

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 30th June, 2002.

Principal Activities

The Company is an investment holding company and the principal activities of its subsidiaries are property development and investment, project management, property management, finance and investment holding in the People's Republic of China (the "PRC").

An analysis of the Group's turnover and profit from operations by business segment is set out in note 2 to the accounts on pages 47 and 48.

No geographical analysis is shown as less than 10 per cent. of the Group's turnover and profit from operations are outside the PRC.

Subsidiaries

Particulars of the principal subsidiaries of the Company as at 30th June, 2002 are set out on pages 65 to 70.

Group Profit

The profit of the Group for the year ended 30th June, 2002 and the state of affairs of the Company and the Group at that date are set out in the accounts on pages 35 to 71.

Dividends

An interim dividend of HK\$0.06 per share was paid on 24th April, 2002. The Directors have recommended the payment of a final dividend of HK\$0.06 per share to shareholders whose names appear on the Register of Members of the Company on 18th December, 2002.

Fixed Assets

Particulars of the movements in fixed assets during the year are set out in note 13 to the accounts on pages 54 and 55.

Bank Loans and Overdrafts

Particulars of bank loans and overdrafts of the Company and the Group as at 30th June, 2002 are set out in note 21 to the accounts on page 57.

Interest Capitalised

The amount of interest capitalised by the Group during the year ended 30th June, 2002 is set out in note 5 to the accounts on pages 49 and 50.

Reserves

Particulars of the movements in reserves during the year are set out in notes 25 to 27 to the accounts on pages 59 and 60.

Group Financial Summary

The results, assets and liabilities of the Group for the last five years are summarized on page 31.

Development and Investment Properties

Particulars of development and investment properties of the Group are set out on pages 6 to 9.

Directors' Remuneration

Particulars of the Directors' remuneration disclosed pursuant to Paragraph 24 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are set out in note 33 to the accounts on pages 63 and 64.

Henderson Centre,
Dongcheng District, Beijing



Total G.F.A.: approx. 3,159,000 sq.ft.; 75% owned by Group.

This project is located directly opposite the Beijing Railway Station and is also connected by a pedestrian underpass to the Beijing Station of the city's underground mass transit railway system. This completed project comprises a 20-storey residential block and three office towers of 7, 9 and 23 storeys respectively built over 3-level above-ground retail shopping podium.

Report of the Directors (cont'd)

Directors

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

EXECUTIVE DIRECTORS:

Lee Ka Kit (*Chairman and President*)

Lee Shau Kee

Colin Lam Ko Yin

Lee King Yue

Leung Sing

Lee Ka Shing

Patrick Kwok Ping Ho

Ho Wing Fun

Cheung Fong Ming

Kan Fook Yee

Li Sek Yin

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Philip Yuen Pak Yiu

Liang Shangli

NON-EXECUTIVE DIRECTOR:

Wong Ying Wai

Messrs. Colin Lam Ko Yin, Lee King Yue, Leung Sing and Patrick Kwok Ping Ho retire by rotation at the forthcoming annual general meeting in accordance with Bye-law 87 of the Company's Bye-laws and, being eligible, offer themselves for re-election.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

LEE Ka Kit, aged 39, National Committee Member of Political Consultative Conference, PRC, has been Deputy Chairman, Vice President and Managing Director of the Company since

1993 and the Chairman and President since 1999. He was educated in the United Kingdom and has been primarily responsible for the development of the PRC business of Henderson Land Group since 1985. Mr. Lee is also the vice chairman of Henderson Development Limited ("Henderson Development"), Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited, an executive director of Henderson Cyber Limited and a director of The Hong Kong and China Gas Company Limited. Henderson Development and Henderson Land have discloseable interests in the Company under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance. He is the son of Dr. Lee Shau Kee and the brother of Mr. Lee Ka Shing.

Dr. Lee Shau Kee, *D.B.A. (Hon.), D.S.Sc. (Hon.), LL.D. (Hon.)*, aged 74, has been an Executive Director of the Company since 1993 and Chairman and President of the Company from 1993 to 1999. Dr. Lee has been engaged in property development in Hong Kong for more than 45 years. He is also the founder and the chairman and managing director of Henderson Land Development Company Limited and Henderson Investment Limited as well as the chairman of The Hong Kong and China Gas Company Limited, Miramar Hotel and Investment Company, Limited and Henderson Cyber Limited, the vice chairman of Sun Hung Kai Properties Limited as well as a director of Hong Kong Ferry (Holdings) Company Limited and The Bank of East Asia, Limited. The relationship of Dr. Lee Shau Kee and the companies which have discloseable interests in the Company under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance is stated in the notes of "Substantial Shareholders'

Report of the Directors (cont'd)

Interests" under the section "Disclosure of Interests" in the Directors' Report. He is the father of Mr. Lee Ka Kit and Mr. Lee Ka Shing.

