HENDERSON LAND DEVELOPMENT COMPANY LIMITED

Interim Results and Dividend

The Board of Directors announces that for the six months ended 31 December 2006, the unaudited consolidated net profit of the Group attributable to equity shareholders amounted to HK$3,793.6 million, representing a decrease of HK$3,855.9 million or 50.4% from that for the same period of the previous year. Earnings per share were HK$2.06.

The underlying profit for the period under review, excluding the revaluation surplus of investment properties (net of deferred tax), was HK$2,427.9 million, or an increase of HK$70.4 million or 3.0% over HK$2,357.5 million for the same period in the previous year. Based on the underlying profit, the earnings per share were HK$1.32.

The Board has resolved to pay an interim dividend of HK$0.40 per share to shareholders whose names appear on the Register of Members of the Company on 25 April 2007.

Closing of Register of Members

The Register of Members of the Company will be closed from Monday, 23 April 2007 to Wednesday, 25 April 2007, both days inclusive, during which period no requests for the transfer of shares will be accepted. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 20 April 2007. Warrants for the interim dividend will be sent to shareholders on or before Friday, 27 April 2007.

Management Discussion and Analysis

BUSINESS REVIEW

Property Sales

For the six months ended 31 December 2006, the Group sold and pre-sold a total of approximately 2,300 residential units in Hong Kong generating sales revenues of approximately HK$4,000 million attributable to the Group, compared with HK$2,800 million for the same period of the previous year. Grand Waterfront in To Kwa Wan and The Sherwood in Tuen Mun, which were launched for sale in August and November 2006 respectively, were both well received. Up to the end of the period under review, 1,054 residential units and 647 residential units, or 59% and 41% of the total units, were respectively sold for these two large-scale development projects. Other projects put up for sale within the period, including Scenic Horizon in Shau Kei Wan and CentrePlace in the Mid-levels, also recorded satisfactory results.

For the period under review, profit from property development amounted to HK$1,150.9 million, compared with HK$116.7 million for the same period of the previous year.

The following development projects were completed in the period under review:

	Project name and location	Site area (sq.ft.)	Gross floor area (sq.ft.)	Land-use purpose	Group's interest (%)	Attributable gross floor area (sq.ft.)
1.	Royal Green – Phase 2, 18 Ching Hiu Road, Sheung Shui	97,133 (Note 1)	165,358	Residential	45.00	74,411
2.	Grand Waterfront, 38 San Ma Tau Street, To Kwa Wan	130,523	1,109,424	Commercial/ Residential	Residential: 46.08 Commercial: 26.14	Residential: 451,109 Commercial: 34,113

At the end of the period under review, the Group had a total of 4,277 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 period 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	32	70,939
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	17	27,111
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	45	37,285

	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 period end	Gross area of remaining unsold residential units (sq.ft.)
9.	Metro Harbour View – Phases 1 & 2, 8 Fuk Lee Street	228,595	1,714,463	Residential	60.65	80	50,155
10.	Paradise Square, 3 Kwong Wa Street	17,297	159,212	Commercial/ Residential	100.00	45	28,848
11.	Grand Promenade, 38 Tai Hong Street, Sai Wan Ho	131,321	1,410,629	Residential	63.07	415	440,426
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	89	85,869
14.	Royal Green – Phases 1 & 2, 18 Ching Hiu Road, Sheung Shui	97,133	485,620	Residential	45.00	308	241,871
15.	CentreStage, 108 Hollywood Road	26,903	276,971	Commercial/ Residential	100.00	56	68,809
16.	Scenic Horizon, 250 Shau Kei Wan Road	6,808	54,810	Commercial/ Residential	18.13	80	50,307
17.	CentrePlace, 1 High Street	15,824	63,666	Residential	100.00	55	48,798
18.	Grand Waterfront, 38 San Ma Tau Street, To Kwa Wan	130,523	1,109,424	Commercial/ Residential	Residential: 46.08 Commercial: 26.14	728	589,659
19.	The Sherwood, 8 Fuk Hang Tsuen Road, Tuen Mun	396,434	836,868	Commercial/ Residential	100.00	929	612,602
					Sub-total:	**3,051**	**2,733,227**
					Gross area attributable to the Group:		**1,906,098**

