CHAIRMAN'S STATEMENT

Profit and Turnover

The Group's consolidated net profit after taxation and minority interests for the year ended 30th June, 2005 amounted to HK$10,854 million with the early adoption of the Hong Kong Accounting Standard 40 and HK(SIC) Interpretation 21, representing an increase of 76% over the corresponding restated profit figure in respect of the financial year ended 30th June, 2004. The turnover of your Group decreased by 13% from that of the previous financial year and amounted to HK$5,833 million. If the effects arising from revaluation of investment properties were not to be taken into account, the consolidated net profit after taxation and minority interests for the year ended 30th June, 2005 amounted to HK$4,375 million, representing an increase of 43% over the corresponding figure in respect of the previous financial year.

Dividends

Your Board recommends the payment of a final dividend of HK$0.60 per share to shareholders whose names appear on the Register of Members of the Company on 5th December, 2005. The total distribution per share of HK$1.00 for the full year, including the interim dividend of HK$0.40 per share already paid, represents an increase of 11% over the total distribution in the previous year. Warrants for the final dividend will be sent to shareholders on or before 7th December, 2005.

Business Review

PROPERTY MARKET

During the financial year under review, sustained buoyancy in the economic conditions of Hong Kong that is conducive to commercial investment had given rise to the expansion of business by both

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

Dr. Lee Shau Kee
Chairman and Managing Director

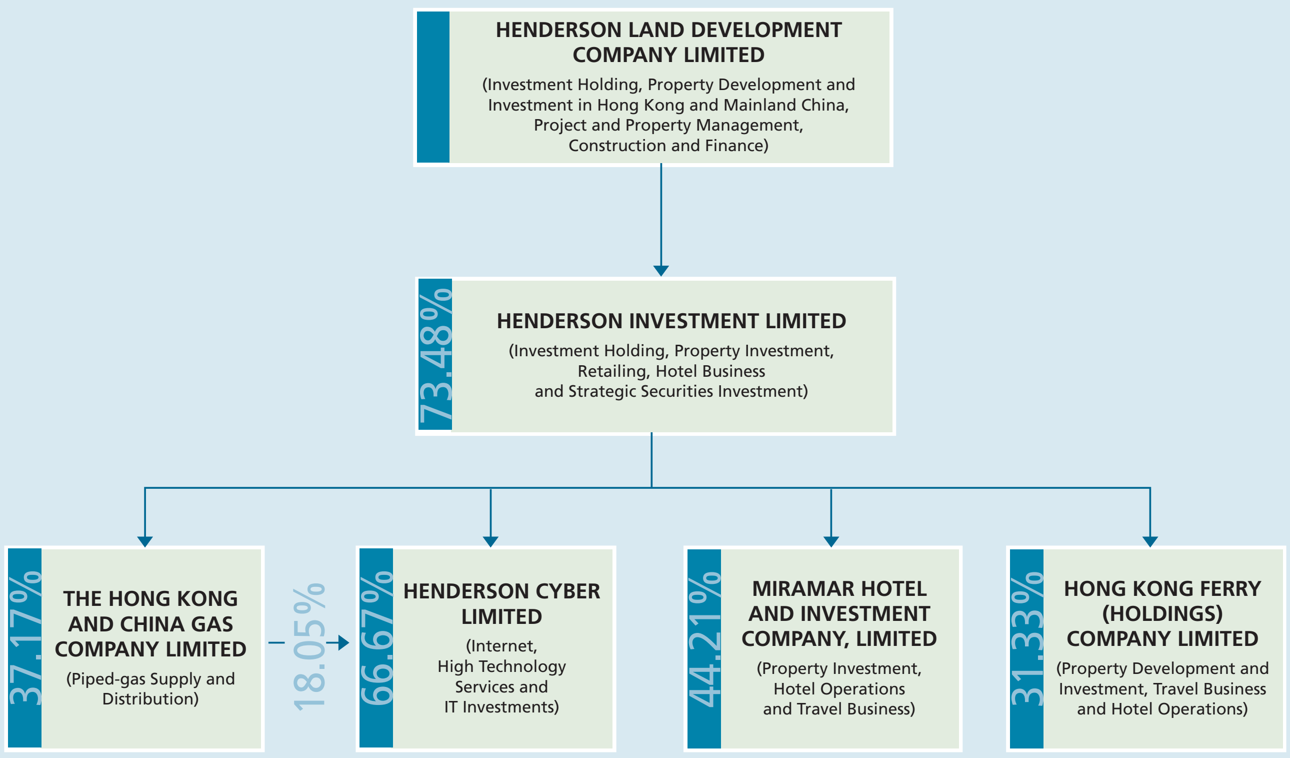
(All percentage shareholdings shown below were figures as of 28th September, 2005)

HENDERSON LAND GROUP STRUCTURE

Market Capitalisation as at 28th September, 2005

Henderson Land Development Company Limited : HK$69Bn.

Six Listed Companies of Group : HK$201Bn.



domestic and foreign enterprises as well as significant growth in investment activities. The Hong Kong property market was generally active and marked increase in local property prices had been recorded as compared to the sale prices of last year. This situation is particularly notable in the high-end residential property sector as the sales price per square foot of luxurious residential properties in a number of projects reached their highest level since last recorded in 1997. During the financial year under review, the Group recorded total sale of around 3,300 property units from which approximately HK$6,810 million was generated from sales revenues attributable to the Group. These projects mainly include the Grand Promenade, Royal Peninsula, Splendid Place, King's Park Hill and Phase 2 of the Metro Harbour View.