LAM Ko Yin, Colin, *B.Sc., A.C.I.B., M.B.I.M., F.C.I.L.T.*, aged 51, has been an Executive Director of the Company since 1993. He holds a B.Sc. (Honours) degree from the University of Hong Kong and has over 29 years' experience in banking and property development. He joined Henderson Land Group in 1982 and is at present the vice chairman of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited as well as an executive director of Henderson Cyber Limited. He is also the chairman of Hong Kong Ferry (Holdings) Company Limited, a director of The Hong Kong and China Gas Company Limited and Miramar Hotel and Investment Company, Limited. Mr. Lam is a director of Rimmer (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited, Henderson Land, Brightland Enterprises Limited, Primeford Investment Limited and Quantum Overseas Limited which have discloseable interests in the Company under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance.

LEE King Yue, aged 76, has been an Executive Director of the Company since 1995. He joined Henderson Development Limited, the ultimate parent company of the Company on its incorporation in 1973 and has been engaged with the Chairman in property development for over 45 years. He is also an executive director of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited. Mr. Lee is a director of Henderson Land, Brightland Enterprises Limited, Primeford Investment Limited and Quantum Overseas Limited which

have discloseable interests in the Company under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance.

LEUNG Sing, aged 65, has been an Executive Director of the Company since 1995. He has over 35 years' experience in property development. Mr. Leung is also an executive director of Henderson Land Development Company Limited which has discloseable interests in the Company under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance.

LEE Ka Shing, aged 31, has been an Executive Director of the Company since 1995. He was educated in Canada and joined Henderson Land Group in 1993. Mr. Lee is an executive director of Henderson Development Limited ("Henderson Development"), Henderson Land Development Company Limited ("Henderson Land"), Henderson Investment Limited and Henderson Cyber Limited as well as a director of The Hong Kong and China Gas Company Limited. Henderson Development and Henderson Land have discloseable interests in the Company under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance. He is the son of Dr. Lee Shau Kee and the brother of Mr. Lee Ka Kit.

KWOK Ping Ho, Patrick, *B.Sc., M.Sc., Post-Graduate Diploma in Surveying, A.C.I.B.*, aged 50, has been an Executive Director since 1995. He holds a B.Sc. (Engineering) degree as well as a M.Sc. (Administrative Sciences) degree and he is also a holder of the Post-Graduate Diploma in Surveying (Real Estate Development). Mr. Kwok is an Associate Member of The Chartered Institute of Bankers of the United Kingdom and he had worked in the international banking

The Grand Gateway,
Xuhui District, Shanghai



Total Planned G.F.A. : approx. 4,626,000 sq.ft.; 25.875% owned by Group. This commercial and residential complex project situate in one of the prime location of Shanghai. Phase 1 mainly consists of residential and retail shopping property with a total G.F.A. of approx. 1,739,000 sq.ft. and was completed in late 1999 for rental purpose.

Report of the Directors (cont'd)

field for more than 11 years with postings in London, Chicago, Kuala Lumpur, Singapore as well as in Hong Kong before joining the Company. He is also an executive director of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited. Henderson Land has discloseable interests in the Company under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance.

HO Wing Fun, aged 69, has been an Executive Director of the Company since 1993. He joined Henderson Development Limited in 1975 and has over 45 years' experience in operational management of property investment and development, specializing in accounting, auditing and taxation. Mr. Ho is also an executive director of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited. Henderson Land has discloseable interests in the Company under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance.

CHEUNG Fong Ming, aged 71, has been an Executive Director of the Company since 1993. He holds a degree in Economics from Peking Qinghua University and has completed post-graduate studies in Business Management at the Foreign Economics Department of Peking University. He has over 30 years' working and teaching experience in the Ministry of Foreign Trade, PRC and the University of Beijing Foreign Economic and Trade since late 1950's up to early 1980's. Mr. Cheung joined Henderson

Land Group in 1991 having previously been a director and deputy general manager of CITIC (HK) Ltd. and vice president of CITIC Development Corporation, Beijing.