(2) 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.)
1.	The Beverly Hills, Tai Po Town Lot No. 161	982,376 (Note 2)	1,164,126	Residential	90.10	535	1,164,126
2.	The Verdancy, 50 Tan Kwai Tsuen, Yuen Long	54,487	54,487	Residential	100.00	119	54,487
3.	33 Lai Chi Kok Road, Mong Kok	9,600	84,156	Commercial/ Residential	100.00	108	68,284
4.	Lot No. 1740 in DD 122, Tong Yan San Tsuen, Yuen Long	78,781	78,781	Residential	100.00	60	78,781
5.	500-502 Tung Chau Street, Cheung Sha Wan	35,629	320,659	Commercial/ Residential	100.00	400	267,216
6.	11-12 Headland Road, Island South	43,492	32,619	Residential	44.42	4	32,619
					Sub-total:	**1,226**	**1,665,513**
					Gross area attributable to the Group:		**1,532,135**
					Total saleable residential units and total residential gross area from the major development projects:	**4,277**	**4,398,740**
					Total gross area attributable to the Group:		**3,438,233**

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

Note 2: This project is planned to be sold in phases in 2007. Marketing activities had been launched in late December 2006 and 4 houses had been sold through internal sale by 31 December 2006 (i.e., the end of the period under review).

Land Bank

The Group remained active in replenishing its land bank in Hong Kong through various means. During the period under review, the Group won the tender for a 92.31% stake of two prime sites in Wanchai with a total gross floor area of 184,711 square feet. The Group also added a number of agricultural land lots to its land bank with a total land area of approximately 0.7 million square feet.

During the period under review, land-use conversion in respect of land lots located at Jockey Club Road in Fanling has been completed and it will be developed into residential units comprising approximately 34,000 square feet in total gross floor area. Application for land exchange is now underway for the site at Tai Tong Road, Yuen Long, which is expected to provide approximately 1.09 million square feet in total gross floor area. The Group also submitted an application to the Government for land exchange for the site in Wu Kai Sha, Shatin. Negotiation on the premium for the exchange will start following the finalization of basic terms and it is expected to provide a total developable gross floor area of approximately 3 million square feet.

At the end of the period under review, the Group had a land bank with total attributable gross floor area of approximately 19.9 million square feet, including completed investment properties and hotels with total gross floor area of 8.8 million square feet and stock of unsold property units with total gross area of 2.5 million square feet. In addition, the Group held rentable car parking spaces with a total area of around 2.5 million square feet. It also held agricultural land lots of approximately 30.6 million square feet in terms of total land area, which is the largest holding among all property developers in Hong Kong.

Investment Properties

The Group's gross rental income for the period under review, including its share from jointly controlled entities, increased by HK$298.9 million or 24.4% to HK$1,522.7 million over that for the same period of the previous year. Net rental income for the period was HK$1,003.3 million, increased by 31.0% from HK$765.7 million for the same period of the previous year. At the period end, the Group's core rental properties recorded a high leasing rate of 95%.

Pay rises, stable interest rates and a buoyant stock market were the key drivers for boosting consumer confidence in the period under review. Increased tourist arrivals also contributed to improved retail sales. With more international brand name retailers and up-market restaurants joining force, the IFC Mall was already fully let. With a view to attracting more customers and increasing turnover for tenants, promotional campaigns, tenant-mix re-alignment and facility upgrading works have been regularly made in the Group's shopping malls. Refurbishments for Metro City Phase II and Shatin Plaza are now underway and Trend Plaza in Tuen Mun will add 20,000 square feet of prime retail space when the conversion works of the recently-acquired Tuen Mun Theatre complete in early 2008.

Driven by strong growth of the finance and the related service sectors in the territory, demand for quality office space remained keen. Most of the Group's major office towers, particularly the International Finance Centre, recorded respectable rental performances. Demand for serviced apartments also grew in parallel with the influx of multinational corporations. The serviced suites at Four Seasons Place, which offered an exclusive experience of luxury living and personalised services, recorded satisfactory occupancy and room rates.

Construction and Property Management

During the period under review, the Group's construction division completed many prominent projects, including Royal Green – Phase 2 and Grand Waterfront, in addition to a number of renovations and upgrading works for the shopping centres. Contribution from this business operation amounted to HK$32.7 million.

Major projects in progress include The Beverly Hills, 500-502 Tung Chau Street, 33 Lai Chi Kok Road, 222 Tai Kok Tsui Road, as well as office developments on Wai Yip Street and Sheung Hei Street.

