The Group’s latest luxury residential developments – Grand Promenade and Grand Waterfront – command prominent waterfront positions overlooking either side of Victoria Harbour.

Chairman's Statement

Dr. Lee Shau Kee *Chairman and Managing Director*

Dear Shareholders,

On behalf of your Board, I am pleased to present my report on the operations of the Group for the year ended 30 June 2006.

Overview

Quality is a cornerstone of the Group, underpinning all our activities. Our focus on continuous improvement and performance excellence is steadily earning the Group a reputation for excellence in design, materials and property management of our development projects.

> "Quality is a cornerstone of the Group, underpinning all our activities. Our focus on continuous improvement and performance excellence is steadily earning the Group a reputation for excellence."

For instance, the satisfaction rate as to the building quality and service of more than 1,300 owners who had taken possession of their units at the newly-completed Grand Promenade was almost 100%.

The opening of the Four Seasons Hotel and Four Seasons Place in this financial year marked the completion of the International Finance Centre (IFC), which has emerged as the new landmark in the Hong Kong Central District. Apart from Grand Promenade mentioned earlier, other premier developments were also completed during the year, including CentreStage and CentrePlace. With design, quality and project management that meet international standards, these projects have helped to raise the Group's profile.

Profit and Net Assets attributable to Shareholders

The Group's consolidated net profit after taxation and minority interests for the year ended 30 June 2006 amounted to HK$13,548.7 million, representing an increase of HK$2,695.9 million or 24.8% over that for the previous year. Earnings per share were HK$7.47 (2005 re-stated: HK$5.98).

The underlying profit for the year, excluding the revaluation surplus of investment properties, was HK$5,268.2 million, or an increase of HK$855.4 million or 19.4%. Based on the underlying profit, the earnings per share were HK$2.90 (2005 re-stated: HK$2.43).

At 30 June 2006, the consolidated net asset value attributable to equity shareholders was HK$78,000 million, 18.9% higher than the re-stated amount of HK$65,600 million a year earlier. Net debt amounted to HK$13,035.4 million (2005 re-stated: HK$11,843.0 million) and the gearing ratio was 16.7% (2005 re-stated: 18.0%).

Dividends

Your Board recommends the payment of a final dividend of HK$0.65 per share to shareholders whose names appear on the Register of Members of the Company on 12 December 2006. The total distribution per share of HK$1.05 for the full year, including the interim dividend of HK$0.40 per share already paid, represents an increase of 5% over the total distribution per share in the previous year. Warrants for the final dividend will be sent to shareholders on or before 14 December 2006.

Business Review (Hong Kong)

Property Sales

During the year, the Group sold an attributable HK$3,434.6 million worth of properties in Hong Kong as compared with HK$6,810.9 million for the year before. In light of the then cautious market sentiment, the Group decided to defer the launch of a few new developments including Grand Waterfront at To Kwa Wan until this August, so as to capitalize on subsequent improved conditions. This strategy proved effective, with over 1,000 units (or 56% of the total units) at the Grand Waterfront being sold so far.

CentrePlace offers cosmopolitan living in the heart of the city.

Projects completed

The following development projects were completed during this financial year:

Project	Location	Land-use purpose	Group's interest (%)	Attributable gross floor area (sq.ft.)
1. Grand Promenade – Towers 1 & 6	38 Tai Hong Street, Sai Wan Ho	Residential	63.06	355,895
2. CentreStage	108 Hollywood Road and 1 – 17 Bridges Street	Commercial/Residential	100.00	276,971
3. CentrePlace	1 High Street	Residential	100.00	63,666
4. Novotel Citygate	51 Man Tung Road, Tung Chung	Hotel	20.00	47,344
				743,876

Up to the year end, 1,532 units and 329 units at Grand Promenade and CentreStage respectively were sold. Cumulatively, 76% and 85% respectively of the units at these two projects have been sold. A sales launch for CentrePlace is set to take place shortly. Novotel Citygate opened its doors to guests in April 2006.