KAN Fook Yee, *F.H.K.I.S., F.R.I.C.S., F.C.I.Arb.*, aged 66, has been an Executive Director of the Company since 1997. He is also a director of Henderson Land Development Company Limited ("Henderson Land"). Mr. Kan is a fellow member of The Hong Kong Institute of Surveyors, The Royal Institution of Chartered Surveyors and The Chartered Institute of Arbitrators. He has over 38 years' experience in the field of property surveying. Henderson Land has discloseable interests in the Company under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance.

LI Sek Yin, *B.Sc., M.Sc., P.E.*, aged 53, has been an Executive Director of the Company since 1997. He holds B.Sc. degree from University of Texas, M.Sc. degree from Texas Tech University and the certification of Texas Real Estate Commission courses. He is the registered Professional Engineer in Texas, registered Professional Sanitarian, Texas Department of Health, and holder of Real Estate Broker License, Texas, United States. He has over 26 years' experience in land/property development, building construction, consulting engineering in civil and structural design, property acquisition/leasing, mortgage/finance, property investment, brokerage, commercial/residential property management and asset management in China, Hong Kong and the United States.

Report of the Directors (cont'd)

INDEPENDENT NON-EXECUTIVE DIRECTORS

YUEN Pak Yiu, Philip, aged 66, has been a Director of the Company since 1993. He is a solicitor of The Supreme Court of England and Wales and of Hong Kong and a partner of the firm of Yung, Yu, Yuen & Co. He has over 35 years' experience in legal practice both in Hong Kong and the PRC. Mr. Yuen is also a director of Henderson Investment Limited.

LIANG Shangli, aged 81, has been a Director of the Company since 1993. He is the chairman of the Bai Hui Group Company Limited. Mr. Liang is also a member of CPPCC All China Standing Committee, vice chairman of the All China Federation of Industry & Commerce and a member of the First Government Selection Committee of The People's Republic of China Hong Kong Special Administrative Region. He holds a degree from Guangzhou University.

NON-EXECUTIVE DIRECTOR

WONG Ying Wai, *B.Soc.Sc., MPA*, aged 49, has been a Director of the Company since November 1999. He became a Non-executive Director as from August 2000. He was educated at Harvard University, Oxford University, the University of Hong Kong and the Chinese University of Hong Kong. Mr. Wong is a Deputy to The Ninth

National People's Congress, vice chairman of Shui On Holdings Limited, president of China Investment Group Limited, chairman of the Business and Professionals Federation of Hong Kong, deputy chairman of the Court and Council of Hong Kong Baptist University and president of The Hong Kong Federation of Youth Groups.

SENIOR MANAGEMENT

HUI Lap Wai, Steve, *B.Sc., M.Sc., M.EECS.*, aged 53, is the President of Telecommunications and Technology. He holds a B.Sc. in Mechanical Engineering from the University of Texas at Austin, a M.Sc. in Mechanical Engineering, and a Master of Engineers in Electrical Engineering and Computer Science, both from The University of California at Berkeley. Mr. Hui joined the Company in June 2000. He has over 25 years of business and high tech experience in the United States, Hong Kong and other countries.

LI Ming Pei, aged 67, is a Project Director. He holds a degree in Civil Engineering from South China Polytechnic, Guangzhou. Mr. Li joined the Group in 1994 and has over 36 years' experience in construction supervision for Hong Kong and PRC projects.

Report of the Directors (cont'd)

Disclosure of Interests

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2002, the interests of the Directors of the Company in the equity securities of the Company and its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") 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)

Name of Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Henderson China Holdings Limited	Lee Chau Kee				325,133,977 (Note 3)	325,133,977
Henderson Land Development Company Limited	Lee Chau Kee				1,122,938,300 (Note 4)	1,122,938,300
	Ho Wing Fun	100				100
	Lee King Yue	26,400	16,500	19,800 (Note 13)		62,700
	Leung Sing	85,600				85,600
	Kan Fook Yee		24,000			24,000
Henderson Investment Limited	Lee Chau Kee	34,779,936			2,075,859,007 (Note 5)	2,110,638,943
	Colin Lam Ko Yin	11,000				11,000
	Ho Wing Fun	1,100				1,100
	Lee King Yue	959,028	42,711			1,001,739
	Leung Sing	150,000				150,000
Henderson Cyber Limited	Lee Chau Kee	173,898			4,244,996,094 (Note 16)	4,245,169,992
	Colin Lam Ko Yin	55				55
	Ho Wing Fun	5				5
	Lee King Yue	4,795	588			5,383
	Leung Sing	750				750