The Group considers site safety a top priority and for the year 2006, the accident rate for the Group's construction activities was even lower than that for the government projects, whose safety requirements have long been regarded as the most rigorous. In addition, being committed to green initiatives, the Group adopted Environmental Management System based on the international standard ISO 14001:2004 and its result was to the satisfaction of Hong Kong Quality Assurance Agency in November 2006.

The Group's member property management companies, Hang Yick and Well Born, are on the frontline offering their care and the finest services not only to the customers, but also to the public at large. Owners' satisfaction rate as to handover arrangement of the recently-completed CentreStage was almost 100%. They also won a multitude of awards during the period under review including the "Highest Voluntary Service Hours Award" and the "Outstanding Partnership Award in the Employment of People with Disabilities 2006" from the Social Welfare Department.

Business in Mainland China

The Group is one of the earliest entrants to the real estate market in Mainland China. Over the years, several outstanding projects have been completed. These include Henderson Centre in Beijing, Office Tower II of The Grand Gateway in Shanghai, Heng Bao Garden in Guangzhou and Shanghai Skycity, of which a total gross floor area of approximately 2.64 million square feet has been retained by the Group for rental purpose. Rental performance was satisfactory during the period under review. Occupancy rate for Office Tower II of The Grand Gateway in Shanghai stood at 93%, whereas the shopping podia at Skycity and Everwin Garden were both fully let. The rental properties in Mainland China altogether generated a total gross rental income of HK$83.8 million during the period under review, an increase of 185.6% over the same period of the previous year.

In 2006, the Group re-defined its property business strategy in the Mainland. Apart from developing prime sites in the prime cities of Beijing, Shanghai and Guangzhou, the Group also focused on second-tier cities in the fast growing regions.

Development projects in the prime cities

Quality developments in the prime cities, where the infrastructure and supplementary facilities are well developed, draw keen interest from both foreign end-users and investors. To meet such growing demand, the Group will continue to target those prime sites with heavy pedestrian traffic and easy access for development into large-scale complexes of exceptional design and quality. The following is a summary of the progress made in some development projects:

Construction work of the World Financial Centre, which is located at No.2 Guan Dong Dian, Chao Yang District of Beijing, has progressed well. Upon completion in mid-2008, ahead of the opening of the 2008 Beijing Olympics, this project will house two connected grade A office towers with a total gross floor area of approximately 2.7 million square feet. The world-renowned Cesar Pelli of Pelli Clarke Pelli Architects, Inc. and HBA have been appointed as the design architect and the interior designer respectively for this flagship property. The Group will keep this landmark project for rental purpose and pre-leasing activities have commenced.

In the downtown of 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 2-level commercial podium with a total gross floor area of approximately 920,000 square feet. During the period under review, acquisition of its remaining 15% interest was completed allowing the Group to have full control over the development. Tange Associates of Japan have been appointed as the design architect and construction work will commence shortly after the plans are approved. Upon completion in the second half of 2009, it will be retained by the Group for rental income.

In addition, the site at Lot 130-2 Heng Feng Road of Zhabei District, which commands a land area of approximately 62,141 square feet, will be developed into an office building with a total gross floor area of about 510,000 square feet. Substructure work is now in progress. Due to postponement in construction, this project is expected to be completed in 2009. This building will be held for rental purpose. For the nearby site at Lot 147-2, 3 Heng Feng Road of approximately 64,842 square feet, it will be developed into a 25-storey commercial complex with a total gross floor area of over 400,000 square feet. Site works will commence in the second half of 2007 and it is expected to be completed and be ready for the Group's rental purpose in late 2009.

In Guangzhou, the River Pearl Plaza (Blocks A, B and C) at Yanjiang Road West, Yuexiu District comprises three sites with an aggregate site area of approximately 285,505 square feet. The project is planned for a mixed development. Demolition and site clearance works are still in progress in accordance with the schedule for the finalization of new development plans as well as the local municipal authorities' approval.

Hengli Wanpan Huayuan (formerly known as 210 Fangcun Avenue Development) became the most-sought-after residence in Guangzhou and its phase I residential development was basically sold out after its overwhelmingly successful launch in October 2006. The launch of its phase II development in early January 2007 received an equally encouraging response with approximately 80% of their units sold. The average selling price for these two phases of development was RMB8,000 per square metre. The entire project, comprising nine residential towers of 33 to 34 storeys, a two-level commercial podium, two-level basement carparks and a kindergarten, provides a total attributable gross floor area of some 2.0 million square feet and is expected to be completed by the first quarter of 2008.