DEVELOPMENT PROJECTS COMPLETED

The following development projects were completed during this financial year:

	Location	Site Area (sq.ft.)	Gross Floor Area (sq.ft.)	Land-Use Purpose	Group's Interest (%)	Group's Interest Gross Floor Area (sq.ft.)
HONG KONG						
1	International Finance Centre — Hotel Complex	614,700 (Note 1)	1,100,619	Hotel/ Suite Hotel	36.59	402,716
2	Park Central — Phase 3 (Central Heights)	39,148	319,066	Commercial/ Residential	25.00	79,766
3	8 Fuk Hang Tsuen Road, Tuen Mun (The Sherwood)	396,434	836,868	Commercial/ Residential	100.00	836,868
4	50 Tan Kwai Tsuen, Yuen Long	54,487	54,487	Residential	100.00	54,487
5	18 Ching Hiu Road, Sheung Shui (Royal Green — Phase 1)	97,133 (Note 2)	320,262	Residential	45.00	144,118
6	38 Tai Hong Street, Sai Wan Ho (Grand Promenade — Towers 2, 3 & 5)	131,321 (Note 3)	846,254	Residential	63.65	538,641
						2,056,596

Note 1: The site area for the whole of International Finance Centre is 614,700 sq.ft.

Note 2: The site area for the whole of Royal Green is 97,133 sq.ft.

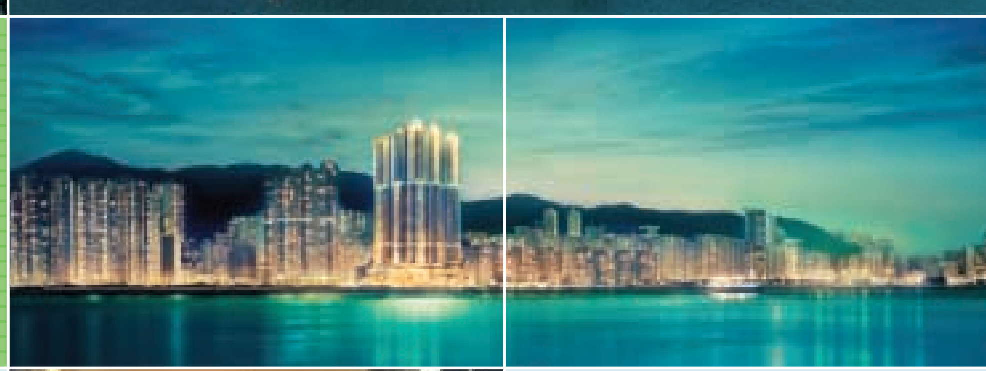
Note 3: The site area for the whole of Grand Promenade is 131,321 sq.ft.

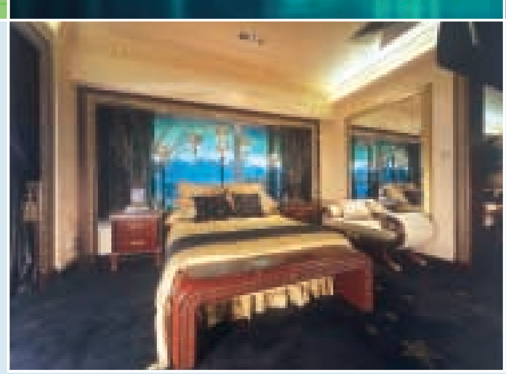
The Sherwood, Tuen Mun
Total G.F.A.: Approx. 836,000 sq.ft.; 100% owned by the Group.
This residential-cum-commercial development comprises 12 residential towers which was completed in September 2004.

PROJECTS UNDER PRE-SALE & SALE

	Location	Site Area (sq.ft.)	Gross Floor Area (sq.ft.)	Land-Use Purpose	Group's Interest (%)	No. of Units Unsold & Pending Sale As At Financial Year End	Approximate Gross Floor Area Of Remaining Unsold Units (sq.ft.)
Completed property units pending sale:							
1	28 Lo Fai Road, Tai Po (Casa Marina I)	283,200	226,561	Residential	100.00	48	164,667
2	1 Lo Ping Road, Tai Po (Casa Marina II)	228,154	182,545	Residential	100.00	48	145,849
3	1-98 King's Park Hill Road (King's Park Hill)	168,392	241,113	Residential	62.28	40	94,433
4	3 Seymour Road (Palatial Crest)	17,636	185,295	Commercial/ Residential	63.35	27	33,034
5	8 Hung Lai Road (Royal Peninsula)	162,246	1,478,552	Residential	50.00	45	52,803
6	99 Tai Tong Road, Yuen Long (Sereno Verde & La Pradera)	380,335	1,141,407	Residential	44.00	14	12,355
7	933 King's Road (Royal Terrace)	16,744	138,373	Commercial/ Residential	100.00	59	43,578
8	Tseung Kwan O Town Lot Nos. 57 and 66 (Park Central - Phases 1 & 2)	359,883	2,932,813	Commercial/ Residential	24.63	58	48,216
9	8 Fuk Lee Street (Metro Harbour View - Phases 1 & 2)	228,595	1,714,463	Residential	73.02	371	209,278
10	3 Kwong Wa Street (Paradise Square)	17,297	159,212	Commercial/ Residential	100.00	68	43,647
11	38 Tai Hong Street, Sai Wan Ho (Grand Promenade)	131,321	1,410,629	Residential	63.65	575	592,823
12	39 Taikoo Shing Road (Splendid Place)	10,405	86,023	Commercial/ Residential	75.00	15	10,180
13	Park Central - Phase 3 (Central Heights)	39,148	319,066	Residential	25.00	223	202,932
14	18 Ching Hiu Road, Sheung Shui (Royal Green - Phase 1)	97,133	320,262	Residential	45.00	481	346,857
					No. of Units:	**2,072**	**2,000,652**