Report of the Directors (cont'd)

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

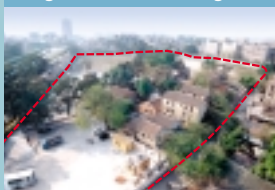
Name of Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Hong Kong Ferry (Holdings) Company Limited	Lee Shau Kee	7,799,220			110,363,090 (Note 6)	118,162,310
	Colin Lam Ko Yin	150,000				150,000
The Hong Kong and China Gas Company Limited	Lee Shau Kee	3,226,174			2,157,017,776 (Note 7)	2,160,243,950
Miramar Hotel and Investment Company, Limited	Lee Shau Kee				252,105,250 (Note 8)	252,105,250
	Kan Fook Yee		20,000			20,000
Henderson Development Limited	Lee Shau Kee				8,190 (Ordinary A Shares) (Note 9)	8,190 (Ordinary A Shares)
		35,000,000 (Non-voting Deferred Shares)			15,000,000 (Non-voting Deferred Shares) (Note 10)	50,000,000 (Non-voting Deferred Shares)
					3,510 (Non-voting B Shares) (Note 15)	3,510 (Non-voting B Shares)
	Lee Ka Kit				8,190 (Ordinary A Shares) (Note 11)	8,190 (Ordinary A Shares)
	Lee Ka Shing				8,190 (Ordinary A Shares) (Note 12)	8,190 (Ordinary A Shares)
Angelfield Investment Limited	Colin Lam Ko Yin			1 (Note 13)		1

Report of the Directors (cont'd)

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

Name of Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Zenger Investment Limited	Leung Sing	2				2
Henfield Properties Limited	Lee Ka Kit			4,000 (Note 13)		4,000
Shellson International Limited	Lee Ka Kit			25 (Note 13)		25
Feswin Investment Limited	Lee Ka Kit			5,000 (Note 13)		5,000
Perlin Development Limited	Lee Ka Kit			5 (Note 13)		5
Quickcentre Properties Limited	Lee Ka Kit			1 (Note 13)		1
Techno Factor (Development) Limited	Lee Ka Kit	2,575,000				2,575,000
Amanwana Limited	Lee Ka Kit	5				5
Maxfine Development Limited	Lee Ka Kit			1,525 (Note 13)		1,525
Shanghai Henfield Properties Co., Ltd.	Lee Ka Kit			see (Note 14)		see (Note 14)

Site On Fangcun Avenue, Fangcun District, Guangzhou



Total Planned G.F.A. : approx. 13,053,000 sq.ft.; 100% owned by Group. Situated above the Fangcun Station of Guangzhou City's Metro Line, this development project is planned to build 42 towers on several shopping podia. The first phase comprises four residential towers on a 2-storey retail podium, with a total G.F.A. of approx. 1,200,000 sq.ft.. Resettlement and site clearance works are in progress.

Report of the Directors (cont'd)

Share Option Scheme

At a special general meeting of the shareholders of the Company held on 15th March, 1996, the Share Option Scheme of the Company ("Henderson China Share Option Scheme") was approved and adopted. A summary of the Henderson China Share Option Scheme is as below:

(1) PURPOSE

The purpose of the Henderson China Share Option Scheme is to provide the executive directors and employees of the Group with incentives of share options.

(2) PARTICIPANTS

The Company may grant options to subscribe for shares in the Company ("Shares") under the Henderson China Share Option Scheme to executive directors and employees of the Group.

(3) MAXIMUM NUMBER OF SHARES AVAILABLE FOR SUBSCRIPTION

The maximum number of Shares in respect of which options may be granted (including Shares issued pursuant to options exercised and Shares in respect of which any options remain outstanding) under the Henderson China Share Option Scheme and any other share option schemes of the Company shall not exceed 10 per cent. of the issued share capital of the Company from time to time excluding Shares issued pursuant to the Henderson China Share Option Scheme.

(4) MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

No participant may be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25 per cent. of the aggregate number of Shares for the time being issued and issuable under the Henderson China Share Option Scheme.

(5) MINIMUM AND MAXIMUM PERIODS FOR THE EXERCISE OF OPTIONS

An option may be exercised in accordance with the terms of the Henderson China Share Option Scheme at any time during such period or periods to be notified by the Board of Directors of the Company to each grantee. The option may be exercised on the expiry of 6 months after the date on which the grant of an option is accepted (the "Commencement Date") and not later than a period of 3 years after the Commencement Date or 14th March, 2006, whichever is the earlier.

