

Report of the Directors

The Directors have pleasure in submitting to shareholders their annual report together with the audited statement of accounts for the year ended 30 June 2006.

Principal Activities

The Company is an investment holding company and the principal activities of its subsidiaries during the year were property development and investment, finance, building construction, infrastructure business, hotel operation, department store operation, project management, investment holding and property management.

An analysis of the Group's turnover and contribution from operations by business segment and geographical segment, is set out in note 14 to the accounts on pages 135 to 138.

Subsidiaries

Particulars of the principal subsidiaries of the Company as at 30 June 2006 are set out on pages 161 to 171.

Group Profit

The profit of the Group for the year ended 30 June 2006 and the state of affairs of the Company and the Group at that date are set out in the accounts on pages 103 to 173.

Dividends

An interim dividend of HK\$0.40 per share was paid on 28 April 2006. The Directors have recommended 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.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$34,255,000 (2005: HK\$10,098,000).

Fixed assets

Particulars of the movements in fixed assets during the year are set out in note 15 to the accounts on pages 139 to 141.

Bank Loans, Overdrafts and Other Borrowings

Particulars of bank loans, overdrafts and other borrowings of the Company and the Group as at 30 June 2006 are set out in note 28 to the accounts on page 149.

Interest Capitalised

The amount of interest capitalised by the Group during the year ended 30 June 2006 is set out in note 7(a) to the accounts on page 129.

Reserves

Particulars of the movements in reserves during the year are set out in note 31 to the accounts on pages 151 to 153.

Share Capital

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 31 to the accounts on pages 151 to 153.

Group Financial Summary

The results, assets and liabilities of the Group for the last five years are summarized on pages 72 and 73.

Development and Investment Properties

Particulars of development and investment properties of the Group are set out on pages 23 to 41 and on pages 62 to 65.

Directors' Remuneration

Particulars of the Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are set out in note 9 to the accounts on page 133.

Directors

The Directors of the Company during the financial year and up to the date of this report are:

Executive Directors

Dr. Lee Chau Kee
(Chairman and Managing Director)

Lee Ka Kit
(Vice Chairman)

Colin Lam Ko Yin
(Vice Chairman)

Lee Ka Shing
(Vice Chairman)

John Yip Ying Chee

Alexander Au Siu Kee
(appointed on 8 December 2005)

Ho Wing Fun
(resigned upon retirement on 1 July 2006)

Suen Kwok Lam

Lee King Yue

Fung Lee Woon King

Leung Sing
(resigned upon retirement on 1 July 2006)

Eddie Lau Yum Chuen

Li Ning

Patrick Kwok Ping Ho

Non-executive Directors

The Hon. Lo Tak Shing
(Vice Chairman)

Sir Po-shing Woo

Leung Hay Man

Angelina Lee Pui Ling

Lee Tat Man

Kan Fook Yee
(resigned on 23 May 2006)

Vincent Liang
(Alternate Director to The Hon. Lo Tak Shing)

Jackson Woo Ka Biu
(Alternate Director to Sir Po-shing Woo)

Independent Non-executive Directors

Gordon Kwong Che Keung

Professor Ko Ping Keung

Wu King Cheong

Mr. Kan Fook Yee resigned as Non-executive Director on 23 May 2006. Mr. Ho Wing Fun and Mr. Leung Sing resigned as Executive Directors upon retirement on 1 July 2006. The Directors would like to express their gratitude to Mr. Kan, Mr. Ho and Mr. Leung for their support, devotion and invaluable contribution to the Company.

Mr. Alexander Au Siu Kee, being the new Director appointed after the 2005 annual general meeting, will retire in accordance with Article 99 of the Company's Articles of Association at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

Dr. Lee Shau Kee, Mr. Colin Lam Ko Yin, Mr. John Yip Ying Chee, Madam Fung Lee Woon King, Mr. Eddie Lau Yum Chuen and Mr. Leung Hay Man will retire by rotation at the forthcoming annual general meeting in accordance with Article 116 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Disclosure of Interests

Directors' Interests in Shares

As at 30 June 2006, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or which were notified to the Company or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Ordinary Shares (*unless otherwise specified*)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Land Development Company Limited	Lee Shau Kee	1			1,122,938,300		1,122,938,300	61.88
	Lee Ka Kit	1				1,122,938,300	1,122,938,300	61.88
	Lee Ka Shing	1				1,122,938,300	1,122,938,300	61.88
	Li Ning	1		1,122,938,300			1,122,938,300	61.88
	Lee Tat Man	2	498,000				498,000	0.03
	Lo Tak Shing	3	11,000				11,000	0.00
	Lee Pui Ling, Angelina	4	30,000				30,000	0.00
	Lee King Yue	5	42,900			19,800	62,700	0.00
	Fung Lee Woon King	6	1,000,000				1,000,000	0.06
	Leung Sing	7	85,600				85,600	0.00
Ho Wing Fun	8	100				100	0.00	
Woo Ka Biu, Jackson	9			2,000			2,000	0.00
Henderson Investment Limited	Lee Shau Kee	10	34,779,936		2,075,859,007		2,110,638,943	69.26
	Lee Ka Kit	10				2,075,859,007	2,075,859,007	68.12
	Lee Ka Shing	10				2,075,859,007	2,075,859,007	68.12
	Li Ning	10		2,075,859,007			2,075,859,007	68.12
	Lee Tat Man	11	6,666				6,666	0.00
	Lo Tak Shing	12	404,375				404,375	0.01
	Lee King Yue	13	1,001,739				1,001,739	0.03
	Leung Sing	14	150,000				150,000	0.00
Ho Wing Fun	15	1,100				1,100	0.00	
The Hong Kong and China Gas Company Limited	Lee Shau Kee	16	3,226,174		2,202,973,776		2,206,199,950	40.05
	Lee Ka Kit	16				2,202,973,776	2,202,973,776	39.99
	Lee Ka Shing	16				2,202,973,776	2,202,973,776	39.99
	Li Ning	16		2,202,973,776			2,202,973,776	39.99
	Au Siu Kee, Alexander	17			50,000		50,000	0.00
Hong Kong Ferry (Holdings) Company Limited	Lee Shau Kee	18	7,799,220		111,636,090		119,435,310	33.52
	Lee Ka Kit	18				111,636,090	111,636,090	31.33
	Lee Ka Shing	18				111,636,090	111,636,090	31.33
	Li Ning	18		111,636,090			111,636,090	31.33
	Lam Ko Yin, Colin	19	150,000				150,000	0.04
	Fung Lee Woon King	20	465,100				465,100	0.13
Leung Hay Man	21	2,250				2,250	0.00	