Grand Promenade, Sai Wan Ho





GRAND PROMENADE

- 63.65% 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 in the traffic concourse of the eastern part of the Hong Kong Island and on the waterfront of the north-eastern part of the Victoria Harbour.
- Amounted to approximately 1,410,000 sq. ft. in total G.F.A..
- Mainly consists of five high-rise residential towers ranging from 55 to 58-storey, providing a total of 2,020 quality residential units, and car parking facilities.
- Enjoys unblocked panoramic view of different angles of the Victoria Harbour.
- Easy access to a wide range of public transportation services.
- Well received by buyers since its pre-sale launch in August 2004.
- The entire project was completed in August 2005.

	Location	Site Area (sq.ft.)	Gross Floor Area (sq.ft.)	Land-Use Purpose	Group's Interest (%)	No. of Units Not Yet Offered For Sale & Units Under Construction	Approximate Gross Floor Area (sq.ft.)
Developments not yet offered for sale and projects currently under construction which may be offered for pre-sale:							
1	108 Hollywood Road and 1-17 Bridges Street (CentreStage)	26,903	276,846	Commercial/ Residential	100.00	388	276,846
2	18 Ching Hiu Road, Sheung Shui (Royal Green - Phase 2)	97,133	165,405	Residential	45.00	282	165,405
3	250 Shau Kei Wan Road (Scenic Horizon)	6,808	54,810	Commercial/ Residential	18.13	100	54,810
4	1 High Street	7,958	63,633	Residential	100.00	95	63,633
5	San Ma Tau Street, To Kwa Wan (The Grand Waterfront)	130,523	1,109,412	Residential	46.93	1,782	1,109,412
6	8 Fuk Hang Tsuen Road, Tuen Mun (The Sherwood)	396,434	836,868	Commercial/ Residential	100.00	1,576	836,868
7	Tai Po Town Lot No. 161 sea view villas	982,194	1,164,111	Residential	90.10	535	1,164,111
8	50 Tan Kwai Tsuen, Yuen Long	54,487	54,487	Residential	100.00	119	54,487
					No. of Units:	**4,877**	**3,725,572**
					Total Saleable Units:	**6,949**	**5,726,224**

CentreStage, Central
Total G.F.A.: Approx. 277,000 sq.ft.; 100% owned by the Group.
This site is being developed into two residential towers. The entire development is expected to be completed in mid-2006. Pre-sale launch is in progress and recorded satisfactory sale results.

LOCAL LAND BANK

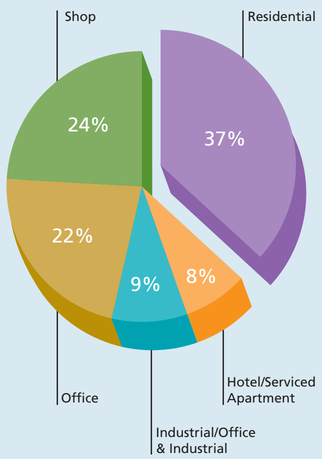
During the period under review, the Group actively increased the acquisition of agricultural land with high development potential and acquired agricultural land lots with total land area amounting to over 4.3 million sq.ft. At the same time, the Group continued to make applications for land-use conversion of its agricultural land sites and also carried on negotiations with the Government for fixing the land premium in respect of certain agricultural conversion sites, aiming to increase development sites for the Group at relatively low costs.

The Group also made full payment for land-use modification premium in respect of several development land lots which include the office development site that is situate at Wai Yip Street in Kowloon which is currently being developed into an intelligent commercial building to be fitted and equipped according to the latest design specifications in the Kwun Tong District, providing approximately 1 million sq.ft. in attributable gross floor area. Two other sites also located in Kowloon at Prince Edward Road East and Sheung Hei Street in the San Po Kong District are also planned to be developed for office usage with approximately 340,000 sq.ft. in total attributable gross floor area.

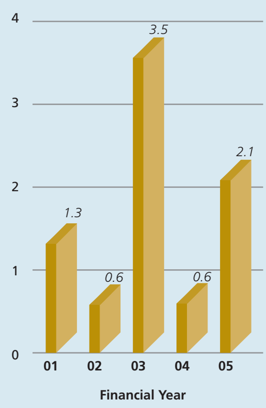
The residential property development site situate at Fanling Sheung Shui Town Lot No.189 in Ng Uk Tsuen in the New Territories, for which the attributable development floor area has now been increased to approximately 220,000 sq.ft., is currently being built into a residential development. Further, the Group acquired additional land lots adjacent to the existing project site situate at Fanling Sheung Shui Town Lot No. 229 also in Ng Uk Tsuen and the gross floor area of this residential project, which is currently under construction, will now be increased to approximately 210,000 sq.ft. in total.