(6) PAYMENT ON ACCEPTANCE OF OPTION

HK\$1.00 is payable to the Company by the grantee on acceptance of an option within 28 days from the date of offer of the grant of an option ("Offer Date").

(7) BASIS OF DETERMINING THE SUBSCRIPTION PRICE

The subscription price per Share is determined by the Board of Directors of the Company and shall be the higher of:

- (i) a price being not less than 80 per cent. of the average closing price per Share as stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the Offer Date; and
- (ii) the nominal value per Share.

(8) REMAINING LIFE

The Henderson China Share Option Scheme shall be valid and effective for a period of 10 years commencing on 15th March, 1996, after which no further options will be granted.

Report of the Directors (cont'd)

Arrangements to Purchase Shares or Debentures

(I) OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY

As at 30th June, 2002, the following Directors of the Company had interests in options to subscribe for shares in the Company which were granted at the consideration of HK\$1.00 for each grant of options under the Henderson China Share Option Scheme:

Name of Director	Date of Grant	Number of share options at 1st July, 2001	Exercisable Period	Number of share options granted during the year	Number of share options outstanding at 30th June, 2002
Li Sek Yin	12/12/2000	1,000,000	28/06/2001 — 27/06/2004	—	1,000,000
Colin Lam Ko Yin	21/02/2001	1,500,000	21/08/2001 — 20/08/2004	—	1,500,000
Lee Ka Kit	02/05/2001	1,500,000	02/11/2001 — 01/11/2004	—	1,500,000

The above Directors of the Company will be entitled to exercise the share options in whole or in part at the price of HK\$4.00 per share at any time during the respective exercisable periods.

As at 30th June, 2002, share options granted under the Henderson China Share Option Scheme for a total of 4,000,000 shares in the Company remained outstanding, representing in aggregate approximately 0.8 per cent. of the existing issued share capital of the Company. These share options were granted to the following category of grantees:

Category of Grantees	Number of Grantees	Number of share options
Directors	<u>3</u>	<u>4,000,000</u>

No share options under the Henderson China Share Option Scheme had been granted, exercised, cancelled or lapsed during the year ended 30th June, 2002.

Report of the Directors (cont'd)

(II) OPTIONS TO SUBSCRIBE FOR SHARES IN ASSOCIATED CORPORATION

As at 30th June, 2002, the following Directors of the Company had interests in options to subscribe for shares in Henderson Cyber Limited, an associated corporation of the Company:

Name of Director	Number of share options
Lee Shau Kee	2,400,000
Colin Lam Ko Yin	1,200,000
Lee Ka Kit	1,200,000
Lee Ka Shing	1,200,000
Patrick Kwok Ping Ho	600,000
Ho Wing Fun	400,000

Each of the above Directors will be entitled to exercise at the price of HK\$1.25 per share (i) thirty per cent. of the share options so granted at any time after the expiry of 12 months from 14th July, 2000, (ii) a further thirty per cent. of the share options so granted at any time after the expiry of 24 months from 14th July, 2000 and (iii) the remaining share options at any time after the expiry of 36 months from 14th July, 2000 and, in each case, not later than four years from 14th July, 2000.

Except for the above, at no time during the year 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' Interests

As at 30th June, 2002, the interests of substantial shareholders, other than Directors of the Company, in the ordinary shares of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance were as follows:

Name of Company	No. of shares in which interested
Rimmer (Cayman) Limited (Note 2)	324,527,977
Hopkins (Cayman) Limited (Note 2)	324,527,977
Henderson Development Limited (Note 1)	324,527,977
Henderson Land Development Company Limited (Note 1)	324,527,977
Brightland Enterprises Limited (Note 1)	324,527,977
Primeford Investment Limited (Note 1)	175,000,000
Quantum Overseas Limited (Note 1)	74,900,000
Timsland Limited (Note 1)	74,627,977

Report of the Directors (cont'd)

Notes:

