. This amount represented 33% of the total revenue of the Group. Relating to the retail shopping properties segment, the marked recovery of the local economy, the strengthening confidence of local consumer and the increasing number of visitors from Mainland China under the Individual Visit Scheme are all factors inducing increase in turnover in the local restaurant and catering industry. The large-scale retail shopping properties of the Group that are situate in the new towns and mass transportation network in particular recorded steady rise in rental, with the average annual occupancy rate maintained at a high level of 95%. The 88-storey office tower of Two International Finance Centre located in the Central District that was completed at an opportune time last year is well poised to capture the growing demand for high-quality office premises by international investment and financial institutions looking to expand their local operations. Leases which have been contracted for in respect of this new office property has now exceeded 90% of lettable space. Furthermore, the Four Seasons Hotel is currently planned for commencement of business in the middle of 2005. This will comprise 399 hotel guest rooms and 519 hotel suites and will further contribute to the steady recurrent income of the Group.

As at the end of the period under review, the total attributable gross floor area of the Group's rental property portfolio amounted to approximately 7.8 million sq.ft. In addition, the Group also owns attributable rental car-parking space of around 2.5 million sq.ft.

CONSTRUCTION AND PROPERTY MANAGEMENT

The construction arm of the Group always firmly adheres to the principle of "People is our priority" and deploys vast amount of resources to quality facilities and training of staff to ensure a safe and good working environment. Further, seminars and campaigns are being held regularly to promote continuous personal development of their staff as well as raising performance standards and safety awareness. These efforts have resulted in marked improvement in productivity and lowering of construction costs for these companies. The outcome of all these efforts are also evident from consecutive winning of the Considerate Contractor Site Award organized by the Works Bureau and the very low accident rate as compared to the industry average.

Further, these companies fully support the Construction Industry Training Authority (CITA) apprenticeship program, actively training their graduates to be the future driving force of the industry through university internship program, provide college students on-the-job training, give seminars to CITA and IVE in sharing their areas of expertise, and sit in various committees, of Hong Kong Construction Association, CITA and VTC to express their view in shaping the future of the construction industry.

Hang Yick and Well Born are wholly-owned subsidiaries of the Group which provide high-quality property management services for properties developed by the Group, and also provide services to the Housing Department as well as private housing estates. They have already been successfully accredited with certificates of ISO9001, ISO14001 and OHSAS18001. To maintain the management quality and efficiency, the Integrated Management System (IMS) has also recently been adopted. The estates managed by Well Born have obtained Hong Kong Q-Mark service certificates. By participating in the activities of vocational training, volunteer, environmental protection, Occupational Health & Safety Management System, Theme of the Year and the like, the staff quality and service level have been greatly enhanced, and the society mission has been performed. They have actively participated in various charitable activities during the 2003-2004 Year of Team Spirit and have been awarded a total of 108 public awards, which include the Grand Award - Green Property Management (Private Housing) for four consecutive years, the Employers Gold Star Award - Platinum Award for three consecutive years, the awards about Asia Pacific Customer Relationship Excellence Awards for two consecutive years, the Best Landscape Award for Private Property Development - Overall Winner in the Residential Property, the Best Landscaped Slope Awards and the Caring Company Logo.

E Man Construction

This is a well experienced in-house construction arm of the Group that recorded an average of 2,000,000 sq.ft. in completion footage in the past decade. In recent years, seminars and campaigns are being held regularly to promote continuous personal development of the staff as well as raising performance standards and safety awareness. These efforts have resulted in marked improvement in productivity and lowering of construction costs for the Group.

HENDERSON CLUB

In August 2004, Henderson Club was established by the Group to enhance the bondage between the Group and its customers. By maintaining regular and frequent communications with members of the Henderson Club as well as through the participation in the various club activities, an open platform could be built to facilitate the Group to better understand the customers' needs. This will further enable the Group to provide quality products and services to its customers. Alongside with the establishment of the Henderson Club, the Henderson Club Credit Card was launched in the form of a Visa credit card co-branded with The Bank of East Asia, Limited, offering bonus points to the members of the Henderson Club. Bonus points accumulated may be used for exchange of cash coupons, gift coupons, meal discount coupons, airline tickets, payment for long-distance phone bills as well as for health checks at appointed hospital. Further, these bonus points may also be used for payment of property management fees and monthly carparking fees for premises under the Group's management. It is believed that these benefits will be well received by customers.

