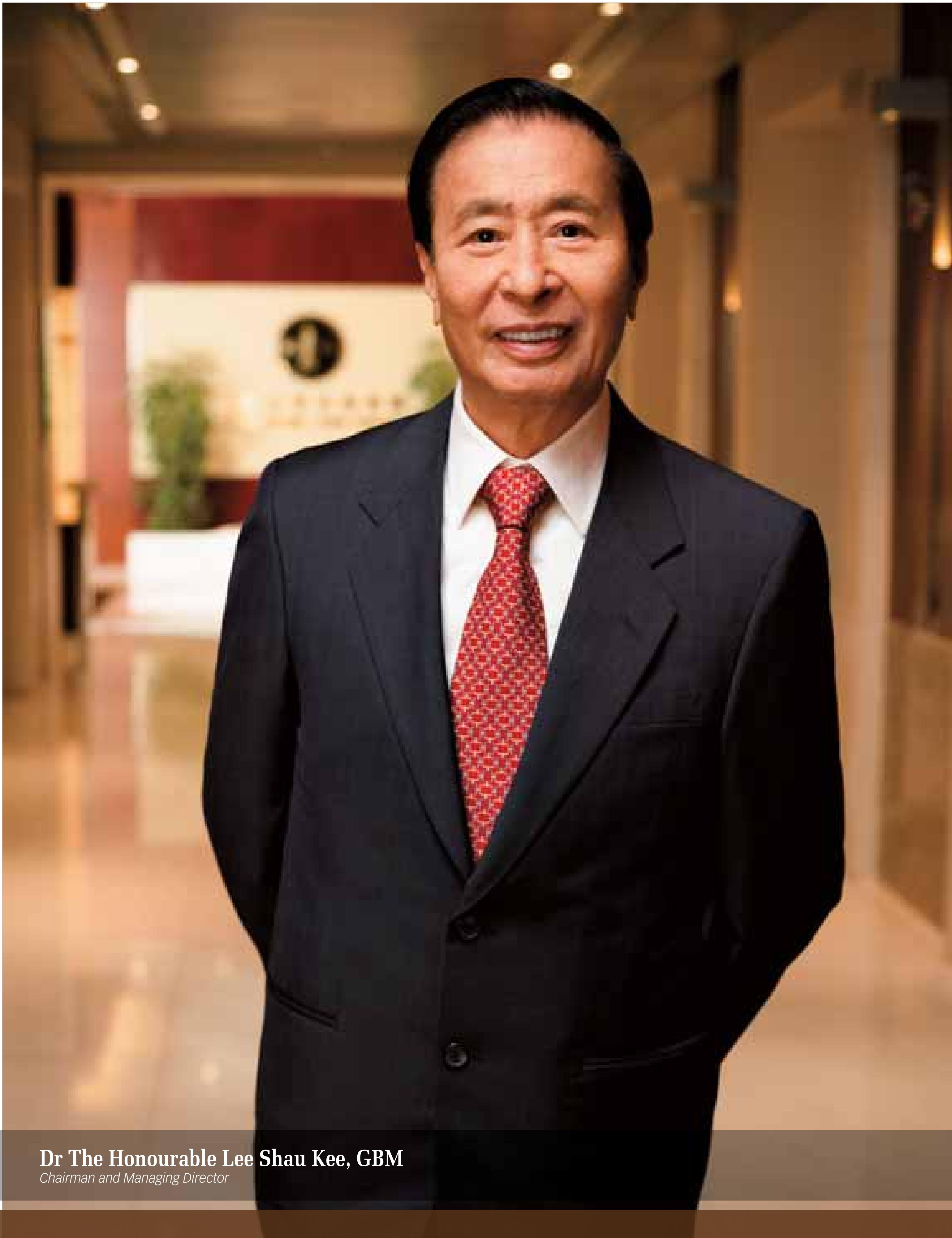


Dr The Honourable Lee Shau Kee, GBM
Chairman and Managing Director

Chairman's Statement

Dear Shareholders,

On behalf of your Board, I am pleased to present my report on the operations of the Group for the year ended 30 June 2007.

