



## Profit and Turnover

The Group's consolidated net profit after taxation and minority interests for the financial year ended 30th June, 2004 amounted to HK\$1,825 million, representing an increase of 17% over the amount restated in the previous financial year after adoption of revised accounting standard. Turnover of the Group during the period under review increased by 6% to HK\$1,256 million as compared to that recorded in the previous financial year.

## Dividends

Your Board recommends the payment of a final dividend of HK\$0.12 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\$0.23 for the full year, including the interim dividend of HK\$0.11 per share already paid, represents an increase of 5% over the total distribution in the previous year. Warrants for the final dividend will be sent to shareholders on 8th December, 2004.

## 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 1.96 million sq.ft. Total gross rental income of the Group amounted to approximately HK\$627 million, similar to that recorded in the previous financial year. During the period under review, the local economy has been

Dr. Lee Shau Kee, Chairman  
and Managing Director



able to sustain steady growth as from the beginning of 2004. Favourable news on the local property market emerged one after another and these include the notable recovery of the retailing sector, gradual decline in unemployment rate and the reversal of the deflationary condition in Hong Kong. The average annual occupancy rate of the investment properties held by the Group was maintained at 93% during the financial year under review, with upward trend observed in rental rates.

#### HOTEL & RETAILING OPERATIONS

During the period under review, as the tourist industry in Hong Kong benefited from the "Individual Visit Scheme" and the "Closer Economic Partnership Arrangement" of the central government in the Mainland, the average occupancy rate of the Group's two Newton Hotels rose significantly to approximately 90% when compared to that registered in the previous financial year. The hotel operations of the Group thus managed to return to profit in the financial year under review.

As for the retailing operation of the Group that was conducted through a total number of the six outlets of Citistore department stores, turnover showed an increase as compared to that of the previous financial year amidst a buoyant retailing market and rising consumer spending. Profit of this operation on the whole recorded a significant increase.

#### 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\$242 million and HK\$172 million respectively, showing an increase when compared to those levels which were recorded in the previous financial year. During the period under review, this company transferred the operating and management rights of two toll bridges located in Tianjin to the local municipal government, and approximately HK\$104 million in profit before tax was thus derived in line with adjustments in relevant accounting policy. A toll road of this company located in Fenghua, Zhejiang Province, however, recorded approximately HK\$53 million in impairment loss on assets.

#### SECURITY SERVICES

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 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 the Group: 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 the Group: 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 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



Shatin Centre, Shatin, New Territories



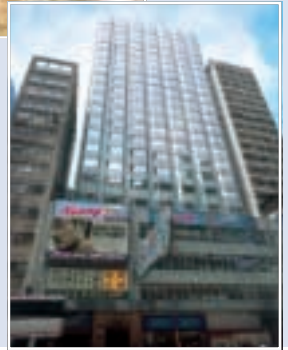
Eva Court, Mid-levels, Hong Kong



Hollywood Plaza, Mongkok, Kowloon



Fanling Centre, Fanling, New Territories



Kowloon Building, Mongkok, Kowloon

**INVESTMENT PROPERTIES OF THE GROUP**

The Group holds a diversified portfolio of rental properties that are mainly located in different parts of Hong Kong where pedestrian traffic is heavy and mass transportation network is in close vicinity. The portfolio has 1.96 million square feet in total attributable gross floor area and includes the following properties:

- **Shatin Centre** — 94.4%-owned shopping podium of approx. 100,000 sq. ft. in total G.F.A..
- **Eva Court** — 100%-owned luxurious residential building of approx. 108,000 sq. ft. in total G.F.A..
- **Hollywood Plaza** — 33.33%-owned office-cum-retail property of approx. 294,000 sq. ft. in total G.F.A..
- **Fanling Centre** — 23.04%-owned retail shop plaza of approx. 152,000 sq. ft. in total G.F.A..
- **Kowloon Building** — 100%-owned office-cum-retail property of approx. 113,000 sq. ft. in total G.F.A..

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.

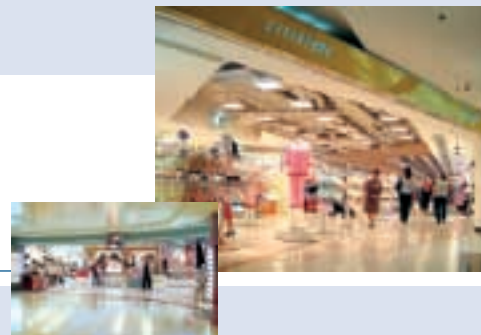
**Miramar Hotel and Investment Company, Limited ("Miramar")**

43.69%-owned by the Group: 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.

**Citistores**

The Group operates 6 Citistores that are respectively located in Tseung Kwan O, Tsuen Wan, Tuen Mun, Yuen Long, Ma On Shan and Tsimshatsui. Shown in the pictures are the external views of the Citistores located at Ma On Shan and Tseung Kwan O, N.T.