HENDERSON INVESTMENT LIMITED ("HENDERSON INVESTMENT")

As at the end of the financial year, the Group held a 73.48% interest in this listed subsidiary. In the financial year ended 30th June, 2004, profit of this group amounted to HK$1,825 million, showing an increase of 17% as compared with that recorded in the previous financial year. Profit of this group was mainly generated from steady rental income and profit contributions from the three listed associates during the financial year under review. The two Newton Hotels recorded an average occupancy rate of approximately 90% during the period, a level which was significantly higher than that recorded in the previous financial year. Alongside with the recovery in the local retailing sector that was initiated by the "Individual Visit Scheme", turnover of Citistore picked up during the period under review.

China Investment Group Limited, being a 64% owned subsidiary of this group, transferred the operating and management rights of two bridges located in Tianjin to the local municipal government in the period under review. Approximately HK$104 million in profit before tax was derived in line with adjustments in the relevant accounting policy. A toll road of this company located in Fenghua, Zhejiang Province, recorded approximately HK$53 million in impairment loss on assets.

Megastrength Security Services Company Limited which is wholly owned by this group provides comprehensive professional security management services such as security guards, crisis management and contingency planning services as well as security services in shopping centres and quality

Property Management

The Group's two in-house property management subsidiaries, namely, Hang Yick Properties Management Limited and Well Born Real Estate Management Limited, currently manage over 200 properties and estates primarily developed by the Group in Hong Kong. Both of these companies have received numerous top performance awards for providing high quality property management services over the years.

hotels. Business of this company has further expanded during the period under review, and income from its operations continued to record an increase.

ASSOCIATED COMPANIES

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

36.72%-owned by Henderson Investment: Hong Kong and China Gas reported a profit of approximately HK$1,766 million for the six months ended 30th June, 2004, representing a marginal decrease of 2% as compared to that recorded in the corresponding period in the previous financial year. This was mainly because the profit during the corresponding period ended 30th June, 2003 included its share of profits arising from the sale of part of the floor areas in Two International Finance Centre to the Hong Kong Monetary Authority. Steady growth was maintained in the gas business of this company in Hong Kong, with the total number of customers increased to 1,538,751 and gas sales volume rose by 2% over the same period last year. In developing its gas business in the Mainland, this group has so far concluded piped gas joint venture projects in 26 cities covering Guangdong Province, East China, Shandong Province and Central China; these joint venture projects include two new prospects in Shunde District of Foshan in Guangdong Province and Danyang in Jiangsu Province with joint venture agreements signed this year. The business of liquefied petroleum gas filling stations that is run by a wholly-owned subsidiary of this group, ECO Energy Company Limited , currently has a market share of 30% in Hong Kong and also generates steady revenue to this group.

On the property development front, this company has a 15% interest in the International Finance Centre which is well positioned to generate recurrent income to the company. Over 90% of the shopping mall and office tower of Two International Finance Centre has been leased out. The project's six-star hotel towers to be managed by Four Seasons Hotels and Resorts, are under construction and scheduled for completion by mid-2005. In addition, it has a 50% interest in Grand Promenade, the Sai Wan Ho development project, which provides 2,020 quality residential units and expects its completion in 2005, posted satisfactory sales records since August of this year. The Ma Tau Kok South Plant site project is being developed into five residential apartment buildings that provide a total of approximately 2,000 units with gross floor area exceeding 1.1 million sq.ft. upon its completion in 2006.

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

31.33%-owned by Henderson Investment: The unaudited consolidated net profit after taxation of this company for the six months ended 30th June, 2004 amounted to HK$237 million, representing an increase of 73.3% over that recorded in the same period last year. With 480 units being sold

Miramar Hotel & Investment

43.69% owned by a subsidiary of the Group, this company owns and manages the 525-room flagship Hotel Miramar as well as the adjacent Miramar Tower with G.F.A. of 696,000 sq.ft. and the Miramar Shopping Centre of 350,000 sq.ft in G.F.A. in the busy commercial and tourist district on Nathan Road in Tsimshatsui, Kowloon.