At the year end, the Group had a total of 6,486 residential units available for sale from the following major property development projects:

(1) Major completed development projects offered for sale:

Project name and location	Site area (sq.ft.)	Gross floor area (sq.ft.)	Land-use purpose	Group's interest (%)	No. of residential units unsold & pending sale as at financial year end	Gross area of remaining unsold residential units (sq.ft.)
1. Casa Marina I, 28 Lo Fai Road, Tai Po	283,200	226,561	Residential	100.00	48	164,667
2. Casa Marina II, 1 Lo Ping Road, Tai Po	228,154	182,545	Residential	100.00	48	145,849
3. King's Park Hill, 1-98 King's Park Hill Road	168,392	241,113	Residential	61.76	34	75,121
4. Palatial Crest, 3 Seymour Road	17,636	185,295	Commercial/ Residential	63.35	20	25,823
5. Royal Peninsula, 8 Hung Lai Road	162,246	1,478,552	Residential	50.00	38	47,276
6. Sereno Verde & La Pradera 99 Tai Tong Road, Yuen Long	380,335	1,141,407	Residential	44.00	14	12,355
7. Royal Terrace, 933 King's Road	16,744	138,373	Commercial/ Residential	100.00	24	19,795
8. Park Central — Phases 1 & 2 Tseung Kwan O Town Lot Nos. 57 and 66	359,883	2,932,813	Commercial/ Residential	24.63	53	43,861
9. Metro Harbour View — Phases 1 & 2, 8 Fuk Lee Street	228,595	1,714,463	Residential	60.64	204	117,960
10. Paradise Square, 3 Kwong Wa Street	17,297	159,212	Commercial/ Residential	100.00	50	31,927
11. Grand Promenade 38 Tai Hong Street, Sai Wan Ho	131,321	1,410,629	Residential	63.06	488	511,549
12. Splendid Place, 39 Taikoo Shing Road	10,405	86,023	Commercial/ Residential	75.00	18	12,059
13. Central Heights, Park Central — Phase 3	39,148	319,066	Residential	25.00	215	193,649
14. Royal Green — Phase 1 18 Ching Hiu Road, Sheung Shui	97,133 *(Note 1)*	320,262	Residential	45.00	211	144,669
15. CentreStage 108 Hollywood Road and 1-17 Bridges Street	26,903	276,971	Commercial/ Residential	100.00	59	71,551
				Sub-total:	**1,524**	**1,618,111**
					Gross area attributable to the Group:	**1,053,091**

(2) Projects under construction offered for pre-sale and projects pending sale or pre-sale:

Project name and location	Site area (sq.ft.)	Gross floor area (sq.ft.)	Land-use purpose	Group's interest (%)	Residential No. of units	Residential Gross area (sq.ft.)
(A) Project under construction offered for pre-sale						
1. Royal Green - Phase 2 18 Ching Hiu Road, Sheung Shui	97,133 *(Note 1)*	165,358	Residential	45.00	187	152,712
(B) Projects pending sale or pre-sale						
2. Scenic Horizon, 250 Shau Kei Wan Road	6,808	54,810	Commercial/ Residential	18.13	100	50,227
3. CentrePlace, 1 High Street	15,824	63,666	Residential	100.00	95	63,666
4. Grand Waterfront 38 San Ma Tau Street, To Kwa Wan	130,523	1,109,424	Commercial/ Residential	*(Note 2)*	1,782	978,923
5. The Sherwood 8 Fuk Hang Tsuen Road, Tuen Mun	396,434	836,868	Commercial/ Residential	100.00	1,576	806,729
6. The Beverly Hills, Tai Po Town Lot No. 161	982,376 *(Note 3)*	1,164,126	Residential	90.10	535	1,164,126
7. 50 Tan Kwai Tsuen, Yuen Long	54,487	54,487	Residential	100.00	119	54,487
8. 33 Lai Chi Kok Road, Mong Kok	9,600	84,156	Commercial/ Residential	100.00	108	68,284
9. Lot No. 1740 in DD 122 Tong Yan San Tsuen, Yuen Long	78,781	78,781	Residential	100.00	60	78,781
10. 500-502 Tung Chau Street, Cheung Sha Wan	35,629	320,660	Commercial/ Residential	100.00	400	267,216
				Sub-total:	**4,962**	**3,685,151**
				Gross area attributable to the Group:		**2,916,857**
Total saleable residential units and total residential gross area from the major development projects:					**6,486**	**5,303,262**
				Total gross area attributable to the Group:		**3,969,948**

Note 1: Total site area for the whole Phase 1 and Phase 2 of the "Royal Green" is 97,133 square feet.

Note 2: The Group has respective interests of 46.07% and 26.13% in the residential portion and the commercial portion of this project.

Note 3: This project will be sold in phases.