Land premium payment in respect of another site of the Group situated at Wai Yip Street in Kwun Tong, Kowloon, which will provide approximately 230,000 sq.ft. in attributable gross floor area, is expected to be finalised within the next few months. This site will be developed into a hotel with 555 guest rooms. The two sites located at Hung To Road in Kwun Tong and another site situate at Tai Yau Street in San Po Kong, which will in aggregate provide 390,000 sq.ft. in attributable gross floor area, are planned for the development as modern industrial / office buildings for which payments of land premium are not required.

Usage of Land Bank & Investment Properties



Annual Completion
(GFA in million sq.ft.)



Further, the area where the Group's site in Wu Kai Sha is located in the Shatin District had been approved by the Town Planning Board for a Comprehensive Development Area zoning, carrying a maximum permitted plot ratio of 3 times. It will allow this site to be built to approximately 3.5 million sq.ft. in total gross floor area and the Group has already submitted an application to the Government for land-use change as well as land exchange to be granted for this development site. The Group has also submitted application to the Government for land exchange in respect of the agricultural land lots situate at Tai Tong Road, Yuen Long. It is anticipated that the developable gross floor area of this site will amount to approximately 1.51 million sq.ft. Application has also been made to the Government for land exchange in respect of the land lots located in Lam Tei, Tuen Mun which will provide approximately 57,000 sq.ft. in attributable gross floor area to the Group. Also, the Group acquired land lots in Wo Sang Wai, Yuen Long and application is currently being made for the development of this site into a low-density residential project of approximately 840,000 sq.ft. in gross floor area. The Group has also submitted applications to the Town Planning Board for land-use conversion in respect of agricultural land lots totally of approximately 1.7 million sq.ft. in land area which are located at Ma Sik Road in Fanling. Assuming that approval will be granted for a maximum permitted plot ratio of 4 times, these sites will be developed into projects amounting to approximately 6.8 million sq.ft. in total gross floor area.

During the period under review, the Group acquired a site located at 33 Lai Chi Kok Road that can be developed into a commercial-cum-residential project with a total gross floor area of 84,000 sq.ft. Also, the Group acquired a residential site situate at 590-596 Canton Road, Kowloon and this site will be combined with an existing site of the Group to be developed into a project of approximately 34,000 sq.ft. in total gross floor area. Further, four floors of an office building located at 9 Queen's Road, Central with a total gross floor area of approximately 55,000 sq.ft. were acquired by the Group.

As at the end of the financial year under review, the total local land bank attributable to the Group amounted to approximately 17.5 million sq.ft. in gross floor area. In addition, the Group possesses the largest agricultural land holdings amongst all property developers in Hong Kong and owns agricultural land lots of approximately 26.8 million sq.ft. in terms of total land area. It is anticipated that, over the next few years, agricultural land lots of the Group which will be converted into development sites will, on average, amount to around 3 million sq.ft. in gross floor area each year.

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 about 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.

During the period under review, the Group also entered into an agreement to jointly develop a waterfront site of approximately 1.45 million sq.ft. in land area in Macau and application has been made for conversion of the land usage of this site. Whilst the total development footage of this project is yet to be determined, it is anticipated that approval for land-use conversion of this site will be forthcoming in the next financial year.

WEST KOWLOON CULTURAL DISTRICT PROJECT

Under the name of World City Culture Park Limited, the Group had 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. Public consultation on this project conducted by the Government was completed in the middle of this year. The mode to be adopted for development of this project is currently under review by the Government. The proposal submitted by the Group carries the lowest plot ratio amongst the proposals submitted by the three proponents and a total development gross floor area of approximately 10.8 million sq.ft. was proposed by the Group.

PROPERTY RENTAL

In the financial year under review, total gross rental income of the Group amounted to approximately HK$2,299 million which represented stable improvement as compared with the corresponding period of the previous financial year. This amount represented approximately 39% of the total revenue of the Group. With sustained recovery of the local economy, marked improvement in consumer spending and increasing tourist arrival from Mainland China, these led to the expansion of certain local retail trades including cosmetics, audio-visual products and jewelry which in turn boosted the demand for retail shop spaces. The large-scale retail shopping properties of the Group are mostly situate in locations within reach of the comprehensive mass transportation network and these investment properties recorded satisfactory increment in rental due to increased sales generating from the large inflow of shoppers coming from other districts. In addition, the quality office buildings of the Group also enjoyed double-digit percentage increase in rental. The average occupancy rate of the core investment properties of the Group was maintained at a high level of 96%. Both the shopping mall and office towers of International Finance Centre, which is now well-established as a prime landmark in Hong Kong, has almost been completely leased out. Further, double-digit percentage growth in sales volume were also recorded for most of the shop tenants of IFC for the period under review and this brought about additional income to the Group by way of a higher level of turnover rent. Furthermore, the Four Seasons Hotel which comprises 399 hotel guest rooms and 519 hotel suites commenced operations in early September and this will result in further increase in recurrent income contribution to 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 8 million sq.ft. In addition, the Group also owns rental car-parking spaces which in aggregate amounted to around 2.5 million sq.ft. in attributable gross floor area.