Disposal of Interests in Certain Companies to Henderson Land Development Company Limited

On 27 March 2007, the Company and Henderson Land Development Company Limited ("Henderson Land") entered into an agreement providing for the acquisition by Henderson Land, for cash, of the Group's property portfolio, the 31.36% interest in Hong Kong Ferry (Holdings) Company Limited, the 44.21% interest in Miramar Hotel and Investment Company, Limited and certain listed securities. Upon completion of the transaction, the Group mainly held a 38.55% stake (which was increased to 39.06% as at 17 September 2007) in The Hong Kong and China Gas Company Limited ("Hong Kong and China Gas") and certain infrastructure business. As part of the transaction which was completed on 13 June 2007, a distribution of HK$5.00 per share was made to Shareholders.

The Company received an aggregate amount of consideration in cash of approximately HK$12,072.6 million from Henderson Land for the transaction. By way of the distribution of HK$5.00 per share, the Company paid a sum of approximately HK$15,236.6 million in cash to Shareholders.

A gain of HK$925.4 million from the transaction was recorded by the Group.

Profit and Net Assets

The Group profit attributable to equity shareholders for the year amounted to HK$5,391.1 million, representing an increase of HK$1,723.9 million or 47.0% over that for the previous year. Earnings per share were HK$1.77 (2006: HK$1.28).

The underlying profit for the year, excluding the revaluation surplus of investment properties (net of deferred tax), was HK$4,691.6 million, or an increase of HK$2,625.5 million or 127.1%. Based on the underlying profit, the earnings per share were HK$1.54 (2006: HK$0.72).

Excluding the profit from the businesses which have been disposed of, the profit attributable to equity shareholders for the year from continuing operations amounted to HK$3,626.3 million (2006: HK$1,928.0 million), representing an increase of HK$1,698.3 million or 88.1% over that for the previous year. Excluding the revaluation surplus of investment properties (net of deferred tax), the underlying profit from continuing operations amounted to HK$3,313.2 million, or an increase of HK$1,714.0 million or 107.2%. Earnings per share from continuing operations were HK$1.09 (2006: HK$0.56).

With the completion of disposal of interests in certain companies to Henderson Land, the net asset value attributable to equity shareholders at 30 June 2007 amounted to HK$16,961.6 million.

Dividends

Your Board recommends the payment of a final dividend of HK$0.15 per share to Shareholders whose names appear on the Register of Members of the Company on 3 December 2007. Based on the shares of the Company in issue, the final dividend will amount to a total of approximately HK$457.1 million. Including the interim dividend already paid of HK$0.13 per share, the total distribution for the full year will be HK$0.28 per share, which is the same as the total distribution per share in the previous year. Warrants for the final dividend will be sent to Shareholders on 4 December 2007.

In addition to the interim and final dividends for the year, as mentioned earlier a cash distribution of HK$5.00 per share was made to Shareholders upon completion of asset disposal to Henderson Land.

As stated in the circular to shareholders dated 20 April 2007, following completion of disposal of interests in certain companies to Henderson Land, cash dividends received by the Group from Hong Kong and China Gas will be fully distributed to Shareholders, subject to availability of sufficient distributable reserves. This will be the future dividend policy of the Company post completion of the transaction until and unless the Group invests in new infrastructure or other projects in the future.

Business Review

Continuing Operations

Infrastructure

The Group's infrastructure business mainly comprises interests in Hangzhou Qianjiang Third Bridge and a highway in Maanshan City, Anhui Province. They are both strategically located in the Yangtze River Delta, one of the high growth regions in mainland China.

Qianjiang Third Bridge in Hangzhou and the highway in Anhui Province were, respectively, 55.7% and 31.4% effectively owned by the Group at 30 June 2007. With the exception of the former in which certain shareholdings are held directly by the Company, the investments in the two projects have been made by China Investment Group Limited, which was owned to the extent of 64.06% by the Company during the year.