Land Bank

Location	Site area (sq.ft.)	Gross floor area (sq.ft.)	Land-use purpose	Group's interest (%)
Projects acquired during the year:				
1. 14-30 King Wah Road, North Point	73,680	263,718	Commercial/Residential	100.0
2. 500-502 Tung Chau Street, Cheung Sha Wan	35,629	320,660	Commercial/Residential	100.0
		584,378		
Project acquired after the year end:				
3. Kam Kwok Building, Gloucester Road, and National Building, Jaffe Road	15,955	187,032	Commercial/Residential	92.3
		771,410		

Over the years, the Group has made significant acquisition of agricultural land with high development potential. The Group acquired during the year over 3.1 million square feet of agricultural land lots and proceeded to apply to the Government for land-use conversion of the land lots at a reasonable premium, with the aim of increasing development sites for the Group at relatively lower costs.

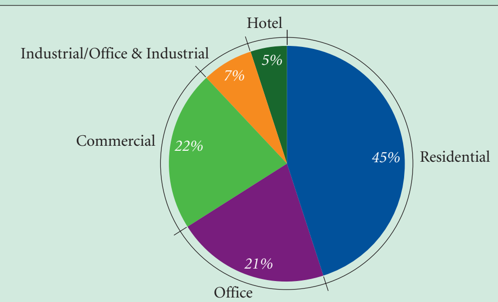
During the year, the Group submitted applications to the Government for land exchange for the following sites: the site in Wu Kai Sha, Shatin District, which was approved by the Town Planning Board for Comprehensive Development Area Zoning, allowing a maximum permitted plot ratio of three times, can be developed to approximately 3 million square feet in total gross floor area; the agricultural land lots situated at Tai Tong Road, Yuen Long are expected to result in a site with total gross floor area amounting to approximately 1.42 million square feet while the land lots located in Site B of Lam Tei at Tuen Mun will provide approximately 57,000 square feet in attributable gross floor area.

The Group's site in Fanling Sheung Shui Town Lot No. 229, together with adjacent land lots in Ng Uk Tsuen, is currently under construction. The gross floor area of this residential project will be increased to approximately 228,000 square feet in total. An application is currently being processed for the development of land lots in Wo Shang Wai, Yuen Long into low-density residential units comprising approximately 840,000 square feet in total gross floor area.

The Group has submitted applications to the Town Planning Board for land-use conversion in respect of agricultural land lots located at Ma Sik Road in Fanling totalling approximately 2.2 million square feet in land area. Assuming an average plot ratio of three times, the project will provide approximately 6.6 million square feet in total gross floor area.

At the year end, the Group had a land bank with total attributable gross floor area of approximately 20.6 million square feet, including completed investment properties and hotels with total gross floor area of 9.24 million square feet and stock of unsold property units with total gross area of 2.37 million square feet. In addition, the Group held rentable car parking spaces with a total area of around 2.5 million square feet. At the year end, the Group also had a holding of agricultural land lots of approximately 29.9 million square feet in terms of total land area, which is the largest holding among all property developers in Hong Kong. It is anticipated that, over the

Usage of Land Bank



next few years, land-use conversion of agricultural land lots of the Group will, on average, provide development sites totalling around three million square feet in gross floor area each year.

Investment Properties

The Group's gross rental income for the year including attributable contributions from jointly controlled entities amounted to HK$2,730.0 million, an increase of 16.0% over the previous year. Gross rental income for the Group itself accounted for some 33.4% of its total revenue. At the year end, the Group had 9.24 million square feet, in terms of attributable gross floor area, of completed investment properties and hotels with an average occupancy of 95% for its core rental properties. This high occupancy was a reflection of the buoyant local economy and increased retail spending. An increase in the number of inbound tourists from both Mainland China and overseas also contributed.

Of the shopping centres, the IFC Mall, with an attractive tenant mix that includes international brand name retailers and up-market restaurants, continued to be a major retail and leisure destination in Central. It enjoyed near full occupancy throughout the year. The Group's wider network of large-scale shopping malls in new towns, including Metro City Phases II & III in Tseung Kwan O, Sunshine City in Ma On Shan, City Landmark in Tsuen Wan, Shatin Centre,

The Honourable Henry Tang, Financial Secretary, officiated at the opening of Four Seasons Hotel and Four Seasons Place, marking the completion of the International Finance Centre at Central Waterfront.

Shatin Plaza, and The Trend Plaza in Tuen Mun, also performed well with high occupancy levels. The Group continued to upgrade the facilities and realign the tenant mix with a view to attracting more customers and increasing turnover for tenants. With the completion of the first phase of the renovation work at Trend Plaza in Tuen Mun in early 2006, its rental income increased by 30%, while double-digit business growth was reported by tenants. This process of upgrade and renovation will continue at the Group's other shopping centres so as to improve their rental yields as well as property values.