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. per annum in completion footage in the past decade. In recent years, vast amount of resources are being deployed for continuous staff training and upgrades of construction technology and project management system as well as raising performance standards and awareness of environmental protection and occupational safety. These efforts have resulted in marked improvement in productivity and lowering of construction costs for the Group.

CONSTRUCTION AND PROPERTY MANAGEMENT

The construction arms of the Group, namely E Man, Heng Tat, Heng Shung and Heng Lai firmly believe that their people are the most valuable asset to these companies, with their passion to evolve, progress and excel in the passage of time. Vast amount of resources are being deployed for continuous staff training and upgrades of its construction technology and project management system. In addition, the companies have worked to raise awareness of environmental protection and occupational safety and to pursue the highest standards in each and every project in enhancing productivity and containing construction cost.

For three consecutive years, these companies had won the Considerate Contractor Site Award organized by the Works Bureau and the prestigious Quality Building Award organized by the eight professional bodies of the industry in respect of the recently completed IFC2 development.

Hang Yick and Well Born are wholly-owned subsidiaries of the Group which aim to provide quality property management services for residential estates, offices, industrial buildings, shops as well as car parks developed by the Group. Management services are also extended to other private properties and public housing sectors. The two companies have been accredited with ISO9001, ISO14001, OHSAS18001 and are currently adopting the Integrated Management System (IMS) in order to lift up quality, efficiency and effectiveness. In particular, all properties under the management of Well Born are accredited with Q-Mark Certificate.

Hang Yick and Well Born act proactively to team up staff members through on-the-job training, volunteer services, environmental protection trainings, safety and health activities to enhance staff quality, management service and sense of social responsibility to the needy groups in the society. As a result, 144 awards were granted to the management team of the Group. The public organizations this year and these awards include Employers Gold Star Award (Platinum Award); Caring Employers Honourable Award; Highest Member of Service Hour Award (Gold Award for Volunteer Service 2003); Caring Company Logo; and Outstanding Partnership Project Award. Well Born was granted the Good People Management Award for two consecutive years and Customer Relationship Excellence Award (Asia Pacific) for three consecutive years. Following the successful launch of Year of Team Spirit in 2004, the annual theme of year 2005 is entitled the Year of Integrity so as to propagate the corporate value of the Group.

HENDERSON CLUB

In August 2004, Henderson Club was launched by the Group to enhance communication between the Group and its customers. Alongside with the establishment of the Henderson Club, the Henderson Club Credit Card was launched in the form of Visa credit card co-branded with The Bank of East Asia, Limited, offering privileges and bonus points to the members of the Henderson Club. Following a series of promotional programmes on membership application put in place by the Group, these initiatives were met with good market response, with membership numbers continuing to show an increase. In addition, Henderson Club will review its offerings on a regular basis with a view to delivering more offerings and activities to its members for allowing the development of closer relationship with its members, thereby offering better services to the various customers of the Group.

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, 2005, profit of this group amounted to HK$3,505 million, showing an increase of 65% 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. Newton Hotel Hong Kong and Newton Hotel Kowloon recorded an average occupancy rate of 80% during the period under review. Alongside with the recovery in the local retailing sector that was initiated by the "Individual Visit Scheme", turnover of Citistore continued to increase during the period under review.

China Investment Group Limited, a 64%-owned subsidiary of Henderson Investment that is engaged in the toll-bridge and toll-road joint venture operations in Mainland China, continued to make contributions to this group's recurrent income stream. Operations relating to the infrastructure segment made approximately HK$152 million in profit contribution to this group during the financial year under review.

Megastrength Security Services Company Limited is wholly-owned by this group and provides professional security services including the provision of security guards to commercial, residential and construction sites, event security services, security systems design and installation, 24-hour alarm monitoring services, patrol services and security consultancy services covering crisis management, contingency planning and technical surveillance counter measures. Megastrength currently offers quality professional security services both to Group and non-Group customers. Satisfactory operational performance as well as good business reputation are enjoyed by this subsidiary of this group.

ASSOCIATED COMPANIES

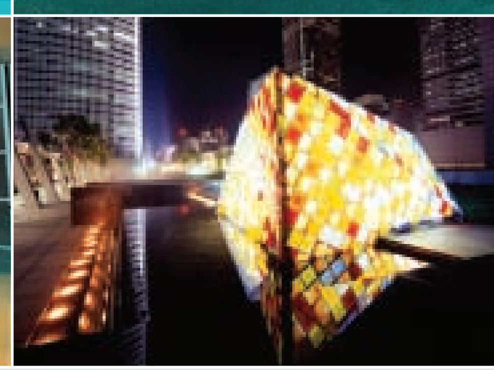
The Hong Kong and China Gas Company Limited ("Hong Kong and China Gas")

37.15%-owned by Henderson Investment: Hong Kong and China Gas reported a profit of approximately HK$3,125 million for the six months ended 30th June, 2005, representing a significant increase of 57% as compared to the restated profit recorded in the corresponding period in the previous financial year. Compared with the same period last year, total gas sales volume in Hong Kong rose by 0.6% during the period under review and the number of customers increased by 35,762, reaching 1,574,513 as at 30th June, 2005.