- 1 These shares were beneficially owned by the subsidiaries of Henderson Land Development Company Limited ("HL"). Primeford Investment Limited, Quantum Overseas Limited and Timsland Limited were subsidiaries of Brightland Enterprises Limited which was a subsidiary of HL. HL was a subsidiary of Henderson Development Limited ("HD").
- 2 These shares are duplicated in the interests described in Note 1 and Note 3. Rimmer (Cayman) Limited was the trustee of a discretionary trust which held the majority of units in a unit trust ("Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust beneficially owned all the issued ordinary shares which carry the voting rights in the share capitals of HD and Fu Sang Company Limited ("FS").
- 3 Dr. Lee Shau Kee beneficially owned all the issued share capitals of Rimmer (Cayman) Limited and Hopkins (Cayman) Limited. These shares are duplicated in the interests described in Note 1 and Note 2.
- 4 Of these shares, 1,117,335,700 shares were beneficially owned by FS, HD and certain subsidiaries of HD. Dr. Lee Shau Kee was taken to be interested in FS and HD as set out in Note 1, Note 2 and Note 3 by virtue of the SDI Ordinance. In addition, 5,602,600 shares were beneficially owned by a subsidiary of The Hong Kong and China Gas Company Limited ("China Gas"). Dr. Lee Shau Kee was taken to be interested in China Gas as set out in Note 7 by virtue of the SDI Ordinance.
- 5 These shares were beneficially owned by FS and certain subsidiaries of HL. Dr. Lee Shau Kee was taken to be interested in FS and HL as set out in Note 1, Note 2, Note 3 and Note 4 by virtue of the SDI Ordinance.
- 6 These shares were beneficially owned by certain subsidiaries of Henderson Investment Limited ("HI"). Dr. Lee Shau Kee was taken to be interested in HI through FS and HL as set out in Note 1, Note 2, Note 3, Note 4 and Note 5 by virtue of the SDI Ordinance.
- 7 These shares were beneficially owned by certain subsidiaries of HI, FS and a subsidiary of HD. Dr. Lee Shau Kee was taken to be interested in HI, FS and HD as set out in Note 1, Note 2, Note 3, Note 4 and Note 5 by virtue of the SDI Ordinance.
- 8 These shares were beneficially owned by certain subsidiaries of HI. Dr. Lee Shau Kee was taken to be interested in HI through FS and HL as set out in Note 1, Note 2, Note 3, Note 4 and Note 5 by virtue of the SDI Ordinance.
- 9 Dr. Lee Shau Kee was taken to be interested in HD through the Unit Trust, Hopkins (Cayman) Limited and Rimmer (Cayman) Limited as set out in Note 2 and Note 3 by virtue of the SDI Ordinance.
- 10 These shares were beneficially owned by FS. Dr. Lee Shau Kee was taken to be interested in FS through the Unit Trust, Hopkins (Cayman) Limited and Rimmer (Cayman) Limited as set out in Note 2 and Note 3 by virtue of the SDI Ordinance.
- 11 These shares were beneficially owned by the Unit Trust. The units of the Unit Trust were owned by two discretionary trusts in which Mr. Lee Ka Kit was one of the discretionary beneficiaries.
- 12 These shares were beneficially owned by the Unit Trust. The units of the Unit Trust were owned by two discretionary trusts in which Mr. Lee Ka Shing was one of the discretionary beneficiaries.
- 13 These shares were beneficially owned by a company in which the relevant director is entitled to exercise or control the exercise of one-third or more of the voting power at its general meetings.
- 14 Shanghai Henfield Properties Co., Ltd. was an equity joint venture company in the PRC of which the registered capital was US\$27,000,000. Henfield Properties Limited ("Henfield") (owned as to 40 per cent. by a company controlled by Mr. Lee Ka Kit) and the PRC partner to the joint venture had entered into a joint venture contract under which Henfield and the PRC partner agreed to make contributions to the total amount of investment in the proportion of 99 per cent. and 1 per cent. respectively and to share the profits of the joint venture company in accordance with their equity interest in the joint venture company.
- 15 These shares were beneficially owned by Hopkins (Cayman) Limited as trustee of the Unit Trust. Dr. Lee Shau Kee was taken to be interested in HD through the Unit Trust, Hopkins (Cayman) Limited and Rimmer (Cayman) Limited as set out in Note 2 and Note 3 by virtue of the SDI Ordinance.
- 16 These shares were beneficially owned by a subsidiary of HI, FS, certain subsidiaries of HL and a subsidiary of China Gas. Dr. Lee Shau Kee was taken to be interested in HI, FS, HL and China Gas as set out in Note 1, Note 2, Note 3, Note 4, Note 5 and Note 7 by virtue of the SDI Ordinance.