The office market recorded strong growth, reflecting business expansion in the finance and other service sectors. Most of the Group's major office towers, particularly the International Finance Centre, recorded remarkable rental growth.

With multinational companies increasing their headcounts and an increasing influx of expatriates being based in Hong Kong, the demand for both serviced suites and residential accommodation remained strong. The serviced suites at Four Seasons Place were the most sought after of their kind in Hong Kong, enjoying satisfactory occupancy level and room rates. The other residential properties of the Group also reported pleasing rental performance.

Construction and Property Management

The Group's reputation for excellence is attributed to the outstanding performance of our construction and property management divisions.

The early involvement of the construction division during the design stage of projects ensures that design and constructability of projects are core consideration and that a quality conscious approach is adopted throughout. This helps to fulfill our commitment to delivering the best products to our customers. Among the many commendations for its construction projects, the Group received the Tien-Yow Jeme Civil Engineering Award for Two International Finance Centre during the year. Endorsed by the Ministry of Science and Technology and the Ministry of Construction, this is the highest award granted in the Mainland for outstanding construction work undertaken in the civil engineering field. In addition, the division has consecutively received the "Considerate Contractors Site Awards" and "Outstanding Waste Management Performance Grand Award" from the Environment, Transport and Works Bureau.

In terms of property management, the Group's subsidiaries, Hang Yick and Well Born, share the same dedication to customer service excellence that is a focus of the Group and continue to earn praise from the public. The two companies received 146 performance-related accolades this year including being named Business Superbrands, winning the Customer Relationship Excellence Awards for the fourth consecutive year and winning the Grand Award of Hong Kong's first Green Building Awards. The two companies currently manage some 200 property developments across the territory, with a total of over 73,000 residential, commercial and industrial units and shops, plus more than 16,000 car parking spaces.

Business Review (Mainland China and Macau)

Progress of Major Development Projects

Construction of the Group's development sites in three major mainland cities, namely Beijing, Shanghai and Guangzhou, has continued in earnest. Substructure work on the development site owned by the Group 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 already commenced. The site will be developed into two connected grade A office towers with a total gross floor area of approximately 2.7 million square feet.

Designed by world-renowned architect Cesar Pelli, this prestigious development will rise like glistening jewels in Chao Yang, Beijing's prime commercial district.

> "In line with the Group's emphasis on quality, no effort has been spared in ensuring the best designs for all our projects."

Designed by Tange Associates of Japan, this signature integrated office and retail development will be an impressive addition to the Shanghai skyline.

In Shanghai, the Group's prime site at Lot 688, north of Nanjing Road West, Jingan District, will be developed into a 24-storey office building over a two-level commercial podium. With a site area of some 110,000 square feet, the total gross floor area upon completion will be approximately 920,000 square feet. Planning and design for this project have been substantially completed. Construction work will start shortly after the plans are approved by the relevant government authorities. Substructure work for the Group's other development in Shanghai and located at 130-2 Heng Feng Road, Zhabei District, has also commenced. The site will be developed into an office building with a total gross floor area of about 510,000 square feet.

In Guangzhou, the site at 210 Fangcun Avenue, Li Wan District will be developed into nine 33-storey residential towers, a two-level commercial podium, two level basement carparks and a kindergarten. Together they will provide a total gross floor area of some 2.5 million square feet. Good progress has been made in the superstructure work and the development is planned for sales launch in October 2006.

In line with the Group's emphasis on quality, no effort has been spared in ensuring the best designs for all our projects. For example, the Group has appointed the world-renowned Cesar Pelli of Pelli Clarke Pelli Architects, Inc. of United States as the design architect for the above prestigious development in Beijing, while the famous Tange Associates of Japan has been retained as the design architect for the Group's prime site at Lot 688, north of Nanjing Road West, Jingan District, Shanghai.

Investment Properties

The Group's Office Tower II of The Grand Gateway, located right above the Metro Line Station at the centre of the busy Xuhui District, Shanghai, was completed in the fourth quarter of 2005. Both the occupancy and the rental rates for this property have performed satisfactorily and it is expected its annual rental revenue will reach HK$150 million. Additionally during the year, the Group completely leased out the shopping podia at Skycity and Everwin Garden in Shanghai, generating steady rental income.

Land Bank

Following the successful privatisation of Henderson China Holdings Limited in August 2005, the Company has injected substantial resources in expanding its property development business in the Mainland. Apart from actively pursuing the development of its existing projects in Beijing, Shanghai and Guangzhou, good progress has been made by the Group in its negotiations for acquisition of land sites in over thirty secondary cities which are mainly the provincial capitals. These negotiations mainly cover land lots situated in higher-end residential districts with well equipped commercial facilities. In formulating the Group's strategy for its property business in the Mainland, the economic development potential of various cities as well as the actual market demand for properties in such cities are prime consideration.