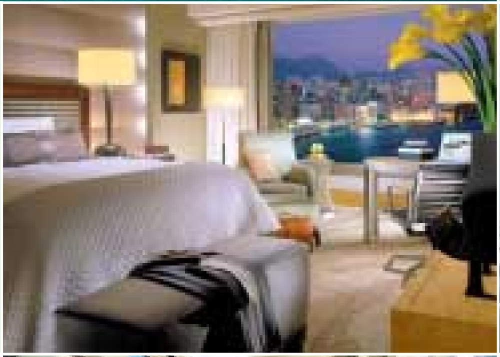
This group's business developments in Mainland China are making good progress. Taking the development of natural gas as a long-term strategic priority, this group continues to expand its city piped gas and other energy-related businesses. Since the fourth quarter of 2003, the West-to-East gas pipeline project has been supplying natural gas to eastern China. In late 2004, the Sichuan-to-Wuhan gas pipeline project was completed. There is now an ample supply of natural gas to surrounding areas of these pipelines which has facilitated the rapid growth of gas consumption markets, especially beneficial to this group's development of gas projects in Mainland China. This group now has city piped gas joint venture projects in 30 Mainland cities across Guangdong, eastern China, Shandong, central China, northern China and northeastern China. This group is also exploring opportunities to invest in other energy-related businesses such as construction and operation of midstream natural gas distribution networks. Following the successful conclusion of a midstream natural gas project in Anhui Province, this group joined with Shell Group in 2005 to construct, operate and manage a high pressure natural gas pipeline system in Hangzhou in Zhejiang Province. This group is also exploring other business opportunities including development of natural gas filling stations for

INTERNATIONAL FINANCE CENTRE

- 36.59% 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, providing 1,341 carparking spaces in the basement.
- The two office towers and shopping mall have almost been completely leased out since their opening in October 2003 and recorded satisfactory increment in rental.



- The 31-storey hotel tower and the 39-storey suite hotel tower have commenced operation since September 2005 under the management of Four Seasons Hotel.
- Well established as a prime landmark in Hong Kong consisting of high quality office buildings, premier retail shopping and entertainment hub together with hotel complex in one area.



automobiles and regional natural gas air-conditioning systems. Natural gas conversion by this group's joint ventures has either been completed or is well under way in many cities along the West-to-East gas pipeline such as in Nanjing, Changzhou, Suzhou Industrial Park, Yixing and Maanshan; and also in Wuhan which offtakes gas from the Sichuan-to-Wuhan gas pipeline. This group has also diversified its strategy to now include water supply and drainage in Mainland China to capture synergies between these sectors and its gas joint ventures. So far this year, this group has successfully concluded water supply joint venture projects in Wujiang in Jiangsu Province and Wuhu in Anhui Province. These undertakings represent a further significant milestone in this group's development. This group will continue to explore water projects in other Mainland cities. This group's transformation from a local Hong Kong company to a sizeable, nation-wide corporation is advancing smoothly according to a progressive strategy.

During the first half of 2005, this group's liquefied petroleum gas ("LPG") filling station business, which is run by its wholly-owned subsidiary company, ECO Energy Company Limited, continued to grow, despite rising LPG costs, mainly due to expansion in the number of public light buses using LPG. On the property development front, this group has a 15 per cent interest in the International Finance Centre ("IFC"). The shopping mall and office towers of IFC are almost fully let. The project's hotel complex, managed by Four Seasons Hotels and Resorts, commenced operation in early September 2005. This group also has a 50 per cent interest in the Grand Promenade property development project at Sai Wan Ho. The project provides 2,020 units, with a total floor area of approximately 1.41 million sq.ft. Pre-sale, which commenced in early August 2004, is progressing well and has received a good response. The Ma Tau Kok south plant site is being developed into five residential apartment buildings. This project, which has been named the Grand Waterfront, will provide approximately 1,800 units. Total residential floor area together with the commercial area will exceed 1.11 million sq.ft.. Construction of the superstructure and interior fitting out are now in progress. The project is due for completion by the end of 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, 2005 amounted to HK$189.9 million, representing an increase of 6.9% over that recorded in the same period last year. This group's profit for the period was mainly derived from the sale of residential units of Metro Harbour View at Tai Kok Tsui, Kowloon. About 285 residential units of this project were sold during the period under review, bring the number of unsold down to approximately 400, whereas the leasing of the commercial arcade is making good progress. The site at 222 Tai Kok Tsui Road will be developed into a residential-cum-commercial property with a total gross floor area of approximately 320,000 sq.ft. The piling works of this project are in good progress. The project located at 43-51A Tong Mi Road is expected to be completed in the first half of 2006. The site situate at 6 Cho Yuen Street, Yau Tong will be redeveloped into a residential-cum-commercial property with a total gross floor area of approximately 165,000 sq.ft. Demolition work is expected to be completed by the end of this year. During the period, the Ferry, Shipyard and Related Operations recorded an operating loss of HK$1.9 million while the Travel and Hotel Operations sustained a loss of HK$2.9 million. It is expected that the income from the property sales and rental will continue to be the primary source of revenue for this group in this financial year.