during this period, profit from sale of residential units of Metro Harbour View remained to be the primary source of income to this company. The occupancy rate of the commercial arcade, Metro Harbour Plaza, which has taken into account of the committed tenancies, stood at approximately 79% as at the end of the period under review. With respect to the future of property development projects of this company, land premium was paid by this company during the period under review in respect of a land exchange of a site located at 222 Tai Kok Tsui Road for a new lot known as Kowloon Inland Lot No. 11159, and it will be developed into a residential-cum-commercial property with a total gross floor area of approximately 320,000 sq.ft. Foundation works will commence later. The site located at Nos. 43-51A Tong Mi Road which was acquired last year is being developed into a residential-cum-commercial property of approximately 53,000 sq.ft. in gross floor area and expected completion in late 2005. Also, this company has accepted an offer of a modification to the site at 6 Cho Yuen Street against a premium payment. This site will be redeveloped into a residential-cum-commercial property with a total gross floor area of approximately 150,000 sq.ft. Owing to the continued influx of Mainland tourists to Hong Kong, turnover of the harbour cruise operation and ferry operation increased. The Ferry, Shipyard and related Operations recorded an overall increase. The Travel and Hotel Operations also recorded a sharp reduction in loss during the period under review. It was anticipated that sale of the completed units of the Metro Harbour View project will continue to be the main contributor to the operating results of this group in the full financial year.

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

43.69%-owned by Henderson Investment: For the year ended 31st March, 2004, Miramar reported a profit of HK$250.3 million, representing an increase of 11.9% when compared to that of the previous financial year. The implementation of the Individual Visit Scheme initiated by the central government during the period under review stimulated a surge of Mainland visitors. As a result, retail markets returned to an upward trend and this proved to be directly and indirectly beneficial to this group's core businesses. Occupancy rate of Hotel Miramar not only picked up from the same period last year, its average room rates also reached their expected target levels. The rental business of Miramar Shopping Centre and the Hotel Miramar Shopping Arcade was satisfactory with their average occupancy rate reaching 85% and 97% respectively. Although the rental income of the offices in Miramar Tower decreased when compared to that of the previous year, the leasing of No. 6 Knutsford Terrace reported an average occupancy rate of 96%. Major reconstruction work on the Knutsford Steps project was completed early this year and some tenants engaged in the food and beverage business have already commenced operation. The merging of Knutsford Steps and the adjacent Knutsford Terrace is poised to transform the area into the premier dining and entertainment hub in Tsimshatsui District. During the period under review, the company continued to sell the residential land in Placer County in the United States with satisfactory profits and cash flows recorded from these transactions. With gradual improvement in the rate of deflation that brings about steady recovery of the economy in the forthcoming year, the diversified businesses of this group are expected to achieve better results in the next financial year.

International Finance Centre, Central

INTERNATIONAL FINANCE CENTRE

- 36.55% beneficially owned by the Group.
- A major commercial development that situates above the Airport Railway Hong Kong Station in the heart of the Central Business District of Hong Kong.
- Amounted to approximately 4,477,000 sq. ft. in total G.F.A..
- Consists of one 38-storey office tower and one 88-storey office tower, a 3 to 4-storey retail and entertainment complex, 918-room six-star suite hotel complex and approximately 140,000 sq. ft. open space.
- This development is being developed in phases.
- The two office towers and shopping mall are fully opened in October 2003 with steadily rising occupancy rate.
- The suite hotel complex is under construction and is scheduled to commence operation in 2005 under the management of Four Seasons Hotel.
- Well poised to become a premier retail shopping and entertainment hub in Central.

HENDERSON CHINA HOLDINGS LIMITED ("HENDERSON CHINA")