In line with this strategy, the Group has invested in new projects with a view to increasing its land bank. During the year, preliminary works have commenced in a project in Xingsha Town, Changsha and a project in Xuzhou New Town. Acquired at a total land cost of about RMB1,000 million, these projects will provide a total residential floor area of about 16 million square feet in addition to commercial facilities. Negotiations are at their final stage for a number of sizeable land lots in some other cities which will involve a total land cost of about RMB5,500 million. Upon completion of development, these projects will provide a total residential floor area of over 65 million square feet. Details of the two new projects in Changsha and Xuzhou are as follows:

- **Project in Xingsha Town, Changsha**
  This project, which is located in Xingsha Town of Changsha, will comprise a total residential floor area of over 10 million square feet together with the provision of commercial facilities. Developed in phases, the Project's first phase will provide a total residential floor area of approximately 1.3 million square feet and will include a shopping arcade and a kindergarten. With completion of site investigation work, preliminary planning and design has commenced.

- **Project in Xuzhou New Town**
  Located in Xuzhou New Town, where there are comprehensive transportation network, zoning and community facilities, this project will comprise a total residential floor area of over 5.3 million square feet together with the provision of commercial facilities. The project will be developed in phases, and its first phase will consist of residential towers with relative high density. As over 50 government bodies will be relocating to this new town next year, demand for residential and commercial properties in this district is expected to increase as a result. Commanding a panoramic view of its natural environment, the land lot located close to Dalong Lake will be developed into a low-density residential community.

At the year end, the Group had approximately 14.5 million square feet of attributable land area in the Mainland, in addition to another 2.64 million square feet in attributable gross floor area of completed investment properties. At the year end, the Group's total investments in China amounted to some HK$13,900 million, representing 11.1% of its total assets. Apart from the existing projects, with the gradual handover of sizeable land lots which the Group has reached agreement to acquire, the Group's landbank in the Mainland will be substantially increased. The total developable gross floor area is expected to grow to 90 million square feet.

Joint-Venture Development in Macau

As reported last year, the Group entered into an agreement to jointly develop a waterfront site of approximately 1.45 million square feet of land area in Macau. Application for land-use conversion is underway and the total gross floor area has yet to be finalized.

Henderson Investment Limited ("Henderson Investment")

At 30 June 2006, the Group held a 67.94% interest in this listed subsidiary. For the year ended that date, the consolidated net profit after taxation and minority interests of Henderson Investment amounted to HK$3,667.2 million, an increase of HK$159.5 million or 4.5% over the re-stated profit for the previous year. The underlying profit for the year, excluding the revaluation surplus of investment properties, was HK$2,066.1 million, or a decrease of HK$154.3 million or 6.9%. Based on the underlying profit, earnings per share were HK$0.72 (2005 re-stated: HK$0.79). The profit of Henderson Investment was mainly derived from rental income of investment properties and profit contributions from its three listed associates.

Henderson Investment currently has nine major investment properties. Together with the investment properties held by its listed associates, Henderson Investment has a vast portfolio with a total attributable gross floor area of 2.0 million square feet. For the year under review, Henderson Investment's gross rental income remained stable at HK$613.8 million, with average occupancy maintained at a high 95% at the year end.

Driven by the continued economic growth in this region, coupled with the expansion of the Individual Visit Scheme for mainlanders coming to Hong Kong, the number of tourist arrivals to Hong Kong has shown a steady rise. Newton Hotel Hong Kong and Newton Hotel Kowloon, with average occupancy increased to 83% and average room rate growth of 9.7%, recorded marked increase in room revenue for the year, with double-digit growth in business.

Associated Companies

The Hong Kong and China Gas Company Limited (38.46%-owned by Henderson Investment)

Hong Kong and China Gas reported an unaudited consolidated net profit after taxation of HK$2,509.5 million for the six months ended 30 June 2006, which comprised HK$1,803.6 million arising from its gas business and property rental income (an increase of HK$38.7 million as compared with the corresponding period in 2005) and HK$705.9 million from the sale of properties and a revaluation surplus on an investment property.

- **Gas business in Hong Kong**
  A slower pace of completion and occupancy of new residential units, compounded by the warmer weather during the first half of 2006, has led to a slight decrease of 1.5% in the total volume of gas sales in Hong Kong compared with the same period last year. At 30 June 2006, the number of customers was 1,606,841, an increase of 32,328 from the end of June 2005.