The profit contribution from this business segment increased from last year's HK$81.8 million to HK$130.7 million, mainly due to the increase in traffic volume for Hangzhou Qianjiang Third Bridge following the completion of repair and maintenance work to it during the year.

Associated Company – The Hong Kong and China Gas Company Limited

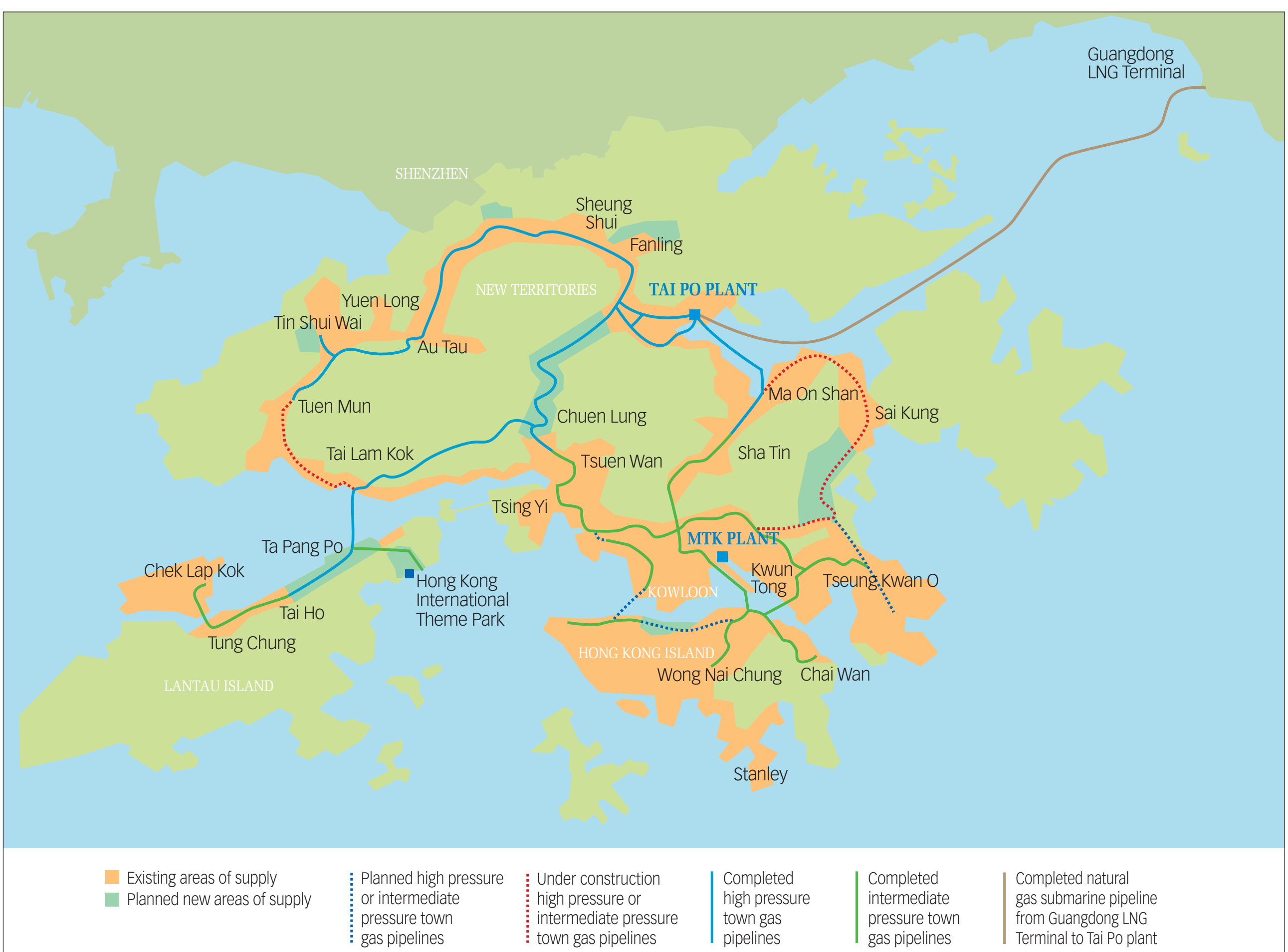
Background and Lines of Business

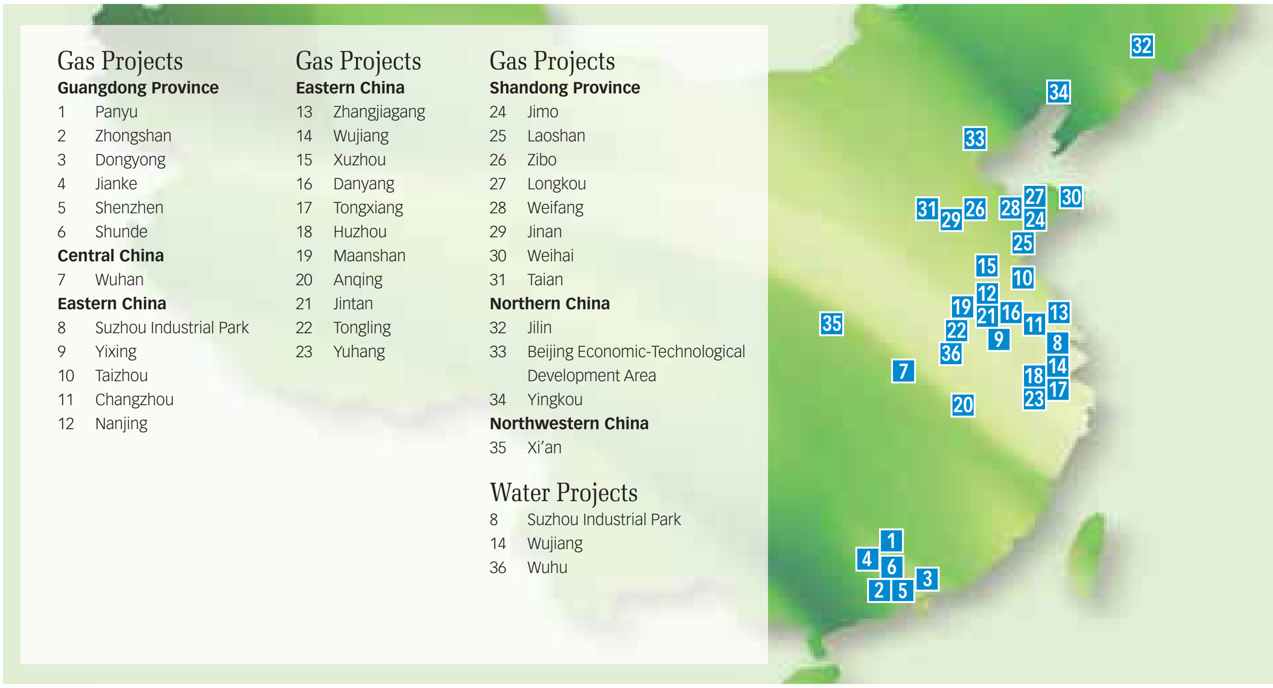
(I) Hong Kong Core Businesses

Founded in 1862, The Hong Kong and China Gas Company Limited was the first public utility in Hong Kong and today remains the sole supplier of piped gas in Hong Kong. Its core businesses comprise production and distribution of gas, marketing of gas and gas appliances, and comprehensive after-sales services. Hong Kong and China Gas serves over 1.6 million local customers spread throughout Hong Kong, Kowloon peninsula, some new towns in the New Territories, as well as North Lantau Island including the Hong Kong International Airport.

Hong Kong and China Gas continues to expand its gas network to cope with the public demand for clean and reliable supply of energy. The 24 km Eastern Transmission Pipeline will allow the eastern part of the New Territories to have a ring-feed system when it is completed in 2007. Similar work for the western New Territories also began in 2006. By the end of 2006, its town gas pipeline network in Hong Kong stood at around 3,236 km, covering 85% of Hong Kong's households.

