

Profit and Turnover

The Group's consolidated net profit after taxation and minority interests for the financial year ended 30th June, 2005 amounted to HK\$3,505 million with the early adoption of the Hong Kong Accounting Standard 40 and HK(SIC) Interpretation 21, representing an increase of 65% over the corresponding restated profit figure in respect of the financial year ended 30th June, 2004. Turnover of the Group during the period under review increased by 3% to HK\$1,294 million as compared to that recorded in the previous financial year. 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\$2,217 million, representing an increase of 22% over the corresponding figure in respect of the previous financial year.

Dividends

Your Board recommends the payment of a final dividend of HK\$0.15 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\$0.28 for the full year, including the interim dividend of HK\$0.13 per share already paid, represents an increase of 22% over the total distribution in the previous year. Warrants for the final dividend will be sent to shareholders on or before 6th December, 2005.



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

Dr. Lee Shau Kee
Chairman and Managing Director

Business Review

PROPERTY RENTAL

As at the end of the financial year under review, the total attributable gross floor area of the Group's rental property portfolio amounted to approximately 1.96 million sq.ft. Total gross rental income of the Group amounted to approximately HK\$672 million, representing an increase of 7% over that of the previous financial year. Over the past year, the economy of Hong Kong saw a marked improvement and local unemployment rate showed a further decline. Consumer spending has shown an increase as investors' confidence further strengthened. Tourist arrivals from Mainland China continued to show an increase and the retailing sector also registered increase in turnover. Such developments in the marketplace have led to drastic increase in demand for shop premises. The average occupancy rate of the core investment properties of the Group was maintained at a high level of 96%, with double-digit percentage growth in rental recorded in respect of new lease contracts for local retail shop premises and quality office properties.

HOTEL & RETAILING OPERATIONS

Newton Hotel Hong Kong and Newton Hotel Kowloon of the Group recorded an average occupancy rate of approximately 80% during the period under review, with room tariffs recording sustained increase.

Operation of the six Citistore department store outlets owned by the Group recorded continual increase in turnover as the local retailing sector generally benefitted both from increase in tourist arrivals from the "Individual Visit Scheme" as well as increase in local consumer spending. The trading results of this retailing operation as a whole maintained satisfactory growth during the period under review.

INFRASTRUCTURAL PROJECTS

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

SECURITY SERVICES

Megastrength Security Services Company Limited ("Megastrength") is wholly-owned by the 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 the Group.

ASSOCIATED COMPANIES

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

37.15%-owned by the Group: 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.

INVESTMENT PROPERTIES OF THE GROUP



Shatin Centre, Shatin



Eva Court, Mid-levels



Fanling Centre, Fanling



Well Tech Centre, San Po Kong



Hollywood Plaza, Mongkok

INVESTMENT PROPERTIES OF THE GROUP

- The Group holds a diversified portfolio of rental properties including luxurious residential property, retail shopping podium, commercial building and office/industrial building.
- Mainly located in different parts of Hong Kong where pedestrian traffic is heavy and mass transportation network is in close vicinity.
- Total attributable gross floor area amounted to 1,960,000 sq.ft..
- Maintains an average occupancy rate at a high level of 96%.
- Continues to serve as a steady recurrent income source to the Group.

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 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



Citistores

The Group currently operates Citistores that are respectively located in Tseung Kwan O, Tsuen Wan, Tuen Mun, Yuen Long and Ma On Shan. Shown in the pictures are the Citistores located at Tseung Kwan O and Yuen Long.

LISTED ASSOCIATE

Miramar Hotel and Investment



MIRAMAR HOTEL AND INVESTMENT

(44.21% 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. Occupancy rate and room rate both recorded continuous increment.
- 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. This company is currently reviewing and fine-tuning its tenant mix, with a view to creating a more dynamic and trendy shopping venue.
- The merging of Knutsford Steps and the adjacent No. 6 Knutsford Terrace has transformed the area into a premier dining and entertainment hub in the Tsimshatsui District.
- In early 2005, this company opened two new up-market restaurants in IFC Mall, "Cuisine Cuisine" serving Cantonese delicacies, and "Lumiere" serving Sichuan cuisine, both building good patronage.



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 the Group: 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 the Group: 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 CYBER LIMITED ("HENDERSON CYBER")

(66.67%-owned by the Group): 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, Henderson Land Development Company Limited, the Company, Hong Kong and China Gas and Henderson Cyber jointly announced in August 2005 the proposed privatisation of Henderson Cyber by the Company 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 the Company 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 Land Development Company Limited into a HK\$10 billion credit facility that consists of a 5-year and 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.

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. The investment property portfolio of the Group contains large-scale retail shopping properties and office properties which are mostly located close to mass transportation network with heavy pedestrian traffic and it is anticipated that the occupancy and rental rates will both show significant improvements. 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 income to the Group. In the absence of unforeseen circumstances and if the effects arising from revaluation of investment properties were not to be taken into account, 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, 28th September, 2005

HONG KONG AND CHINA GAS

(37.15% owned by the Group)

Gas Supply Operation

- 1,574,513 customers in Towngas supply business in Hong Kong.
- 30 cities in Mainland China with piped gas joint venture projects already concluded.
- Exploring opportunities to invest in other energy-related business and business relating to natural gas application.
- Its ECO – liquefied petroleum gas filling station business continued to grow.

Water Projects

- Successfully entered the water supply market in Mainland China by entering joint venture projects in Jiangsu Province and Anhui Province.

Property Development Projects

- Its 15%-owned International Finance Centre project above the Airport Railway Hong Kong Station is held for investment.
- The 50%-owned Grand Promenade in Sai Wan Ho was well received by buyers since its pre-sale launch in August 2004. It provides 2,020 luxurious residential units and was completed in August 2005.
- The Ma Tau Kok South Plant Site has been named as the Grand Waterfront and is being developed into five residential buildings with approximately 1,800 units. Completion is expected by the end of 2006.



Connection of a pipeline from the North East New Territories landfill site to Tai Po Gas Plant

Signing Ceremony – Establishment of a city-piped gas joint venture in Shunde



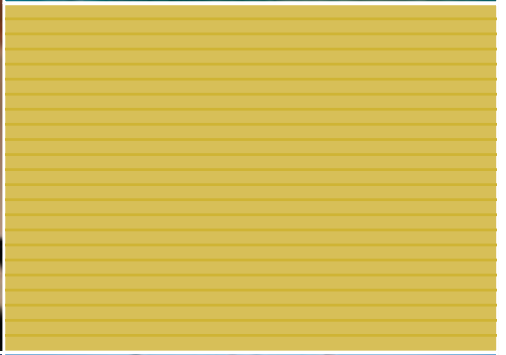
Chairman Dr. Lee Shau Kee visited joint ventures in Eastern China

ECO – Liquefied Petroleum Gas Filling Station



Customer Centre

Grand Promenade, Sai Wan Ho



The Grand Waterfront, South Eastern Kowloon