Ordinary Shares (unless otherwise specified) (cont'd)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Miramar Hotel and Investment Company, Limited	Lee Shau Kee	22			255,188,250		255,188,250	44.21
	Lee Ka Kit	22				255,188,250	255,188,250	44.21
	Lee Ka Shing	22				255,188,250	255,188,250	44.21
	Li Ning	22		255,188,250			255,188,250	44.21
	Woo Po Shing	23	2,705,000		2,455,000		5,160,000	0.89
Henderson Development Limited	Lee Shau Kee	24			8,190 (Ordinary A Shares)		8,190 (Ordinary A Shares)	100.00
	Lee Shau Kee	25			3,510 (Non-voting B Shares)		3,510 (Non-voting B Shares)	100.00
	Lee Shau Kee	26	35,000,000 (Non-voting Deferred Shares)		15,000,000 (Non-voting Deferred Shares)		50,000,000 (Non-voting Deferred Shares)	100.00
	Lee Ka Kit	24				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Kit	25				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Kit	26				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Lee Ka Shing	24				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Shing	25				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Shing	26				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Li Ning	24			8,190 (Ordinary A Shares)		8,190 (Ordinary A Shares)	100.00
	Li Ning	25			3,510 (Non-voting B Shares)		3,510 (Non-voting B Shares)	100.00
	Li Ning	26			15,000,000 (Non-voting Deferred Shares)		15,000,000 (Non-voting Deferred Shares)	30.00

Ordinary Shares (unless otherwise specified) (cont'd)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Best Homes Limited	Lee Shau Kee	27			26,000		26,000	100.00
	Lee Ka Kit	27				26,000	26,000	100.00
	Lee Ka Shing	27				26,000	26,000	100.00
	Li Ning	27		26,000			26,000	100.00
China Investment Group Limited	Woo Ka Biu, Jackson	28			16,000		16,000	5.33
Drinkwater Investment Limited	Leung Hay Man	29			5,000		5,000	4.49
	Woo Po Shing	30			3,250		3,250	2.92
Feswin Investment Limited	Lee Ka Kit	31			5,000	5,000	10,000	100.00
Fordley Investment Limited	Fung Lee Woon King	32	2,000				2,000	20.00
Gain Base Development Limited	Fung Lee Woon King	33	50				50	5.00
Henfield Properties Limited	Lee Ka Kit	34			4,000	6,000	10,000	100.00
Heyield Estate Limited	Lee Shau Kee	35			100		100	100.00
	Lee Ka Kit	35				100	100	100.00
	Lee Ka Shing	35				100	100	100.00
	Li Ning	35		100			100	100.00
Maxfine Development Limited	Lee Ka Kit	36			3,050 *	3,050 *	3,050	33.33
Perlin Development Limited	Lee Ka Kit	37			5	5	10	100.00
Pettystar Investment Limited	Lee Shau Kee	38			3,240		3,240	80.00
	Lee Ka Kit	38				3,240	3,240	80.00
	Lee Ka Shing	38				3,240	3,240	80.00
	Li Ning	38		3,240			3,240	80.00

* relate to the same shares

Ordinary Shares (unless otherwise specified) (cont'd)**Long Positions**

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Quickcentre Properties Limited	Lee Ka Kit	39			1	1	2	100.00
Shellson International Limited	Lee Ka Kit	40			25	75	100	100.00

Save as disclosed above, none of the Directors or the Chief Executive of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO.

Share Option Schemes

The Company and its subsidiaries have no share option schemes.