- **Introduction of natural gas to Hong Kong**
  By the fourth quarter of this year, Hong Kong and China Gas will introduce natural gas from the Guangdong Liquefied Natural Gas (LNG) Terminal to Hong Kong to partially replace naphtha as feedstock for the production of town gas. Tai Po gas production plant is now undertaking trial runs of the production of town gas using a dual naphtha and natural gas feedstock mix. Full implementation is scheduled to start in October 2006. As Hong Kong and China Gas has a contract for natural gas to be supplied at a price currently lower than naphtha, savings in production cost will be shared with customers through the existing fuel cost adjustment mechanism, thereby enhancing the competitiveness of the gas tariff. In addition, the introduction of natural gas will also help to protect the environment.

- **Business development in Mainland China**
  Hong Kong and China Gas currently has a total of 43 projects spread across 36 cities in nine provinces and an area of Beijing. Hong Kong and China Gas's mainland city-gas joint ventures have built up an excellent brand reputation across all cities where they are located. Diversification is rapidly transforming Hong Kong and China Gas into a sizable, nation-wide, multi-business corporation from its origins as a local company focused on a single business.

  Hong Kong and China Gas now has city piped gas joint venture projects in 34 mainland cities across Guangdong province, eastern China, Shandong province, central China, northern China, northeastern China and western China. Following the arrival of natural gas in some regions in recent years, Hong

The Tai Po gas plant is currently using dual feedstock mix – naphtha and natural gas, bringing cost savings to customers and helping to protect the environment.

Kong and China Gas's joint ventures there converted to natural gas. After the Guangdong LNG Terminal is formally commissioned in the fourth quarter of 2006, its joint ventures in Guangdong province will also convert to natural gas.

Besides, Hong Kong and China Gas now operates a water supply project in Wujiang, Jiangsu province and in Wuhu, Anhui province, and manages an integrated water supply and wastewater joint venture in Suzhou Industrial Park, Suzhou, Jiangsu province. To cope with the rising need for clean water sources, the central government is opening up the water utility market, which provides enormous opportunities for Hong Kong and China Gas to expand in this sector.

- **Environmentally-friendly energy businesses**
  Liquefied petroleum gas (LPG) filling station business, run by its wholly-owned subsidiary company, ECO Energy Company Limited (ECO), continues to achieve business growth. Following the implementation of a new pricing mechanism in March 2006, ECO filling stations have been able to adjust their LPG selling prices every month. This will improve business prospects as prices can now be more directly linked to the cost of LPG. Meanwhile, ECO's landfill gas project at the North East New Territories landfill site is progressing well and its operational tests will be conducted within this year. Construction work of a 19 km pipeline to Tai Po gas production plant is also nearly completed. The plant would start using the treated landfill gas to partially replace naphtha as a fuel for town gas production by the end of this year. Using landfill gas will effectively limit depletion of underground oil resources and reduce air pollution, thereby further contributing to the Group's commitment to protect the environment.

- **Property developments**
  Hong Kong and China Gas has a 50% interest in the Grand Promenade property development project at Sai Wan Ho, whose significant returns contributed to its profitability. Following the success of Grand Promenade, the pre-sale of Grand Waterfront which is located at the Ma Tau Kok south plant site commenced in August 2006 and drew excellent response. Hong Kong and China Gas is entitled to 73% of the net sales proceeds of the residential portion, and has the full interest in the commercial portion of this project. Hong Kong and China Gas has an approximate 15.8% interest in the International Finance Centre (IFC). The shopping mall and office towers of IFC are almost fully let. Four Seasons Hotel and Four Seasons Place, which provide approximately 400 six-star hotel guest rooms and 520 hotel suites respectively, reported satisfactory results since their opening in September 2005.

Hong Kong and China Gas has not increased its basic gas tariff for the past eight years. Nevertheless it has made every effort to enhance its operational effectiveness, thus maintaining steady business performance. Full implementation of the production of town gas using a dual naphtha and natural gas feedstock mix is scheduled to start in October 2006. Since Hong Kong and China Gas contracted in 2002 to take natural gas at a comparatively low price, given the increasing competitiveness in the energy market, it now expects to lower its gas tariff to the benefit of both customers and future business development.