Development projects in the second-tier cities

The Group believes that, with rapid economic growth, improving infrastructural development and rising productivity, the pace of urbanization will hasten. This will in turn create demand in emerging second-tier cities for housing of a better quality to improve living standards. The Group has therefore made significant efforts in the negotiation for acquisition of land in over 20 second-tier cities in the Mainland, particularly in those provincial capitals with a preponderance of the middle class.

Knowing that relaxing, yet convenient, living environment is particularly attractive to the local home-buyers, the Group will focus on developing large-scale self-contained communities in second-tier cities. With the majority of the development designed for residential use, complemented by shopping malls and amenity facilities, such large-scale communities will bring about an efficient use of the land resources, thus enhancing long term appreciation in property value.

As reported in the 2006 Annual Report, preliminary works had commenced in the project of Xuzhou New Town, Jiangsu province and the project of Xingsha Town, Changsha, Hunan province. For the project of Xuzhou New Town, a piece of land of 5.89 million square feet, in the proximity of Dalong Lake, was acquired at RMB541 million and to be built for 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. With about 1.28 million square feet of gross floor area, pre-sale will begin in early 2008 and this phase of development is scheduled for completion in the second half of 2008. The entire development is expected to be completed by 2010. The project in Xingsha Town of Changsha, with total land cost of RMB198 million, will be developed in phases. The 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. Pre-sale will begin in early 2008 and it is due for completion in the second half of 2008. The whole development is expected to be completed by 2010 and the Group has increased the shareholding of this project up to 91%.

Since July 2006, the Group has added the following land lots to its landbank by way of auction, strategic co-operation and acquisition:

In Kaifu District of Changsha City, Hunan province, the Group bought another piece of land of about 825,000 square feet at RMB184 million, which will be developed into a residential project with a gross floor area of 2.48 million square feet. It is adjacent to the Kaifu District Government Offices with excellent transport infrastructure and lush environment. Planning and design have commenced and site works will start in the second half of this year. Pre-sale will begin in late 2008 and the project is scheduled for completion before the end of 2009.

The Group has also formed a 50/50 joint venture with Temasek Holdings (Private) Limited of Singapore to jointly develop a riverside residential project over the east riverbank of Chan River, Xian, Shaanxi Province. The site of approximately 15 million square feet is located within the Chan Ba Ecological District. Surrounded by the east third ring road and subway, which are both under construction, the development will have a gross floor area of approximately 33.5 million square feet with comfortable living environment as well as comprehensive amenities upon completion. Total land cost for this project was about RMB1,720 million. The first phase of the development, which has a total gross floor area of approximately 2.5 million square feet, is expected to be launched as early as mid-2008 and will be completed in mid-2009. This sizeable project is expected to be completed by 2013.

At the Shenyang New District Development of Liaoning province, the Group also acquired a parcel of land of about 3.6 million square feet at over RMB190 million, which has a scenic view with a small river flowing along the boundary and a hill at the back of the site. It is earmarked for residential and commercial development with a total gross floor area of about 5.4 million square feet. Planning and design will commence shortly and it is tentatively planned that the land fronting the river of Puhe will have a low density development of town houses and low rise apartments, whereas the remaining parts of the site will have a rhythmic grouping of residential buildings of 12 to 18 storeys. Site works will start in the first half of 2008. Pre-sale will take place in the first half of 2009 and the development is scheduled for completion before the end of 2009.

Two more development projects in Chongqing were added, one in Nan'an District and the other in Phoenix Area of Erlang New City. For the Nan'an District Riverside Development, the land lot of approximately 1.1 million square feet is located at Binjiang Road which runs alongside the river bank of Changjiang. Adjacent to a large green park of approximately 0.8 million square feet, this development enjoys a panoramic view of Changjiang. Total cost for acquiring this site was about RMB310 million. This residential project, together with commercial space, a kindergarten and clubhouse facilities, will have a total floor area of around 4 million square feet. Planning and design have commenced and site works will start in mid-2008. Pre-sale is scheduled to begin in the first half of 2009 and completion is expected by the end of 2009.