Arrangements to Purchase Shares or Debentures

At no time during the year ended 30 June 2006 was the Company or any of its holding companies, subsidiary companies or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' and Others' Interests

As at 30 June 2006, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long Positions

	No. of shares in which interested	% Interest
Substantial Shareholders:		
Rimmer (Cayman) Limited (Note 1)	1,122,938,300	61.88
Riddick (Cayman) Limited (Note 1)	1,122,938,300	61.88
Hopkins (Cayman) Limited (Note 1)	1,122,938,300	61.88
Henderson Development Limited (Note 1)	1,122,745,800	61.87
Yamina Investment Limited (Note 1)	538,437,300	29.67
Believegood Limited (Note 1)	222,045,300	12.24
South Base Limited (Note 1)	222,045,300	12.24
Person other than Substantial Shareholders:		
Cameron Enterprise Inc. (Note 1)	145,090,000	8.00

Notes:

1. Of these shares, (i) 570,743,800 shares were owned by Henderson Development Limited (“HD”); (ii) 7,962,100 shares were owned by Sandra Investment Limited which was a wholly-owned subsidiary of HD; (iii) 145,090,000 shares were owned by Cameron Enterprise Inc.; 222,045,300 shares were owned by Believegood Limited which was wholly-owned by South Base Limited; 61,302,000 shares were owned by Prosglass Investment Limited which was wholly-owned by Jayasia Investments Limited; 55,000,000 shares were owned by Fancy Eye Limited which was wholly-owned by Mei Yu Ltd.; 55,000,000 shares were owned by Spreadral Limited which was wholly-owned by World Crest Ltd.; and Cameron Enterprise Inc., South Base Limited, Jayasia Investments Limited, Mei Yu Ltd. and World Crest Ltd. were wholly-owned subsidiaries of Yamina Investment Limited which in turn was 100% held by HD; (iv) 5,602,600 shares were owned by Superfun Enterprises Limited, a wholly-owned subsidiary of The Hong Kong and China Gas Company Limited (“China Gas”) which was 38.46% held by Henderson Investment Limited (“HI”). HI was 67.94% held by Henderson Land Development Company Limited (“HL”) which in turn was 61.87% held by HD; and (v) 192,500 shares were owned by Fu Sang Company Limited (“Fu Sang”). Hopkins (Cayman) Limited (“Hopkins”) as trustee of a unit trust (the “Unit Trust”) owned all the issued ordinary shares of HD and Fu Sang. Rimmer (Cayman) Limited (“Rimmer”) and Riddick (Cayman) Limited (“Riddick”), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr. Lee Shau Kee. Dr. Lee Shau Kee was taken to be interested in these shares by virtue of the Securities and Futures Ordinance (“SFO”). As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.
2. Mr. Lee Tat Man was the beneficial owner of these shares.
3. The Hon. Lo Tak Shing was the beneficial owner of these shares.
4. Mrs. Lee Pui Ling, Angelina was the beneficial owner of these shares.
5. Mr. Lee King Yue was the beneficial owner of 42,900 shares, and the remaining 19,800 shares were held by Ngan Hei Development Company Limited which was 50% each owned by Mr. Lee King Yue and his wife.
6. Madam Fung Lee Woon King was the beneficial owner of these shares.
7. Mr. Leung Sing was the beneficial owner of these shares.
8. Mr. Ho Wing Fun was the beneficial owner of these shares.
9. These shares were owned by the wife of Mr. Woo Ka Bui, Jackson.
10. Of these shares, Dr. Lee Shau Kee was the beneficial owner of 34,779,936 shares, and for the remaining 2,075,859,007 shares, (i) 802,854,200 shares, 602,168,418 shares, 363,328,900 shares, 217,250,000 shares and 84,642,341 shares were respectively owned by Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited, Gainwise Investment Limited and Darnman Investment Limited, all of which were wholly-owned subsidiaries of Kingslee S.A. which in turn was 100% held by HL; and (ii) 5,615,148 shares were owned by Fu Sang. Dr. Lee Shau Kee was taken to be interested in HL and Fu Sang as set out in Note 1 and HI by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.
11. Mr. Lee Tat Man was the beneficial owner of these shares.
12. The Hon. Lo Tak Shing was the beneficial owner of these shares.
13. Mr. Lee King Yue was the beneficial owner of these shares.
14. Mr. Leung Sing was the beneficial owner of these shares.
15. Mr. Ho Wing Fun was the beneficial owner of these shares.
16. Of these shares, Dr. Lee Shau Kee was the beneficial owner of 3,226,174 shares, and for the remaining 2,202,973,776 shares, (i) 1,159,024,597 shares and 484,225,002 shares were respectively owned by Disralei Investment Limited and Medley Investment Limited, both of which were wholly-owned subsidiaries of Timpani Investments Limited which was 100% held by HI; (ii) 475,277,946 shares were owned by Macrostar Investment Limited, a wholly-owned subsidiary of HI; (iii) 3,966,472 shares were owned by Boldwin Enterprises Limited, a wholly-owned subsidiary of Yamina Investment Limited which was 100% held by HD; and (iv) 80,479,759 shares were owned by Fu Sang. Dr. Lee Shau Kee was taken to be interested in HI, HD and Fu Sang as set out in Notes 1 and 10 and China Gas by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.
17. These shares were owned by the wife of Mr. Au Siu Kee, Alexander.
18. Of these shares, Dr. Lee Shau Kee was the beneficial owner of 7,799,220 shares, and for the remaining 111,636,090 shares, (i) 23,400,000 shares each were respectively owned by Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, all of which were wholly-owned subsidiaries of Pataca Enterprises Limited which in turn was 100% held by HI; and (ii) 41,436,090 shares were held by Wiselin Investment Limited, a wholly-owned subsidiary of Max-mercan Investment Limited which in turn was 100% held by HI. Dr. Lee Shau Kee was taken to be interested in HI as set out in Note 10 and Hong Kong Ferry (Holdings) Company Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.