65.32%-owned by the Group: For the financial year ended 30th June, 2004, Henderson China recorded profit attributable to shareholders of approximately HK$16 million. Sale of units of the Skycity project, Everwin Garden and Comfort Mansion in Shanghai, Heng Bao Garden in Guangzhou as well as Phases VIII and IX of Lexi New City, Panyu that were earlier completed by this group were the main contributing sources of revenue to this group. On the progress of project development, a development site of this group located at 210 Fangcun Avenue, Guangzhou, has commenced construction work during the period under review and this site will be developed as a project comprising nine high-rise residential towers and a retail shopping podium. This project will provide approximately 2.6 million sq.ft. in total gross floor area upon completion. In addition, the development site that is situate at 130-2 Heng Feng Road, Zhabei District in Shanghai, is scheduled to commence work in the near future for development of an office tower which will provide approximately 512,000 sq.ft. in development gross floor area. On the rental property front, the rental space in Beijing Henderson Centre office tower recorded 80% in average occupancy rate. The retailing business operated under the joint name of "Henderson-Yan Sha" has opened for business within the shopping podium of Beijing Henderson Centre since this May and it is expected that the opening of this department store will bring about an increase in the occupancy rate of the shopping podium. The office tower in the Shanghai Skycity project recorded 86% in average occupancy rate whilst the commercial podium in the project was fully let. The retail commercial podium within the Heng Bao Plaza that is located above the Changshou Road Station of the Guangzhou Metro Line recorded an average occupancy rate of around 50%. During the same period, this group actively planned for the pre-leasing of the Office Tower II of the Grand Gateway project in the Xuhui District of Shanghai.

During this time as stringent property development control measures are being adopted by government authorities in the Mainland, this group will take various appropriate steps to proceed with development of those project sites that possess approved development plans in hand. Upon completion of the Office Tower II of the Grand Gateway project in Shanghai next year, total footage of the investment property portfolio of this group will show a substantial increase. In the meantime, efforts are currently made by this group to expedite construction work on the project situate at Fangcun Avenue in Guangzhou with the aim to complete this project by the end of 2006 and it is anticipated that this project will bring in subtantial sales revenues to this group.

Heng Bao Garden, Li Wan District, Guangzhou

Total G.F.A.: Approx. 2,191,000 sq.ft.; 65.32% owned by the Group.
Situates right above the Changshou Road Station of the Guangzhou Metro Line One, this large-scale development project was completed in June 2001. The 7 residential towers were almost sold out, and the 5-storey shopping podium with caparking facilities underneath is retained by the Group for rental purpose.

HENDERSON CYBER LIMITED ("HENDERSON CYBER")

66.67%-owned by Henderson Investment: Henderson Cyber reported a turnover of approximately HK$87 million for the financial year ended 30th June, 2004 which was generated mainly from the retailing business, representing an increase of 4.3% compared to that registered in the previous financial year. During the period under review, the main focus of this company was to further implement its strategies in the Internet services, data centre, high technology and network infrastructure businesses. The iCare Internet-on-TV Set-Top Box subscribers, ISP users, ICP users, IDD subscribers and iCare Club members grew to a total of about 407,000 by the end of June, 2004. The loss attributable to shareholders for the financial year ended 30th June, 2004 was recorded at HK$17.8 million, similar to that of the previous financial year. After assessing the prospects of its fixed telecommunications network services ("FTNS"), the Company disposed of its entire interest in Cotech Investment Limited which operated the FTNS business during the period under review.

CORPORATE FINANCE

The Group has always adhered to prudent financial management principles. During the period under review, funding was raised by the Group through a few channels. These include a share placement that took place in October 2003 whereby the shareholders' funds of the Group was increased by almost HK$3 billion. Further, in February 2004, issuance of convertible notes in the amount of HK$5.75 billion was concluded which provided additional corporate funding to the Group. In view of the historically low interest rate environment in Hong Kong, the Group capitalized on the favourable loan market condition in mid-September, 2004 to lengthen the loan maturity profile of the Group at extremely attractive medium-term borrowing interest margin by entering jointly with Henderson Investment into a HK$10 billion credit facility that consists of a 5-year and a 7-year tranche in equal amount. Taking the form of a revolving credit, this sizeable financial arrangement will offer optimal flexibility in funding the future land replenishment programme and business expansion of the Group. This syndicated credit facility is participated by 23 international banks from Hong Kong as well as from nine countries and its successful conclusion fully demonstrated the support and confidence that the banking community has placed in the Group. In addition, the Group has abundant amount of bilateral banking facilities which are predominantly denominated in Hong Kong Dollars. As a result, the Group's exposure to foreign exchange risk is therefore extremely low. Other than hedging the foreign exchange rate risk or interest rate risk of the Group, the Group does not make use of any derivative instruments for speculative purpose.