A land lot of about 920,000 square feet in Phoenix Area of Erlang New City, Chongqing City was also acquired at RMB157 million. Erlang New City Development, linked with Chengdu by Chengdu-Chongqing Expressway, has a zoning plan covering an artificial lake, a wetland park and a sports centre. This residential project, complemented by commercial space, a kindergarten and clubhouse facilities, will provide a total gross floor area of around 2.8 million square feet on completion. Planning and design have commenced and site works will start in the second half of 2008. Pre-sale is expected to begin in the first half of 2009 and it is due for completion by the end of 2009.

Recently, the Group won the bid for a piece of land in Suzhou, Jiangsu province at the consideration of about RMB865 million. Located in Xiangcheng District with a site area of about 3.18 million square feet, it is planned for a mixture of residential and commercial development along the river with a total developable floor area of about 6.8 million square feet. Planning and design have commenced and the initial development plan called for a water-themed design so as to capture the scenic environment of Suzhou. Site works will start in the second half of 2008. Pre-sale is scheduled to begin in mid-2009 and it is due for completion in 2010.

Expected Completion schedule

Project name and location	Land-use	Attributable gross floor area (million square feet)
For the year ending 30 June 2008		
World Financial Centre, Beijing	Office	2.7
Hengli Wanpan Huayuan, Guangzhou	Mixed (note 1)	2.0
	Total :	**4.7**
For the year ending 30 June 2009		
Phase 1, Project in Xuzhou New Town, Xuzhou	Mixed (note 1)	1.3
Phase 1A, Project in Xingsha Town, Changsha	Mixed (note 1)	1.3
Phase 1, Chan River East Development, Xian	Mixed (note 1)	2.5
	Total :	**5.1**
For the year ending 30 June 2010		
Lot 688, North of Nanjing Road West, Jingan District, Shanghai	Mixed (note 2)	0.9
Lot 130-2, Heng Feng Road, Zhabei District, Shanghai	Office	0.5
Lot 147-2,3, Heng Feng Road, Zhabei District, Shanghai	Mixed (note 2)	0.5
Kaifu District Development, Changsha	Residential	2.5
Shenyang New District Development, Shenyang	Mixed (note 1)	5.4
Nan'an District Riverside Development, Chongqing	Mixed (note 1)	4.0
Phoenix Area North Development, Chongqing	Mixed (note 1)	2.8
Xiangcheng District Development, Suzhou	Mixed (note 1)	6.8
	Total :	**23.4**

Note 1: majority for residential purpose, complemented by commercial and supplementary facilities

Note 2: include commercial and office

To sum up, a total land cost of over RMB4,100 million has been spent so far for the properties under development in the second-tier cities of Mainland, with an attributable land area of approximately 30 million square feet. This will provide a total attributable gross floor area of 73.2 million square feet, of which around 80% is earmarked for residential development for sale with details as follows:

Usage of land bank	Developable gross floor area (million square feet)	Percentage
Residential	57.0	77.9%
Commercial	3.9	5.3%
Office	3.2	4.4%
Other	9.1	12.4%
Total :	**73.2**	**100.0%**

Apart from the above projects, the Group is entering into the final phase for the acquisition of several land sites, for which agreements have been reached. These projects will involve land cost payments of approximately RMB7,500 million and will produce a total gross floor area of 83 million square feet on completion. With the probable completion of the formalities for the land acquisition before the end of June 2007, the Group's landbank in the Mainland will further increase to a total developable floor area of about 150 million square feet.

In order to become a truly national property developer, the Group will bring to bear on its Mainland projects its project management teams' advanced and wide ranging experience in Hong Kong, whilst at the same time recruiting additional professional talents. The Group will also work hand in hand with world-renowned architects and designers to develop quality properties, fulfilling its pledge of excellence and further reinforcing its already strong brand name. Additionally, the Group's other competitive advantages are:

– its ability to provide high quality and reliable property management services, fully backed-up by its experienced and award-winning property management companies in Hong Kong; and

– its complementary business expansion in the Mainland with its listed associate, The Hong Kong and China Gas Company Limited, which already has 70 projects in piped-gas distribution, water supplies and sewage treatment in the Mainland.

The Group believes that, with the timely implementation of its expansion plan, it will soon be widely recognized as a leading property developer in the Mainland.