19. *Mr. Lam Ko Yin, Colin was the beneficial owner of these shares.*
20. *Madam Fung Lee Woon King was the beneficial owner of these shares.*
21. *Mr. Leung Hay Man was the beneficial owner of these shares.*
22. *Of these shares, 100,612,750 shares, 79,121,500 shares and 75,454,000 shares were respectively owned by Higgins Holdings Limited, Multiglade Holdings Limited and Threadwell Limited, all of which were wholly-owned subsidiaries of Aynbury Investments Limited which in turn was 100% held by HI. Dr. Lee Chau Kee was taken to be interested in HI as set out in Note 10 and Miramar Hotel and Investment Company, Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.*
23. *Of these shares, Sir Po-shing Woo was the beneficial owner of 2,705,000 shares, and the remaining 2,455,000 shares were held by Fong Fun Company Limited which was 50% owned by Sir Po-shing Woo.*
24. *These shares were held by Hopkins as trustee of the Unit Trust.*
25. *These shares were held by Hopkins as trustee of the Unit Trust.*
26. *Of these shares, Dr. Lee Chau Kee was the beneficial owner of 35,000,000 shares, and Fu Sang owned the remaining 15,000,000 shares.*
27. *Of these shares, (i) 10,400 shares were owned by HL; (ii) 2,600 shares were owned by HD; and (iii) 13,000 shares were owned by Manifest Investments Limited which was 50% held by Wealth Sand Limited which in turn was 70% held by Firban Limited. Firban Limited was 50% held by each of Perfect Bright Properties Inc. and Furnline Limited, both of which were wholly-owned subsidiaries of Jetwin International Limited. Triton (Cayman) Limited as trustee of a unit trust owned all the issued share capital of Jetwin International Limited. Triumph (Cayman) Limited and Victory (Cayman) Limited, as trustees of respective discretionary trusts, held units in the unit trust. The entire share capital of Triton (Cayman) Limited, Triumph (Cayman) Limited and Victory (Cayman) Limited were owned by Dr. Lee Chau Kee who was taken to be interested in such shares by virtue of the SFO. As discretionary beneficiaries of the discretionary trusts holding units in such unit trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in such shares by virtue of the SFO. As the spouse of a discretionary beneficiary of the discretionary trusts holding units in such unit trust, Mr. Li Ning was taken to be interested in such shares by virtue of the SFO.*
28. *These shares were held by Pearl Assets Limited which was 60% owned by Mr. Woo Ka Biu, Jackson.*
29. *These shares were held by Gilbert Investment Inc. which was wholly-owned by Mr. Leung Hay Man.*
30. *These shares were held by Coningham Investment Inc. which was wholly-owned by Fong Fun Investment Inc. of which 50% was owned by Sir Po-shing Woo and 50% by his wife.*
31. *Of these shares, (i) 5,000 shares were owned by Applecross Limited which was wholly-owned by Mr. Lee Ka Kit; and (ii) 5,000 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andco Limited which was wholly-owned by Henderson China Holdings Limited (“HC”), an indirect wholly-owned subsidiary of HL.*
32. *Madam Fung Lee Woon King was the beneficial owner of these shares.*
33. *Madam Fung Lee Woon King was the beneficial owner of these shares.*
34. *Of these shares, (i) 4,000 shares were owned by Applecross Limited which was wholly-owned by Mr. Lee Ka Kit; and (ii) 6,000 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andco Limited which was wholly-owned by HC.*
35. *Of these shares, (i) 80 shares were owned by Tactwin Development Limited, a wholly-owned subsidiary of HL; (ii) 10 shares were owned by Henderson Finance Company Limited, a wholly-owned subsidiary of HD; and (iii) 5 shares each were owned by Perfect Bright Properties Inc. and Furnline Limited, both of which were wholly-owned subsidiaries of Jetwin International Limited.*
36. *These shares were owned by Quickcentre Properties Limited which was 50% each owned by Applecross Limited which was wholly-owned by Mr. Lee Ka Kit and Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andco Limited which was wholly-owned by HC.*
37. *Of these shares, (i) 5 shares were owned by Heleken Development Limited which was wholly-owned by Mr. Lee Ka Kit; and (ii) 5 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andco Limited which was wholly-owned by HC.*
38. *Of these shares, (i) 3,038 shares were owned by HL; and (ii) 202 shares were owned by Allied Best Investment Limited which was 50% held by each of Perfect Bright Properties Inc. and Furnline Limited, both of which were wholly-owned subsidiaries of Jetwin International Limited.*
39. *Of these shares, (i) 1 share was owned by Applecross Limited which was wholly-owned by Mr. Lee Ka Kit; and (ii) 1 share was owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andco Limited which was wholly-owned by HC.*
40. *Of these shares, (i) 25 shares were owned by Shine King International Limited which was wholly-owned by Mr. Lee Ka Kit; and (ii) 75 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andco Limited which was wholly-owned by HC.*

Interests in Contracts and Connected Transactions

During the year under review, the Group entered into the following transactions and arrangements as described below with persons who are “connected persons” for the purposes of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”):