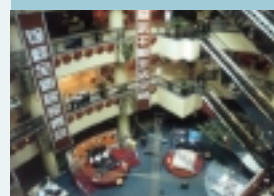
Report of the Directors (cont'd)

Interests in Contracts and Connected Transactions

During the year under review, your Group has 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

- (1) (i) Under the terms of an agreement dated 15th March, 1996, Henderson Land Development Company Limited ("Henderson Land") and its subsidiaries (together the "Henderson Land Group") agreed to provide the Group with finance, administration and accounting services as may be requested by the Directors from time to time and the Henderson Land Group would be reimbursed by the Company in respect of such services at cost. For the year ended 30th June, 2002, payment made to the Henderson Land Group for the above services amounted to approximately HK\$2 million.
- (ii) In relation to the spin-off of Henderson Land's property development and property investment businesses in the PRC and the transfer of Henderson Land's direct or indirect interests in certain PRC properties to the Group, Henderson Land agreed to indemnify the Group in respect of any diminution in the value of the Group arising from, inter alia, PRC income tax and Land Appreciation Tax in accordance with an indemnity deed dated 15th March, 1996 between Henderson Land and the Company. The maximum value of the tax indemnities in respect of PRC income tax and Land Appreciation Tax had been estimated to be approximately HK\$2,583 million and HK\$1,921 million respectively. As at 30th June, 2002, approximately HK\$291.6 million and HK\$0.9 million in respect of the indemnities on income tax and Land Appreciation Tax respectively were accrued.
- (2) (i) Henderson Real Estate Agency Limited, a wholly-owned subsidiary of Henderson Land made advances from time to time to Henderson (China) Finance Limited, a wholly-owned subsidiary of the Company, with interest chargeable on the balances outstanding from time to time based on Hong Kong Inter-bank Offer Rate ("HIBOR") quoted by banks. As at 30th June, 2002, an amount of approximately HK\$165.6 million was due by Henderson (China) Finance Limited to Henderson Real Estate Agency Limited.
- (ii) West Chelsea Holdings Co. Limited, a wholly-owned subsidiary of Henderson Land made advances from time to time to Hiram Assets Limited, a wholly-owned subsidiary of the Company with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30th June, 2002, an amount of approximately of HK\$8.7 million was due by Hiram Assets Limited to West Chelsea Holdings Co. Limited.
- (iii) Henderson Finance Company Limited, a wholly-owned subsidiary of Henderson Development Limited made advances from time to time to Henderson (China) Finance Limited with interest chargeable on the balances outstanding from time to

Skycity,
Zhabei District, Shanghai



Total G.F.A. : approx. 1,224,000 sq.ft.; 37.5% owned by Group. Situates close to the Shanghai Zhabei Railway Station, this completed project comprises two 25-storey residential/office towers, a 26-storey office block and a 4-level retail shop podium.

Report of the Directors (cont'd)

time based on HIBOR quoted by banks. As at 30th June, 2002, an amount of approximately HK\$33.2 million was due by Henderson (China) Finance Limited to Henderson Finance Company Limited.

(iv) Glorious Asia S.A., a wholly-owned subsidiary of Henderson Development Limited made advances from time to time to Hiram Assets Limited with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30th June, 2002, an amount of approximately HK\$5.8 million was due by Hiram Assets Limited to Glorious Asia S.A..

(v) Henderson Real Estate Agency Limited made advances from time to time to Shellson International Limited, a non wholly-owned subsidiary of the Company, with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30th June, 2002, an amount of approximately HK\$181.4 million was due by Shellson International Limited to Henderson Real Estate Agency Limited.

(vi) 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. As at 30th June, 2002, an amount of approximately HK\$222.6 million was due by Shellson International Limited to Henderson Finance Company Limited.

Dr. Lee Shau Kee 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 Henderson Development Limited and Henderson Land.

Mr. Lee Ka Kit was interested in the transactions referred to in (2)(v) and (vi) above as a director and indirect shareholder of Shellson International Limited and a director of Henderson Development Limited and Henderson Land.

(3) Mr. Lee Ka Kit, through companies owned or controlled by him, has interests in five companies in which the Company is interested and through which the Company 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 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 the Company and Mr. Lee Ka Kit on 15th March, 1996 provided that all existing and

Report of the Directors *(cont'd)*

future advances made by the Company 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 30th June, 2002, the advances made by Mr. Lee Ka Kit to the Group's non wholly-owned subsidiaries and associates amounted to approximately HK\$410.2 million and HK\$646.1 million respectively and interest payable on the advances made by Mr. Lee Ka Kit totalled approximately HK\$39.6 million for the year ended 30th June, 2002.