**MIRAMAR HOTEL AND INVESTMENT**

*(43.69% owned by the Group)*

- This company owns and manages the 525-room flagship Hotel Miramar that is located at the heart of the tourist area in Tsimshatsui, Kowloon.
- It also holds for long term investment purpose an office tower known as Miramar Tower and a shopping podium Miramar Shopping Centre which have approximately 696,000 sq. ft. and 350,000 sq. ft. respectively, in total G.F.A. terms.
- Of recent, the merging of Knutsford Steps and the adjacent No. 6 Knutsford Terrace is poised to transform the area into the premier dining and entertainment hub in the Tsimshatsui District in the foreseeable future.



**HENDERSON CYBER LIMITED ("HENDERSON CYBER")**

66.67%-owned by the Group: 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 operate the FTNS business during the period under review.

**CORPORATE FINANCE**

The Group has always adhered to prudent financial management principles. Recently, however, in view of the historically low interest rate environment in Hong Kong, the Group capitalized on the current favourable loan market condition in mid-September, 2004 to lengthen the loan maturity profile of the Group at extremely attractive medium-term borrowing interest margins by entering jointly with Henderson Land Development Company Limited into a HK\$10 billion credit facility that consists of a 5-year and a 7-year tranche in equal amounts. Taking the form of a revolving credit, this sizeable financial arrangement will offer optimal flexibility in funding the major investments and business expansion of the Group in future. 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.

**Prospects**

With recovery of the local economy, business environment has shown marketed 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 the "Outward Investment Facilitation Policy For Mainland Enterprises To Invest In Hong Kong and Macau" by the central government in the Mainland which results in simplification of cross-border investment procedures have brought about increase in demand for office properties and luxurious residential units in Hong Kong.

With the local government taking an active role to put in place appropriate policies and measures aimed at matching up the newly set policies of the central government in promoting the business activities in the commercial sector in Hong Kong, it is anticipated that this will result in sizeable increase in tourist arrivals and substantial increase in investment generating from incoming enterprises in Mainland China and these will all benefit the

local hotel, retailing and catering business operations of our Group. The various types of investment properties held by the Group, which include large-scale retail shopping properties, office and commercial industrial properties, are all located close to mass transportation network with heavy pedestrian traffic and the occupancy and rental rates have always been maintained at relatively stable level.

Moreover, contributions to profits from the listed associated 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 will provide a steady and recurrent source of profit to the Group. In the absence of unforeseen circumstances, it is anticipated that the performance of the Group will show a satisfactory increase in the coming financial year.

**Lee Shau Kee**

Chairman

Hong Kong, 23rd September, 2004

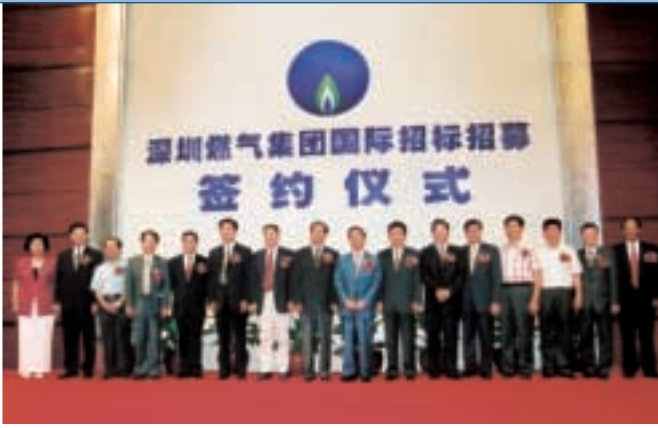
**Newton Hotel Hong Kong & Newton Hotel Kowloon**

Wholly-owned and operated by the Group. These two medium-tariff hotels totally provide 538 guest rooms.





LISTED ASSOCIATE  
Hong Kong and China Gas



Signing Ceremony – Towngas' city piped gas project framework agreement with Shenzhen Gas Corporation



ECO – Liquefied Petroleum Gas Filling Station





A Residential-cum-Commercial Development Project  
Ma Tau Kok South Plant Site



Grand Promenade, Sai Wan Ho, Hong Kong

**HONG KONG & CHINA GAS**

(36.72% owned by the Group)

**Gas Supply Operation**

- 1,538,751 customers in Towngas supply business in Hong Kong.
- 26 cities in Mainland China with piped gas JV projects already concluded.
- 30% market share attained for its ECO - liquefied petroleum gas filling stations.

**Property Development Projects**

- Its 15%-owned International Finance Centre project above the Airport Railway Hong Kong Station is held for investment.
- Its 45%-owned King's Park Hill located in Ho Man Tin, Kowloon, is a luxurious townhouse development project currently under sale.
- The 50%-owned Grand Promenade in Sai Wan Ho, Hong Kong, has successfully launched a pre-sale campaign in August 2004. It will provide 2,020 luxurious residential units upon its scheduled completion in mid-2005.
- The Ma Tau Kok South Plant Site is being developed into five residential buildings with approximately 2,000 units. Completion is expected in 2006.