Hong Kong Ferry (Holdings) Company Limited (31.33%-owned by Henderson Investment)

The unaudited consolidated net profit after taxation of Hong Kong Ferry for the six months ended 30 June 2006 amounted to HK$121.8 million, a decrease of HK$68.2 million or 35.9% over that for the same period last year. The sale of residential units of Metro Harbour View at 8 Fuk Lee Street, Tai Kok Tsui, Kowloon, continued to be the main profit driver for Hong Kong Ferry for the period under review, during which 95 units were sold.

When completed in 2008, the site at 222 Tai Kok Tsui Road will provide 320,000 square feet of prime residential and commercial space.

Hong Kong Ferry plans to launch MetroRegalia at Tong Mi Road for sale in late 2006, in addition to sell the unsold units of Metro Harbour View.

Besides, good progress has been made in the construction for the development site at 222 Tai Kok Tsui Road, which will be developed into a residential-cum-commercial property with a total gross floor area of approximately 320,000 square feet, comprising 270,000 square feet of residential space and about 50,000 square feet of non-residential space. It is expected to be completed by late 2008.

The foundation and construction works for No.6 Cho Yuen Street, Yau Tong will commence in late 2006 and should be completed by early 2009. It will provide a total gross floor area of approximately 165,000 square feet, comprising some 140,000 square feet of residential space and 25,000 square feet of non-residential space.

Miramar Hotel and Investment Company, Limited (44.21%-owned by Henderson Investment)

Miramar reported a consolidated net profit after taxation of HK$1,169.4 million for the year ended 31 March 2006, an increase of 38.2% over the re-stated profit for the previous year. On a basis consistent with that for the previous year (before the re-statement of profit to comply with new accounting standards related to investment properties and hotel properties), the profit for the year including profit generated from land sales amounting to approximately HK$150 million would have been HK$448 million, an increase of 40.0% over the previous year. Increased tourist arrivals, improved employment levels and encouraging performance from property leasing activities have all contributed favourably to the company's results.

Miramar Hotel achieved healthy growth in its operating results with close to 90% average occupancy and an increase of 19% in average room rate. Performance in its food and beverage operation was steady. In the hotel management business, average room rate for the seven hotels under management recorded satisfactory growth with steady increases in average occupancy. Progress was made during the year to upgrade the client-mix and the overall image of the Miramar Shopping Centre, with its average occupancy reaching 91%.

During the year, Miramar sold approximately 60 acres (194 lots) of residential land and 20 acres of commercial land in Placer County, California, contributing HK$150 million in after-tax profit. At the end of the financial year, approximately 80 acres (290 lots) of residential land and 70 acres of commercial land remained available for sale. In Shanghai, almost all the office units at Shang-Mira Garden have been sold and its shopping arcade continued to achieve a high occupancy rate of 99%.

Miramar Shopping Centre — 80 shops and 20 restaurants – an unparalleled shopping and dining experience in the biggest mall on Nathan Road.

The overall results for Miramar Express improved slightly and the commercial travel sector increased its profit by more than 40%. Miramar Travel, its group tour business arm, joined forces with an industry veteran and Miramar reduced its shareholding to 54%. With a series of marketing activities under an innovative style of operation, marked improvement is expected for its travel business.

Privatisation Schemes

Henderson Cyber Limited

The Company, Henderson Investment, Hong Kong and China Gas and Henderson Cyber jointly announced in August 2005 the privatisation proposal of Henderson Cyber by Henderson Investment and Hong Kong and China Gas by way of a scheme of arrangement involving the cancellation and extinguishment of the scheme shares in Henderson Cyber at the cancellation price of HK$0.42 in cash per scheme share. The scheme was approved by a majority of 99.96% of the independent shareholders present and voting at the Court Meeting. The scheme took effect in December 2005 and the listing of the shares in Henderson Cyber on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited was withdrawn. Upon completion of the privatisation, Henderson Investment's interest in Henderson Cyber was increased to approximately 78.69%, with the balance of 21.31% held by The Hong Kong and China Gas Company Limited. The aggregate amount of cancellation price paid by Henderson Investment was HK$252.53 million.

Henderson Investment Limited

The Company made a second attempt to privatise Henderson Investment in November 2005, following an unsuccessful privatisation effort in November 2002 ("the 2002 Exercise"). As announced in December 2005, the cancellation consideration was increased to one share in the Company in exchange for every 2.5 scheme shares in Henderson Investment. In order for the proposal to succeed, the scheme should not be disapproved by more than 10% in value of all the shares held by independent minority shareholders of Henderson Investment (the "10% Threshold").