Henderson Investment Limited

For the six months ended 31 December 2006, the unaudited consolidated profit of this group attributable to equity shareholders amounted to HK$1,951.5 million, an increase of HK$149.5 million or 8.3% over that for the same period of the previous year. Excluding the revaluation surplus of investment properties (net of deferred tax), the underlying profit for the period was HK$1,510.3 million, an increase of HK$566.6 million or 60.0% over that for the same period of the previous year. The profit growth was mainly due to an increase in interest income after the share placement, while an impairment loss on goodwill arising from the privatisation of Henderson Cyber Limited of HK$161.8 million was recorded in the previous year. For its core investment properties, the leasing rate remained high at 94%. With an influx of inbound tourists, Newton Hotel Hong Kong and Newton Hotel Kowloon reported growth in both average room rate and occupancy despite an increase in hotel-room supply in Hong Kong. China Investment Group Limited, its 64%-owned subsidiary engaged in the toll-bridge and toll-road joint venture operations in Mainland China, recorded a smaller profit contribution as Hangzhou Qianjiang Third Bridge, whose repair work commenced in October 2005, was still under renovation by the period end.

Associated Companies

The Hong Kong and China Gas Company Limited reported a consolidated net profit after taxation of HK$5,862.6 million for the year ended 31 December 2006, which comprised HK$3,224.4 million arising from its gas business and property rental income (an increase of HK$162.6 million as compared with 2005) and HK$2,638.2 million from the sale of properties and a revaluation surplus from an investment property.

During the year under review, Hong Kong and China Gas signed agreements to establish piped city-gas companies in Xi'an, Shaanxi province; Yuhang, Hangzhou, Zhejiang province; Tongling, Anhui province; Jintan, Jiangsu province and Yingkou, Liaoning province. On 4 December 2006, Hong Kong and China Gas, Panva Gas Holdings Limited ("Panva Gas") and its largest shareholder, Enerchina Holdings Limited ("Enerchina"), jointly announced that Panva Gas would acquire Hong Kong and China Gas's interest in the shares and shareholder loans in ten mainland piped city-gas companies and that in return, Panva Gas would issue approximately 773 million new shares to Hong Kong and China

Gas. With the completion of this transaction on 1 March 2007, Hong Kong and China Gas has become the largest shareholder of Panva Gas holding about 43.97% of its issued shares. On a combined basis, Hong Kong and China Gas and Panva Gas have 60 piped city-gas projects on the Mainland. Panva Gas also has liquefied petroleum gas businesses in 15 Mainland cities.

Hong Kong and China Gas successfully entered the energy upstream arena in 2006 by acquiring its first coalbed gas joint venture project in Shanxi province and concluding a joint venture agreement to invest in a natural gas liquefaction project in Yan'an, Shaanxi province. The upstream projects will provide an additional gas source for the downstream project of piped city-gas projects. Inclusive of Panva Gas, Hong Kong and China Gas currently has a total of 70 projects spread across 13 provinces and an area of Beijing, encompassing upstream, midstream and downstream natural gas sectors as well as the water supply and wastewater treatment sector.

In Hong Kong, total volume of gas sales remained stable and the number of customers as at the end of 2006 was 1,622,648, an increase of 25,375 over 2005. To receive natural gas from the Guangdong Liquefied Natural Gas (LNG) Terminal, Hong Kong and China Gas has laid twin 34 km, 450 mm-diameter submarine pipelines from Chengtoujiao in Shenzhen to Tai Po gas production plant in Hong Kong and constructed control and metering stations at Chengtoujiao and Tai Po. With the commissioning of both pipelines and stations, as well as natural gas receiving station in Tai Po, natural gas and naphtha have been used as dual feedstock mix for producing town gas since October 2006, bringing savings on gas bills to customers through the existing fuel cost adjustment mechanism. ECO Energy Company Limited, its wholly-owned subsidiary company, will soon conclude operational tests as the installation work of a landfill gas treatment facility at the North East New Territories landfill site was completed. Construction work of a 19 km pipeline to Tai Po gas production plant has also been completed and it expects to start using the treated landfill gas to partially replace naphtha as a fuel for town gas production by mid-2007.

On the property development front, encouraging response was received in August 2006 for its pre-sale of Grand Waterfront at Ma Tau Kok south plant site. Together with the sale of the remaining residential units at Grand Promenade and King's Park Hill, a total profit of about HK$1,779.4 million was made from property sales for the year under review. The commercial area of approximately 150,000 square feet at the podium of Grand Waterfront was completed during the year, becoming another major investment property to Hong Kong and China Gas in addition to the International Finance Centre Complex.