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

44.21%-owned by Henderson Investment: For the year ended 31st March, 2005, Miramar reported a profit of HK$320.7 million, representing an increase of 28% when compared to that of the previous financial year. This group's business recorded continuous growth during the year, benefiting from the economic recovery and increased numbers of Mainland tourist arrivals to Hong Kong. This group's local and Mainland hotel businesses achieved a considerable increase in their operating profits. Hotel Miramar reported a 54% increase in revenue from room sales compared with the same period last year, with the average occupancy rate reaching over 90% this year and room rates increasing by 30%. The Miramar Shopping Centre reported satisfactory growth in occupancy rates, achieving an average of 98%. The Hotel Miramar Shopping Arcade's rental remained stable while rental income and occupancy for the Miramar Tower at a steady pace in the second half of the year. During the financial year, this group recorded sales of 96 acres of residential land and 26 acres of commercial land in Placer County, California, and generated a satisfactory profit. As of this financial year end, approximately 200 acres of land remained to be sold. Sales of office units and leasing of the shopping arcade at Shang-Mira Garden in Shanghai were also satisfactory. The operating results of the restaurant business remained stable. The cruise business, air ticket and hotel packages, and commercial travel operations are satisfactory. However, losses widened in the outbound tours operation. It is anticipated that this group will continue to achieve better results in the forthcoming fiscal year.

HENDERSON CHINA HOLDINGS LIMITED ("HENDERSON CHINA")

For the financial year ended 30th June, 2005, Henderson China recorded loss attributable to shareholders of approximately HK$103 million, mainly due to the loss of approximately HK$70 million resulting from revaluation of the investment properties in Mainland China. In respect of property development, the Group's site known as No.2 Guan Dong Dian, Chao Yang Road, Chao Yang District, located at the heart of the commercial district of Beijing city, has commenced its construction work during the period under review. The site will be developed into a sizeable mixed-use property complex that amounts to approximately 2.66 million sq.ft. in gross floor area. In Guangzhou, demolition and foundation piling work of the development site located at 210 Fangcun Avenue in Fangcun District had been completed during the period under review and construction work of the superstructure will soon commence. This project will be developed into a project comprising nine high-rise residential towers together with ancillary shopping facilities, providing over 2.52 million sq.ft. in gross floor area. Further, additional piling work for the development site located at 130-2 Heng Feng Road, Zhabei District in Shanghai has also been completed and this site will shortly be developed as an office building with a gross floor area of 510,000 sq.ft.

Miramar Hotel & Investment

44.21% 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.

On the property leasing front, the rental office space of the Henderson Centre in Beijing recorded an average occupancy rate of 70% during the financial year under review. Further, this group entered into a management contract with HOBA Home Furnishings Chains Enterprise Co. Ltd. to solicit tenants for Basement Level One and Basement Level Two of the retail shopping premises in the Henderson Centre. Upon commencement of business in the fourth quarter of this year, it is anticipated that it will bring out a brand new scene to the shopping properties at the Henderson Centre. The office tower in Skycity project in Shanghai recorded 88% in average occupancy whilst the commercial podium of this project was fully leased. In Guangzhou, the retail shopping arcade known as the Heng Bao Plaza that is situate above the Changshou Road Station of the Metro Line recorded an average occupancy rate of 39%. In the period under review, the Group has also been active in the organization of a leasing campaign in respect of Office Tower II of The Grand Gateway which is located right above the Shanghai Metro Line Station at the centre of a busy commercial city in Xuhui District, Shanghai. It is anticipated that this new office property, built to high standard with comprehensive equipment and facilities, will be much sought after by commercial tenants. Upon completion of Office Tower II of the Grand Gateway in Shanghai during the year, the Group will hold total investment properties amounting to approximately 2.67 million sq.ft. and this will further enlarge the recurrent income base of the Group.

Sustained economic growth and continuous increase in foreign direct investment in Mainland China has resulted in business expansion of foreign corporations operating in the Mainland and has also led to the establishment of regional headquarters there. Demand for high quality office building showed further increase in the Mainland during the period under review. This has attracted some overseas investment funds to actively acquire Grade A office buildings in major cities in the Mainland for long term investment purpose. From a long term perspective, properties situate in the major cities have good potential for value appreciation and this will be particularly applicable to prime cities like Beijing and Shanghai. The Group holds plentiful development land bank in major cities in the Mainland amounting to 26.8 million sq.ft. and those project sites of the Group which are planned to proceed with development have made satisfactory progress. The Group will expedite the construction work in respect of the three sites located at Beijing, Shanghai and Guangzhou with an aim to complete these projects by year 2007.

On 22nd July, 2005, the court meeting and the special general meeting of shareholders in respect of the proposed privatisation of Henderson China by the Company at a cancellation price of HK$8.00 for each scheme share were held and overwhelming votes were cast to reach the regulatory threshold level required to permit the proposed privatisation to take place. Total cancellation price amounted to HK$1,381 million.

River Pearl Plaza — Blocks A, B & C, Yuexiu District, Guangzhou

Total Site Area: Approx. 285,505 sq.ft.; Respectively 44.68%, 40.50% and 47.03% owned by the Group.
This project comprises 3 sites and is being planned for the development of a mixed-use complex.

HENDERSON CYBER LIMITED ("HENDERSON CYBER")

66.67%-owned by Henderson Investment: Henderson Cyber reported a turnover of approximately HK$84 million for the financial year ended 30th June, 2005 which was generated mainly from the retailing business, representing a decrease of 4% compared to that registered in the previous financial year. The loss attributable to shareholders for the financial year ended 30th June, 2005 was recorded at HK$4.1 million, compared with a loss of approximately HK$17.8 million for the previous financial year. During the period under review, the main focus of this company was to further implement its strategies in 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 451,000 by the end of June 2005. After assessing the prospects of the various business segments of Henderson Cyber, the Company, Henderson Investment, Hong Kong and China Gas and Henderson Cyber jointly announced in August 2005, the proposed privatisation of Henderson Cyber by Henderson Investment and Hong Kong and China Gas, involving the cancellation and extinguishments of the relevant shares of Henderson Cyber at a price of HK$0.42 in cash per share. If the privatisation becomes effective, Henderson Cyber will be beneficially owned by Henderson Investment as to approximately 78.69% and Hong Kong and China Gas as to approximately 21.31%.