- (1) (i) Henderson Real Estate Agency Limited, a wholly-owned subsidiary of the Company made advances from time to time to Henderson Investment Finance Limited, a wholly-owned subsidiary of Henderson Investment Limited, with interest chargeable on the balances outstanding from time to time based on Hong Kong Inter-bank Offered Rate (“HIBOR”) quoted by banks. As at 30 June 2006, an amount of approximately HK\$120.2 million was due by Henderson Investment Finance Limited to Henderson Real Estate Agency Limited.
- (ii) Henderson Finance Company Limited made advances from time to time to Henderson Real Estate Agency Limited, Choiform Limited, Jetkey Development Limited and Perfect Grand Development Limited, subsidiaries of the Company, with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30 June 2006, the amounts of approximately HK\$1,443.5 million, HK\$41.4 million, HK\$26.1 million and HK\$125.3 million were due by Henderson Real Estate Agency Limited, Choiform Limited, Jetkey Development Limited and Perfect Grand Development Limited respectively to Henderson Finance Company Limited, which have been included in the accounts under “Amount due to a fellow subsidiary”.
- (iii) Henderson Real Estate Agency Limited made advances from time to time to Shellson International Limited, a non-wholly owned subsidiary of Henderson China Holdings Limited (“Henderson China”), with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30 June 2006, an amount of approximately HK\$181.2 million was due by Shellson International Limited to Henderson Real Estate Agency Limited.
- (iv) Henderson Finance Company Limited made advances from time to time to Shellson International Limited with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks except for an interest free loan of HK\$200.0 million. As at 30 June 2006, an amount of approximately HK\$222.6 million was due by Shellson International Limited to Henderson Finance Company Limited, which has been included in the accounts under “Amount due to a fellow subsidiary”.
- (v) The management agreements and the construction agreements for the management and development of the properties of the Henderson Development Limited Group and the Henderson Investment Limited Group entered into by both Henderson Development Limited and Henderson Investment Limited with each of Henderson Real Estate Agency Limited and E Man Construction Company Limited, two wholly-owned subsidiaries of the Company, still subsisted at the financial year end.
- (2) At the extraordinary general meeting of the Company held on 22 June 1998, an ordinary resolution was passed by the independent shareholders of the Company to approve, inter alia, the provision of leasing agency and property management services by the Group (the “Agency and Management Services”) in respect of the commercial development and carparks of Metro City Plaza and Sheung Shui Centre, the property interests of which are represented by shares held by Champion York Limited which was then a wholly-owned subsidiary of Henderson Development Limited. The aggregate amount of the Agency and Management Services as approved by the independent shareholders shall not exceed HK\$45 million per annum. For the year ended 30 June 2006, the aggregate amount received by the Group in respect of the Agency and Management Services which were based on normal commercial terms, was approximately HK\$33 million.

The Hong Kong Stock Exchange has granted a waiver to the Company from strict compliance with the connected transaction requirements under the Listing Rules applicable to the Agency and Management Services on the basis that:

- (i) (a) the Agency and Management Services are entered into by the Group in the ordinary and usual course of its business and the aggregate amount received per annum by the Group thereunder will not exceed HK\$45 million (the “Aggregate Amount”);
- (b) the Agency and Management Services are entered into on normal commercial terms that are fair and reasonable so far as the Independent Shareholders are concerned; and
- (c) details of the Agency and Management Services are to be disclosed in the Company’s next and subsequent published annual report in accordance with the Listing Rules;

- (ii) a Committee of the Independent Non-executive Directors of the Company shall review annually the Agency and Management Services and confirm in the Company's annual report whether the Agency and Management Services are conducted in the manner as stated in paragraph (i) above; and
- (iii) the Auditors of the Company shall review annually the Agency and Management Services and provide the Directors with a letter, with a copy to the Hong Kong Stock Exchange, confirming that the Agency and Management Services (a) have received approval from the Board; (b) have been transacted in accordance with the pricing policies as stated in the Company's annual report for the period; and (c) have been entered into in accordance with the terms of the agreement(s) governing the Agency and Management Services or, where there is no agreement, on terms no less favourable than terms available to (or from, as appropriate) independent third parties.

A Committee of Independent Non-executive Directors of the Company has reviewed and confirmed that the Agency and Management Services have been entered into by the Group in accordance with the waiver conditions granted by the Hong Kong Stock Exchange as stated in paragraph (i) above.

The Auditors of the Company have also confirmed that the Agency and Management Services have been conducted in the manner as stated in paragraph (iii) above and have not exceeded the Aggregate Amount.

Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in the transactions and contracts referred to in (1) and (2) above as a director (and as more particularly described in the section "Disclosure of Interests" above) of the Company's subsidiaries, Henderson Investment Limited and Henderson China and the Company's ultimate holding company, Henderson Development Limited and they were also directors of Shau Kee Financial Enterprises Limited. Mr. Li Ning was taken to be interested in the transactions and contracts referred to in (1) and (2) above as a director (and as more particularly described in the section "Disclosure of Interests" above) of the Company's subsidiary, Henderson Investment Limited. Mr. Lee Ka Kit was further interested in the transactions referred to in (1)(iii) and (iv) above as a director and indirect shareholder of Shellson International Limited.

- (3) Mr. Lee Ka Kit, through companies owned or controlled by him, has interests in five companies in which Henderson China is interested and through which Henderson China holds interests in five projects. Mr. Lee has 25 per cent interest in Shellson International Limited holding the Beijing Henderson Centre, 50 per cent interest in Perlin Development Limited holding the Shanghai Skycity, 50 per cent interest in Quickcentre Properties Limited holding Lot 433 of Yanan Road West, 50 per cent interest in Feswin Investment Limited holding Lot 470 of Wanping Road South and 40 per cent interest in Henfield Properties Limited holding Lots 406-2, 406-3 and 406-4 of Hengfeng Road, with the remaining interests owned by members of the Henderson China Group. Mr. Lee Ka Kit is a Director of the Company.