Lot No. 2860 in DD130, Lam Tei, Tuen Mun

Total G.F.A.: Approx. 836,000 sq.ft.; 100% owned by the Group.

The development comprises 12 residential towers and was completed in September 2004.

Prospects

With recovery of the local economy, business environment has shown marked improvement with increase in activities recorded in the local investment and capital markets. The signing of the second phase of the Closer Economic Partnership Arrangement ("CEPA") between Mainland China and Hong Kong as well as the recent implementation of policies by the central government to facilitate outward investment by enterprises of the Mainland to invest in Hong Kong and Macau have brought about continued increase in demand for office properties as well as luxurious residential units in Hong Kong. Furthermore, Hong Kong Government implemented consistent measures aiming to stabilize the local property market and discontinued with the old Landlord and Tenant (Consolidation) Ordinance resulting in lesser restrictions being imposed on the landlords upon residential lease renewals. In addition, 95% financing arrangement offered by Hong Kong Mortgage Corporation Limited in a period of sustained low interest have added impetus to secondary trading activities in the property market. All these cumulate to encourage and facilitate home owners to upgrade their residential units as well as investors to purchase residential properties for rental income purpose. Under these conditions, overall demand for local properties will increase as a result and this will further lend support to an upward trend in property prices.

Matching with the favourable conditions in the marketplace, the Group adopted a new marketing approach in promoting the pre-sale of the Grand Promenade, thereby attaining satisfactory results both in sales price and sales volume terms for this residential project. The successful launch of this project also became a contributing factor to the recent revival of an active market. In addition, the pre-sale launch of the Beverly Hills project in Tai Po is also currently being planned and this project will provide a total of 535 luxurious villas. Other residential projects which are currently being planned for pre-sale include the developments situate at 108 Hollywood Road located in Hong Kong, 38 New Pier Street in Kowloon as well as those projects which are located in the New Territories being 18 Ching Hiu Road in Sheung Shui and 8 Fuk Hang Tsun Road at Lam Tei in Tuen Mun, amongst others. These projects will totally provide approximately 8,000 quality residential units in aggregate, with around 3 million sq.ft. being attributable to the Group. As the majority of these projects were acquired at relatively low cost, it is anticipated that these developments will bring good return to the Group.

Under the circumstance that consumer spending shows a recovery in Hong Kong, the Group has made an orderly plan to refurbish the major retail shopping properties owned by the Group in order to raise occupancy rates and rental levels. The first group of such retail shopping properties to be refurbished are aimed to match up well with the commissioning of the new KCRC Ma On Shan Line and the West Rail which are scheduled for completion by the end of 2004 and these include the Shatin Plaza and the Trend Plaza. Moreover, the Group also plans to upgrade the tenant mix of the various major retail shopping properties in order to attain higher rental income. As for the grade A office properties of ifc One and ifc Two of the International Finance Centre project rental income has recently also shown an increase, in light of growing shortage in this segment. Further, ifc Mall which occupies a gross floor area of 640,000 sq.ft. has already emerged as a new shopping and gathering place and it is anticipated that its occupancy rate will also show a further increase.

The Group owns almost 8 million sq.ft. in quality investment properties and these provide a base to bring about growth in its recurrent income. Furthermore, strategic investments held in the listed associate companies of the Group which include The Hong Kong and China Gas Company Limited, Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited also provide as a solid foundation for growth in the Group's stable recurrent income. It is anticipated that the recurrent income of the Group as well as profit contribution from the Group's property development business will, in the absence of unforeseen circumstances, bring about performance of the Group to show substantial growth in the coming financial year.

Finally, I would like to take this opportunity to express my deep appreciation of the leadership of the Board of Directors as well as the hard working attitude and good performance of all the staff members in the past financial year.

Lee Shau Kee
Chairman

Hong Kong, 23rd September, 2004

West Kowloon Cultural District Project

The Group has in the middle of 2004, on its own as a proponent, submitted a proposal to the Hong Kong Government for development of the West Kowloon Cultural District project. The plan recommends the development of approximately 10,800,000 sq.ft. in total gross floor area. It is anticipated that public consultation on this project will take place at the beginning of next year and the selected proponent will be invited to further detailed negotiation with the Government.