A Committee of Independent Non-executive Directors of the Company has reviewed and confirmed that the transactions (1) and (3) referred to above are (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 each of those companies; (c) on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties; and (d) fair and reasonable so far as the shareholders of the Company are concerned.

The Auditors of the Company have also confirmed that for the year ended 30th June, 2002 the transactions (1) and (3) referred to above received the approval of the Company's Board of Directors and that the transactions have been entered into in accordance with the terms of the agreement governing the transactions or where there is no such agreement, on terms no less favourable than terms available to (or from) independent third parties.

- (4) Pursuant to a Non-compete Agreement entered into at the time of the public listing of the Company in March 1996, it has been agreed that (i) Mr. Lee Ka Kit in respect of the Chaoyang Project and (ii) Henderson Development Limited and Mr. Lee Ka Kit in respect of the Huangpu Project, will offer to sell their respective interests in the projects at the then prevailing market price as soon as all requisite business licences, zoning approvals, land use rights and other relevant matters shall have been put in order.

The Company received offers on 29th September, 2001 from Henderson Development Limited and Mr. Lee Ka Kit offering to sell their interests in the Chaoyang Project and the Huangpu Project to the Company (together the "Offers"). An Independent Board Committee comprising the independent non-executive directors, Mr. Liang Shangli and Mr. Philip Yuen Pak Yiu, was appointed to consider the Offers. Having taken into account the advice of the independent financial adviser, DBS Asia Capital Limited, the Independent Board Committee considered that it would not be in the interests of the Company to accept the Offers. Accordingly, the Company notified Henderson Development Limited and Mr. Lee Ka Kit on 16th November, 2001 of its decision not to accept the Offers.

Report of the Directors (cont'd)

- (5) During the year, the Group made advances to the following non wholly-owned subsidiaries and associates in proportion to its equity interests in these companies as unsecured working capital repayable on demand:

Feswin Investment Limited
 Henfield Properties Limited
 Perlin Development Limited
 Quickcentre Properties Limited
 Shellson International Limited

Mr. Lee Ka Kit has interests in the above companies as set out in (3) above.

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 30th June, 2002 and as at 30th June, 2002 were as follows:

Mr. Lee Ka Kit, the Chairman of the Company, has interests and/or directorships in companies engaged in property development in Mainland China. Dr. Lee Shau Kee, a Director of the Company, has deemed interests in companies engaged in property development in Mainland China. As those companies which might have competing businesses with the Group were involved in the development of properties of different types and/or in different locations, the Group has been operating independently of, and at arm's length from, the businesses of those companies.

Mr. Wong Ying Wai, a Director of the Company, is vice chairman of Shui On Holdings Limited, the businesses of which include property development and investment, property management and construction in Mainland China. Mr. Wong is a non-executive director of the Company and is not involved in the day-to-day management and operations of the Group.

Service Contracts

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

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws of Bermuda.

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

During the year neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Major Customers and Suppliers

For the financial year ended 30th June, 2002:

- (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 10 to 13.

Report of the Directors (cont'd)

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 schemes (the "MPF Schemes") registered under the Mandatory Provident Fund Schemes 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 employer's 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. No employees of the Group were eligible to join the Fund on or after 1st December, 2000.

Employees of the Group who are not members of the Fund 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 amount forfeited in the year ended 30th June, 2002 was not utilised (2001: Nil) and the balance available to be utilised as at 30th June 2002 was HK\$144,000 (2001: HK\$6,000).

The Group also participates in the state-organised pension scheme operated by the Government of the People's Republic of China (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 for year ended 30th June, 2002 were HK\$1,735,000 (2001: HK\$1,675,000), of which the amount of HK\$1,441,000 was capitalised (2001: HK\$1,218,000) and the amount of HK\$294,000 was charged to the profit and loss account (2001: HK\$457,000).

Audit Committee

The Audit Committee was established in December 1998. The members of the Audit Committee are Mr. Philip Yuen Pak Yiu (Chairman) and Mr. Liang Shangli, both of whom are Independent Non-executive Directors. The Audit Committee members have reviewed the interim and annual reports of the Group for the financial year under review and Audit Committee meetings were held twice during the financial year.

Auditors

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

Code of Best Practice

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the financial year ended 30th June, 2002 except that Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with Bye-law 87 of the Company's Bye-laws.

On behalf of the Board

Lee Ka Kit
Chairman

Hong Kong, 3rd October, 2002