Mr. Lee Ka Kit agreed to provide and has provided finance in the form of advances to these companies in proportion to his equity interests in these companies. An agreement entered into between Henderson China and Mr. Lee Ka Kit on 15 March 1996 provided that all existing and future advances made by Henderson China and Mr. Lee Ka Kit to these companies would be unsecured, on the same basis and at the same interest rate or without interest. As at 30 June 2006, the advances made by Mr. Lee Ka Kit to the Henderson China Group's non wholly-owned subsidiaries and associates amounted to approximately HK\$612.6 million and HK\$537.4 million respectively and from 1 January 2003 to 30 June 2006, no interest on the advances made by Mr. Lee Ka Kit to the associates was charged.

- (4) As disclosed in the Company's announcement dated 2 April 2004 (the "Announcement"), Beijing Henderson Properties Co., Ltd., in which Henderson China, a subsidiary of the Company, had an attributable 75% interest, on 30 March 2004 entered into a Tenancy Agreement with Beijing Henderson Yansha Department Store Limited Company (the "Tenant"), in which Mr. Li Siu Nam had an 80% interest, for the leasing of certain shop premises from 1st floor to 3rd floor of the shopping mall of Henderson Centre in Beijing, the

People's Republic of China, for a term of three years at the monthly rent being an amount equal to 8% of the Tenant's monthly turnover. Under the tenancy agreement, the Tenant was entitled to a rent-free period of 6 months. Mr. Li Siu Nam is the brother of Dr. Lee Shau Kee, the chairman of the Company. As Mr. Li Siu Nam is a connected person of the Company, the Tenancy Agreement constitutes a continuing connected transaction of the Company under the Listing Rules. For the year ended 30 June 2006, Beijing Henderson Properties Co., Ltd. received a total rental income of HK\$1.5 million in respect of the tenancy of the said premises.

The Directors (including Independent Non-executive Directors) of the Company considered that the Tenancy Agreement was negotiated on an arm's length basis and was entered into on normal commercial terms and in the ordinary course of business of Beijing Henderson Properties Co., Ltd. and Beijing Henderson Yansha Department Store Limited Company and the terms of the Tenancy Agreement were fair and reasonable for Beijing Henderson Properties Co., Ltd.

A Committee of Independent Non-executive Directors of the Company has reviewed and confirmed that the transaction referred to above is (a) in accordance with the terms of the agreement relating to the transaction in question; (b) in the ordinary and usual course of business of the Group; (c) on normal commercial terms or on terms no less favourable than terms available to (or from, as appropriate) independent third parties; and (d) fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have also confirmed that the transaction (a) has received the approval of the Board; (b) is in accordance with the pricing policies of the Group; (c) has been entered into in accordance with the relevant agreements governing the continuing connected transactions; and (d) has not exceeded the estimated maximum annual rental as stated in the Announcement.

- (5) During the year, the Group made advances to the following non wholly-owned subsidiaries and associates as unsecured working capital repayable on demand:

Best Homes Limited
Choiform Limited
Crown Truth Limited
Feswin Investment Limited
Gain Base Development Limited
Hang Seng Quarry Company Limited
Harvest Development Limited
Henfield Properties Limited
Lane Success Development Limited
Perlin Development Limited
Pettystar Investment Limited
Primeland Investment Limited
Quickcentre Properties Limited
Shellson International Limited

Certain Directors of the Company or its subsidiaries have interests in the above companies. Both the Group and such Directors' associates made advances in proportion to their equity interests in the companies. The advances made by the Group and the Directors' associates to the individual companies listed above were either both interest-bearing on identical normal commercial terms or both without interest.

- (6) The Company had the following connected transactions, each of which, as disclosed by way of announcement, was subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirements since each of the applicable percentage ratios under Rule 14A.32 of the Listing Rules was less than 2.5%:
- (i) Henderson China was privatised by and became a wholly-owned subsidiary of the Company on 12 August 2005. The privatisation involved, as announced on 19 May 2005, cancellation price paid by the Company to the following connected persons of the Company in consideration for the cancellation of their respective interests or deemed interests in Henderson China:
 - (a) Canon International Limited which was a company ultimately controlled by Ms. Liza Lee Pui Ling who is the daughter of Dr. Lee Chau Kee, a director of the Company and the sister of Mr. Lee Ka Kit and Mr. Lee Ka Shing, directors of the Company;
 - (b) Mr. Jackson Woo Ka Biu, an alternate director to Sir Po-shing Woo, a non-executive director of the Company; and
 - (c) Ms. Carmen Woo Ka Man, the daughter of Sir Po-shing Woo, a non-executive director of the Company and the sister of Mr. Jackson Woo Ka Biu.

The aggregate value of the above cancellation prices paid by the Company to the above connected persons amounted to approximately HK\$204.7 million.

- (ii) Henderson Cyber Limited ("Henderson Cyber") was privatised by Henderson Investment Limited, a subsidiary of the Company and The Hong Kong and China Gas Company Limited ("China Gas"), an associated company of the Company. Upon the completion of the privatisation on 8 December 2005, Henderson Cyber was owned as to 78.69% by Henderson Investment Limited and 21.31% by China Gas through their respective subsidiaries.