It is anticipated that with the introduction of natural gas, the price competitiveness of town gas will be enhanced in the local energy market, while its Mainland business will also further prosper given that the total number of piped city-gas projects has increased since the acquisition of Panva Gas as its associated company in early March 2007.

Hong Kong Ferry (Holdings) Company Limited reported a consolidated net profit after taxation of HK$121.7 million for the year ended 31 December 2006, representing a decrease of 50% from the consolidated profit after taxation of HK$243.2 million in 2005. The decrease in profit was mainly due to the provision of HK$100 million for a claim arising from the Central Ferry Piers litigation.

During the year, this group recorded an operating profit of HK$136 million from the sale of approximately 220 residential units of Metro Harbour View, with a value of approximately HK$265 million. Residential units of MetroRegalia at Tong Mi Road was also offered for sale in December 2006, with a profit of HK$18 million recorded. On the property investment front, rental income from Metro Harbour Plaza amounted to HK$24.3 million for the year and its leasing rate as at the end of the year was approximately 98% after taking into account the committed tenancies. Also, 50% of the shops at MetroRegalia were leased out.

Construction progressed well for the residential-cum-commercial property development site at 222 Tai Kok Tsui Road, which will provide a total gross floor area of approximately 320,000 square feet upon completion by late 2008. No.6 Cho Yuen Street, Yau Tong, which has gross floor area of approximately 140,000 square feet for residential use and

25,000 square feet for non-residential use respectively, also showed good progress and should be completed by early 2009.

Due to severe competition, coupled with the increase in fuel oil price, the Ferry, Shipyard and Related operations recorded a loss of HK$7.2 million. During the year, the fee arising from the litigation in respect of the proposed development of the Central Ferry Piers amounted to HK$27.5 million. After accounting for increased costs, the Travel and Hotel Operations recorded an operating loss of HK$2.3 million this year despite a slight increase in turnover.

It is anticipated that selling of residential units will be the major source of income for Hong Kong Ferry in the coming year and the rental income will also register stable growth.

Miramar Hotel and Investment Company, Limited recorded HK$389.5 million in unaudited profit attributable to shareholders for the six months ended 30 September 2006, representing an increase of 19% as compared to the same period of the previous year. Hotel Miramar recorded a 20% increment in the average room rate over the same period of the previous year while maintaining an average occupancy rate of 90%. The hotel's food and beverage operations and the hotel management business have also performed satisfactorily. Miramar Shopping Centre and Hotel Miramar Shopping Arcade upgraded market positioning and image by changing tenant mix since previous year. Average rental rate for renewals and new leases concluded during the period went up by approximately 35% compared with expired leases; and average occupancy stayed at about 90% for Miramar Shopping Centre. Its office tower, similarly, showed a remarkable rental growth of over 80% with an average occupancy rate close to 90%. To gain direct access to MTR station and to draw more pedestrian flow, Miramar, together with the developer of Tung Ying Building site, entered into an agreement with the MTR Corporation to jointly build a pedestrian tunnel connecting the Tsim Sha Tsui MTR station to Miramar Shopping Centre, Hotel Miramar and their adjacent building. Due to a general slowdown in the US property market, the Group's land-sale project at Placer County, California, U.S. recorded no transaction during the period. The overall food and beverage operation, including the premier restaurant duo of Cuisine Cuisine and Lumiere, registered steady profit growth. Travel business, with more customers attracted by its new package tours and itineraries and growing business for its commercial travel department, also made significant progress. It was also appointed as the Hong Kong General Agent for OCEANIA, a leading cruise company in Europe.

Sunlight Real Estate Investment Trust

In December 2006, the Group disposed of its interests in eleven office and retail (including car parking) properties to Sunlight Real Estate Investment Trust ("Sunlight REIT") at a total consideration of approximately HK$1,099.3 million. Units of Sunlight REIT were then listed on the Main Board of The Stock Exchange of Hong Kong Limited on 21 December 2006 with approximately 4.5% of Sunlight REIT being held by the Group as a result. Sunlight REIT currently owns a portfolio of 20 office and retail properties in Hong Kong with an aggregate gross rentable area of approximately 1.29 million square feet. The transaction proceeds would be used for the operations and new investment opportunities of the Group. Further, the Group's business would be diversified with an additional source of stable income as its wholly-owned subsidiary, namely, Henderson Sunlight Asset Management Limited has been appointed as the manager of Sunlight REIT.