At the Court Meeting held on 20 January 2006, a majority of up to 85.7% (as compared with 85.6% in the 2002 Exercise) of the independent minority shareholders of Henderson Investment present voted in favour of the privatisation proposal. However, since the votes that were cast against the scheme marginally exceeded the 10% Threshold — a repeat of the 2002 Exercise, the scheme could not take effect and hence lapsed. It is regrettable that, despite the majority support of independent minority shareholders of Henderson Investment on both occasions, the privatisation proposal on each occasion fell through by the narrowest of margin under the 10% Threshold.

Corporate Finance

The Group has always adhered to sound and prudent financial management principles. At the year end, the Group maintained a gearing ratio of net bank borrowings to shareholders' funds of 16.7%. The Group does not make use of any derivative instruments for speculative purposes. Apart from its investments in China which are denominated in Renminbi and are not hedged, the Group had no other material open foreign exchange positions at the financial year end.

Shortly after the end of the financial year under review, the Group capitalized on the favourable loan market conditions by concluding a HK$13.35 billion syndicated credit facility of five years in tenor at an extremely attractive interest margin. This financing transaction, which takes the form of a revolving credit facility, set the record in the local syndicated loan market as being the largest in transaction size for private sector borrowings ever raised in Hong Kong Dollars and offers optimal flexibility for the general corporate funding purposes of the Group. A syndicate of 24 international banks as well as local banks originating from ten countries in all participated in this credit facility. The successful arrangement of the facility fully demonstrates the support and confidence that the banking community has placed in the Group.

Prospects

Looking ahead, with the increasing number of mainland enterprises listed in Hong Kong, substantial capital flows will be drawn to the territory, thereby providing a boost to the finance sector. Financial institutions, as well as their supporting service providers, are expected to further expand their businesses. Together with the improving job market and the continued increase in inbound tourists, these factors will underpin growth in the Hong Kong economy.

Given the improving market conditions, both volume and price for residential property sales will pick up gradually. Following the recent successful marketing of Grand Waterfront, the Group plans to embark on the sales launch of a number of development projects, including the Beverly Hills at Tai Po Town Lot No. 161, CentrePlace at No. 1 High Street, The Sherwood at Fuk Hang Tsuen Road, Lam Tei, Tuen Mun, 500-502 Tung Chau Street, 33 Lai Chi Kok Road and 50 Tan Kwai Tsuen at Yuen Long. The sale of these projects and of the stock of property units will result in a significant increase in total revenue.

Buoyant consumer confidence will continue to underpin retail spending and hence rental growth for shopping centres. The office market is expected to perform well on the back of tight supply being met by keen demand from companies looking for expansion opportunities. The continuing increase in expatriate inflow to Hong Kong will continue to fuel the residential market and sustain promising growth in rental rates. Rental income from both new lettings and renewals is expected to rise.

The Group has many new office and industrial properties in the pipeline providing some 1.7 million square feet in gross floor area. Notably among these projects is Nos. 223 — 231 Wai Yip Street, an office development in Kwun Tong boasting a gross floor area of over 1.0 million square feet. Upon completion by the fourth quarter of 2007, it will become the landmark development in Kowloon East and bring significant return to the Group.

A series of recent macroeconomic control measures implemented in China were aimed at preventing the property sector from overheating. The Group expects the impact of these developments on its China business overall to be negligible as the Group is a long term investor. In the long run, these measures will benefit the property sector by ensuring a healthier business environment, which would foster the Group's business growth in Mainland China as well. The Group's site at Li Wan District, Guangzhou will be launched shortly. Preliminary works for the projects in Xingsha Town, Changsha and Xuzhou New Town have already commenced which will provide a total residential floor area of about 16 million square feet in addition to commercial facilities. The three sizeable property development projects in Beijing and Shanghai will add 4.13 million square feet of rental space, making a total of 6.77 million square feet in gross floor area for the Group's investment property portfolio in Mainland China. Contribution from the Mainland business is thus expected to increase substantially.

With a sizeable land bank in Hong Kong and increasing coverage across the major cities in Mainland China, ample liquidity and a dedicated and experienced team, the Group is confident of the future. In the absence of unforeseen circumstances, performance of the Group will show satisfactory growth in the coming financial year.

Appreciation

Executive Directors Mr. Ho Wing Fun and Mr. Leung Sing stepped down from the Board on retirement during the year. I would like to thank them most sincerely for their long years of loyal service and immense contributions to the Group.

I would also like to take this opportunity to thank the Directors for their wise counsel and support, and the management and staff at all levels for their dedication, hard work and contributions in the past year. I know I can continue to count on them in our quest to deliver value to our shareholders.

Lee Shau Kee
Chairman

Hong Kong, 21 September 2006