As announced on 16 August 2005, the joint arrangement between Henderson Investment Limited and China Gas for payment by Henderson Investment Limited and China Gas of 78.69% and 21.31% respectively of the total consideration paid for the cancellation of the scheme shares of the privatisation of Henderson Cyber constituted a connected transaction. The aggregate consideration paid by Henderson Investment Limited under this arrangement amounted to approximately HK\$252.53 million.

- (iii) As announced on 7 February 2006, Henderson (China) Investment Company Limited, Henston (BVI) Investment Limited, City Sharp Development Limited and Henston (China) Investment Company, Limited (collectively the "Relevant Subsidiaries"), being wholly-owned subsidiaries of the Company entered into a conditional agreement with Guangzhou Guang Yuan Enterprise Limited ("Guang Yuan") on 25 January 2006, pursuant to which the profit sharing ratios in Guangzhou Guang An Property Development Ltd., Guangzhou Guang Hung Property Development Ltd., and Guangzhou Guang Nam Property Development Ltd. (collectively, the "Project Companies") were revised to the effect that the Relevant Subsidiaries were entitled to 100% of the profits in each of the Project Companies. The principal activities of the Project Companies were the development of properties at Yanjiang Road West, Yuexiu District, Guangzhou, Guangdong Province, the People's Republic of China (the "PRC"). The consideration under the agreement was approximately HK\$166.68 million. Guang Yuan which was entitled to more than 10% of the profits in each of the Project Companies was regarded as a connected person of the Company under the Listing Rules. The entering into of the said agreement constituted a connected transaction of the Company.

(iv) As announced on 3 April 2006, Nickwell Investments Limited (“Nickwell”), Raytek Investments Limited (“Raytek”) and Wise Link Investments Limited (“Wise Link”), being wholly-owned subsidiaries of Promise Good Limited, in which a subsidiary of Henderson Investment Limited, has a 60% beneficial interest and Shining Gold Limited, a wholly-owned subsidiary of Min Xin Holdings Limited which was listed on the Hong Kong Stock Exchange owned the remaining 40%, entered into a sale and purchase agreement as vendors on 29 March 2006 for the sale of a 65% beneficial interest in Ningbo Nickwell Highway Development Company Limited (“Ningbo Nickwell”) owned by Nickwell, a 65% beneficial interest in Ningbo Rayter Highway Development Company Limited (“Ningbo Rayter”) owned by Raytek and a 65% beneficial interest in Ningbo Wise Link Highway Development Company Limited (“Ningbo Wise Link”) owned by Wise Link to Fenghua Transportation Investment Co., Ltd. (奉化市交通投資公司) (“Fenghua Transportation”), a state-owned enterprise of the Fenghua People’s Government, the PRC at the consideration of RMB70 million (approximately HK\$67.65 million) (the “Sale and Purchase”). Pursuant to the said agreement, Fenghua Transportation agreed to undertake the repayment of the bank loans which amounted to RMB181.7 million (approximately HK\$175.59 million) (the “Undertaking”).

Ningbo Nickwell, Ningbo Rayter and Ningbo Wise Link (collectively the “Joint Venture Companies”) had 25-year rights to develop and operate certain parts of the province expressway together with the respective ancillary facilities in the PRC. Fenghua Transportation was a substantial shareholder having a 35% interest in each of the Joint Venture Companies and thus was a connected person of the Company under the Listing Rules. The Sale and Purchase and the Undertaking therefore constituted a connected transaction of the Company.

(v) As announced on 16 May 2006, Shanghai Jingan Industrial Company (“Shanghai Jingan”), a state-owned enterprise established under the laws of the PRC and Profit Field Development Limited (“Profit Field”), a wholly-owned subsidiary of the Company entered into a conditional agreement on 12 May 2006 relating to the acquisition by Profit Field of 15% equity interest in Shanghai Heng Cheng Real Estate Development Co., Ltd. (“Hengcheng”) for a consideration of RMB64.05 million (approximately HK\$61.57 million) and the repayment of the debt amounting to approximately RMB64.79 million (approximately HK\$62.28 million) by Profit Field to Shanghai Jingan. The principal activity of Hengcheng was the holding of the piece of land located at Lot No. 688, Nanjing Road West, Jingan District, Shanghai, the PRC. As Shanghai Jingan held 15% interest in Hengcheng which was an indirect subsidiary of the Company, it was regarded as a connected person of the Company under the Listing Rules and the entering into the said agreement constituted a connected transaction of the Company.

(7) The material related party transactions set out in note 36 to the accounts on pages 157 and 158 constitute continuing connected transactions for which the disclosure requirements under the Listing Rules have been met.

Save as disclosed above, no other contracts of significance to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the year end or at any time during the year.

Directors’ Interests in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, the interests of Directors of the Company in businesses which might compete with the Group during the year ended 30 June 2006 and as at 30 June 2006 were as follows:

Dr. Lee Shau Kee, the Chairman of the Company, and Mr. Lee Ka Kit, Mr. Lee Ka Shing and Mr. Li Ning, Directors of the Company, have deemed interests and/or held directorships in companies engaged in the businesses of property investment, development and management in Hong Kong and Mainland China. As those companies which might have competing businesses with the Group were involved in the investment, development and management of properties of different types and/or in different locations, the Group, maintaining three independent non-executive directors, has been operating independently of, and at arm’s length from, the businesses of those companies.