PROSPECTS

China continues its rapid pace of economic growth, fuelling further advances for various business sectors in Hong Kong. In particular, with the increasing number of Mainland enterprises listed in Hong Kong, financial institutions from both Mainland China and overseas countries are keen to expand their businesses in Hong Kong so as to seize the investment opportunities for their investors. It will underpin growth in the Hong Kong economy and also lend support to Hong Kong's property market.

The recent strong auction results reflect the great demand for luxury residential accommodations in Hong Kong. The Group has responded to such demand by vigorously marketing luxury residential properties such as The Beverly Hills at Tai Po. In addition, rising wages, favourable mortgage terms offered by banks, and reduced stamp duty are all conducive to encouraging home buying by the general public. Thus, both volume and price for residential property sales as a whole are expected to pick up steadily. The Group plans to launch the sale of a number of development projects, including 500-502 Tung Chau Street, 33 Lai Chi Kok Road, Tong Yan San Tsuen project and The Verdancy at Yuen Long. Together with the re-launch of the popular projects including Grand Waterfront, The Sherwood and Grand Promenade, they are expected to bring significant revenue to the Group.

Driven by robust domestic economic activities, office demand will remain strong. To meet rising demand for quality office space, the Group will complete the development of a number of new office buildings over the next few years, which will give an added boost to rental income. The development of Kwun Tong 223 on Wai Yip Street will provide over 1.0 million square feet of grade-A office space equipped with hi-tech intelligent facilities when it is completed by this year-end. Pre-leasing of this landmark project is being launched and good response has been received from both local companies and multinational corporations. The Group currently has approximately 8.8 million square feet of completed investment properties in Hong Kong. With the gradual completion of those projects under construction, it will increase to 10.0 million square feet in the coming year. Rental income from the quality office buildings is expected to rise further, whereas on the back of an improved consumption sentiment, rental growth for shopping centres will also be remarkable. Rental revenue, which rises continuously, is one of the key drivers for the Group's profit growth. It also drives up the Group's asset values over the long term.

Office Tower II of The Grand Gateway in Shanghai was almost fully let soon after its completion in the fourth quarter of 2005, making significant contribution to the Group's rental revenue in the period under review. This reflects the strong appetite for quality office space in Mainland China and bodes well for the leasing prospect of the World Financial Centre in Beijing and the other office and commercial properties in Shanghai, which are now under construction.

Despite a new series of macroeconomic control measures in Mainland China, continuous economic growth and robust end-user demand continue to lend support to quality property development projects such as Hengli Wanpan Huayuan in Guangzhou. The Group believes that the measures are aimed at curbing speculation, stabilising property price and rationalizing the property market, which are all favourable for the Group's long-term investment and development in Mainland China. The Group will continue to bring a combination of world vision, local experience and professional expertise to bear on its developments. This will ensure that the Group will prevail on the strength of quality, irrespective of market conditions.

The Group has taken active steps to expand its landbank in Mainland China. With the addition of several pieces of prime sites in various cities for the past eight months, the Group's land bank has increased to a total attributable gross floor area of 73.2 million square feet. In addition, the Group is entering into the final phase for the acquisition of several land sites, for which agreements have been reached. With the probable completion of the formalities for the land acquisition before the end of June 2007, the Group's landbank will amount to a total attributable gross floor area of about 150 million square feet, paving a solid way for its future development. Design and planning, or preliminary works, have been embarked upon for some of the acquired land lots with good progress being made. These projects will become an important driver for the Group's profit growth in the years to come.

The Group, with equal emphasis on both markets of Hong Kong and the Mainland, strives to enhance shareholder value with a wider market coverage. Rental income from both Hong Kong and Mainland China, as well as contributions from the Group's listed associates, will provide stable recurrent income to the Group. The sale of various property development projects will also result in a significant profit. In the absence of unforeseen circumstances, it is anticipated that the Group will show satisfactory performance in the current financial year.

TRIBUTE

The Hon. Lo Tak Shing *GBM, JP*, vice chairman and non-executive director of the Company, passed away during the period.

Mr. Lo was appointed to the Board in 1981 and had given invaluable contributions to the Company. The Board deeply regrets his departure.

Accordingly, Mr. Vincent Liang ceased to be the alternate director to Mr. Lo. The Board would like to express its gratitude to Mr. Liang for his contributions to the Company.