CORPORATE FINANCE

The Group has always adhered to prudent financial management principles. During the period under review, 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 tranche and also a 7-year tranche. Taking the form of a revolving credit, this sizeable financial arrangement facility 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.

1 High Street, Sai Ying Pun

Total G.F.A.: Approx. 64,000 sq.ft.; 100% owned by the Group.
The site is being developed into a 27-storey residential property and is expected to be completed in 2006.

Prospects

The proposed abolishment of estate duty by the Hong Kong Government will contribute to establish Hong Kong as a regional financial centre as well as an asset management hub. In addition, this proposal will also attract foreign investments as well as overseas wealthy families to come to settle in Hong Kong, thereby further vitalising the local property market and stock market and such market developments are conducive to increase in asset prices. Furthermore, there are many advantages which are possessed by Hong Kong and these include an efficient financial system as well as the system of free trade, comprehensive infrastructure facilities, simple tax regime, well-established legal system and abundant supply of experienced professionals in the various fields of specialisation. Accompanied further by the sustained fast growth of the economy in Mainland China, Hong Kong's economy is well poised to enjoy continuous growth.

Over the past year, the economy of Hong Kong registered a marked improvement as deflationary pressure subsided and the economy embarked on a moderate inflationary path whereas unemployment rate has shown to maintain a declining trend and the interest of Hong Kong residents in investment as well as property acquisition both showed continuous increase. Further, the retailing sector performed well as a result of increasing tourists from the "Individual Visit Scheme" and local consumption also recorded continuous increase. The opening of Disneyland in Hong Kong will directly benefit the local tourism and hotel industry. Stimulated by the continuous increase in investment activities in Hong Kong and with further appreciation generally anticipated for the Renminbi as well as market expectation that the upward trend in U.S. interest rate will soon come to an end, the local property market appears destined to show sustained improvement. In particular, the Grade A office properties and the luxurious residential property sector will benefit most under such an environment.

The major residential development projects that the Group has planned to launch for pre-sale and sale this year include the CentreStage situate at Hollywood Road in Hong Kong, the luxurious development located at Tai Po Town Lot No.161, the Grand Waterfront project situate at San Ma Tau Street in To Kwa Wan, Kowloon and The Sherwood located at Fuk Hang Tsuen in Tuen Mun. These projects will provide over 5,000 quality residential units that exceed 3 million sq.ft. in total gross floor area. Adding to the completed and residential stock in hand pending sale of around 2,000 units, the total number of residential units which are available for sale amounts to approximately 7,000 units in aggregate. Recently, property pre-sale launched for the CentreStage development was met with very good market response and this has resulted in the successful sale of over 70% of the total number of units of this project over a period of just three days. In view of its very low acquisition cost, upon sale of all units of this development, it is estimated that this will bring in sales proceeds exceeding HK$2 billion in total. Further, the project located at Tai Po Town Lot No.161, which possesses good seaviews and provides more than 500 luxurious villas, will be put up for sale at the end of this year and preparation work for the sales campaign of this project is now in progress.

The Group possesses the largest agricultural land holdings amongst all property developers in Hong Kong. Further, the Group continues to actively make applications for land-use conversion and negotiate with the Government in connection with the fixing of land premium for its agricultural land sites and these include the Wu Kai Sha site with a total gross floor area of 3.5 million sq.ft. as well as several other big agricultural land lots. Also, for land bank replenishment purpose, the Group entered into an agreement for the acquisition of a site of approximately 73,000 sq.ft., being the previous Asia Cold Storage Warehouse situate at King Wah Road, North Point, Hong Kong, that can be developed into a commercial/ hotel project.

The Group embarked on capital expenditure programme to refurbish its major retail shopping properties which include the Shatin Plaza, the Trend Plaza in Tuen Mun and the Metro City Plaza in Tseung Kwan O, aiming to further enhance the investment property value and also to capture higher rental yield. As supply of high-grade office spaces is expected to remain tight, the shopping mall and the office towers of International Finance Centre are anticipated to continue to see significant growth in rental. The six-star Four Seasons Hotel and the Four Seasons Place, which recorded satisfactory pre-bookings since commencement of operation in early September, are expected to contribute towards further broadening the recurrent income base of the Group.

After the successful privatisation of Henderson China Holdings Limited in mid-August of this year, the Group is in a position to invest substantially in Mainland China thereby expanding the income source of the Group in the long run. Together with steady profit contributions from the listed associated companies of the Group, it is anticipated that, in the absence of unforeseen circumstances and if the effects arising from revaluation of the investment properties were not to be taken into account, performance of the Group will show satisfactory 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, 28th September, 2005

Central Heights, Tseung Kwan O
Total G.F.A.: Approx. 320,000 sq.ft.; 25% owned by the Group.
This project has a high-rise residential tower built over a 4-storey commercial podium and was completed in February 2005.