Service Contracts

None of the Directors has a service contract with the Company or any of its subsidiaries which is of a duration exceeding three years or which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Purchase, Sale or Redemption of the Company's Listed Securities

Henson International Finance Limited, a wholly-owned subsidiary of the Company, effected the full redemption of the remaining 1% guaranteed convertible notes due 2006 on 9 February 2006, the maturity date, in the principal amount of HK\$188,700,000 at 82% (as fixed under the terms thereof) which, together with accrued interest, amounted to HK\$155,677,500.

Save and except for the above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year under review.

Major Customers and Suppliers

For the financial year ended 30 June 2006:

- (1) the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30 per cent of the Group's total purchases.
- (2) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30 per cent of the Group's total turnover.

Management Discussion and Analysis

A management discussion and analysis of the Group's annual results is shown on pages 68 to 71.

Retirement Benefits Scheme

The Group's Hong Kong employees participate in the Henderson Staff Provident Fund (the "Fund"), a defined contribution provident fund scheme as defined in the Occupational Retirement Schemes Ordinance or in another defined contribution scheme (the "Scheme") as mentioned below or in schemes (the "MPF Schemes") registered under the Mandatory Provident Fund Scheme Ordinance ("MPFO").

Contributions to the Fund are made by the participating employers at rates ranging from 4% to 6%, and by the employees at 2%, of the employees' basic monthly salaries. The portion of employers' contributions to which the employees are not entitled and which has been forfeited shall not be used to reduce the future contributions of the participating employers.

As for the Scheme, contributions are made by both the employers and the employees at the rate of 5% of the employees' basic monthly salaries. Forfeited contributions can be applied towards reducing the amount of future contributions payable by the employers. The amount of forfeited contributions of the Scheme utilised during the year was HK\$502,000 (2005: HK\$571,000). As at 30 June 2006, there were no forfeited contributions that could be utilised to reduce the Group's contributions to the Scheme (2005: HK\$30,000).

No employees of the Group were eligible to join the Fund or the Scheme on or after 1 December 2000.

Employees of the Group who are not members of the Fund and the Scheme participate in the MPF Schemes. In addition to the minimum benefits set out in the MPFO, the Group provides certain voluntary top-up benefits to employees participating in the MPF Schemes. The portion of employer's contributions to which the employees are not entitled and which has been forfeited can be used by the Group to reduce

the future contributions. The total amount so utilised in the year ended 30 June 2006 was HK\$955,000 (2005: HK\$861,000) and the balance available to be utilised as at 30 June 2006 was HK\$153,000 (2005: HK\$54,000).

The Group also participates in the state-organised pension scheme operated by the Government of the PRC for its PRC employees and contributes a certain percentage of the employees' covered payroll to fund the benefits.

The Group's retirement costs charged to the profit and loss account for the year ended 30 June 2006 were HK\$36,086,000 (2005: HK\$32,522,000).

Revolving Credit Agreement with Covenants of the Controlling Shareholders

As disclosed in the Company's announcement dated 17 September 2004, a wholly-owned subsidiary of the Company and a wholly-owned subsidiary of Henderson Investment Limited ("HI"), as several borrowers, have obtained a HK\$10,000,000,000 revolving credit facility that consists of a 5-year and a 7-year tranche in equal amounts (the "First Facility") from a syndicate of banks under the respective several guarantees given by the Company and HI.

In connection with the First Facility, it will be an event of default if the Company ceases to own and control at least 51 per cent of the issued equity share capital of HI or if either the Company or HI ceases to be ultimately controlled by Dr. Lee Shau Kee and/or his family and/or companies controlled by any of them or any trust in which Dr. Lee Shau Kee and/or his family and/or companies controlled by any of them are beneficiaries. If any event of default occurs, the First Facility may become due and payable on demand.

As also disclosed in the Company's announcement dated 26 July 2006, a wholly-owned subsidiary of the Company, as borrower, has obtained a HK\$13,350,000,000 5-year revolving credit facility (the "Second Facility") from a syndicate of banks under the guarantee given by the Company.

In connection with the Second Facility, it will be an event of default if the Company ceases to be ultimately controlled by Dr. Lee Shau Kee and/or his family and/or companies controlled by any of them or any trust in which Dr. Lee Shau Kee and/or his family and/or companies controlled by any of them are beneficiaries. If any event of default occurs, the Second Facility may become due and payable on demand.

Financial Assistance to Affiliated Companies

As at 30 June 2006, the Group had provided financial assistance to, and guarantees for certain affiliated companies amounting to HK\$12,936.98 million in aggregate exceeding 8 per cent of the total assets of the Company. In accordance with Rule 13.22 of the Listing Rules, the combined balance sheet of and the Group's attributable interest in these affiliated companies as at 30 June 2006 are set out as follows:

	Combined HK\$ million	The Group's attributable interest HK\$ million
Non-current assets	52,255	16,903
Current assets	8,376	3,246
Current liabilities	(5,142)	(1,998)
Net current assets	3,234	1,248
Total assets less current liabilities	55,489	18,151
Non-current liabilities	(39,087)	(12,353)
Net assets	16,402	5,798

Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Auditors

A resolution for the re-appointment of KPMG as Auditors of the Company is to be proposed at the forthcoming annual general meeting.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 74 to 79.

On behalf of the Board

Lee Shau Kee

Chairman

Hong Kong, 21 September 2006