In order to receive natural gas from the Guangdong Liquefied Natural Gas (LNG) Terminal, Hong Kong and China Gas has laid twin 34 km submarine pipelines from Chengtoujiao in Shenzhen to Tai Po gas production plant in Hong Kong. Following the commissioning of both pipelines and natural gas receiving stations in Tai Po, natural gas and naphtha have been used as a dual feedstock mix for producing town gas since October 2006. The signing of a 25-year contract in 2003 by Hong Kong and China Gas has secured natural gas at a price currently lower than that





of naphtha. Savings on fuel costs have been passed on to customers, thus enhancing the competitiveness of its business.

(II) Mainland China Businesses

During the past decade, Hong Kong and China Gas has been actively developing piped city-gas businesses in mainland China. A significant milestone was reached in December 2006 when it agreed to acquire an approximately 43.97% equity stake in Towngas China Company Limited ("Towngas China", formerly known as Panva Gas Holdings Limited), a well-established mainland China piped city-gas operator, in exchange for interests in ten Hong Kong and China Gas's piped city-gas projects in Shandong and Anhui provinces. Hong Kong and China Gas group has subsequently appointed four executive directors, including the Chairman, to the board of directors of Towngas China. With the injection of Hong Kong and China Gas's management expertise, financial resources and technical skills, Towngas China will improve its operational competitiveness. With the ability to advance more rapidly in mainland markets where Towngas China's network is firmly entrenched, such as the southwest and northwest of China, Hong Kong and China Gas will also extend its reach within mainland China. On a combined basis, Hong Kong and China Gas and Towngas China have a total of 60 piped city-gas projects, spread across 11 provinces and an area of Beijing.

Having established a solid base, Hong Kong and China Gas is now expanding its scope of investments to include upstream natural gas and some other energy related businesses. Hong Kong and China Gas also operates water supply projects in Wujiang, Jiangsu province and in Wuhu, Anhui province, and manages an integrated water supply and wastewater joint venture in Suzhou Industrial Park, Suzhou, Jiangsu province. Diversification is rapidly transforming Hong Kong and China Gas group from its origins as a local company focused on a single business into a sizeable, nationwide, multi-business corporation.

(III) Diversified Businesses

Through its wholly-owned subsidiary, the ECO Energy Company Limited, Hong Kong and China Gas has diversified into various green businesses including Liquefied Petroleum Gas (LPG) vehicle filling stations and the utilization of landfill gas. To date, ECO is operating a total of five LPG filling stations, which are strategically located in Chai Wan, Mei Foo, Tuen Mun, West Kowloon and Wan Chai. ECO was also the first organization in Hong Kong to utilize landfill gas for commercial use. Construction of an on-site treatment facility and a 19 km pipeline connecting the

Chairman's Statement

North East New Territories landfill gas project to Tai Po gas production plant were both completed in 2006. With their full commissioning, landfill (methane) gas will be captured and processed, partially replacing naphtha as a fuel for town gas production. The reduced flaring-off of methane into the atmosphere brings improvements in air quality, while the reduced use of naphtha, which comes from the cracking of fossil fuel, will also save scarce natural resources.

In the mid-1990s, Hong Kong and China Gas entered the local property development business in Hong Kong, with the aim of realizing the potential of its land resources and maximizing returns to its shareholders by deploying its excess cash. In 1995, Hong Kong and China Gas took a 45% equity interest in the King's Park Hill development project, which was completed in early 2000 with a mixture of luxury houses and apartments. In 1996, it participated in the development of International Finance Centre, a landmark project in the heart of Hong Kong, and in which it currently held a 15.8% stake. Grand Promenade and Grand Waterfront, two successful luxury residential developments, were also co-developed by Hong Kong and China Gas and Henderson Land. It has a 50% interest in the Grand Promenade project at Sai Wan Ho, while for the Grand Waterfront at the former south plant site at Ma Tau Kok, it is entitled to 73% of the net sales proceeds of the residential portion, in addition to the full interest in the commercial and carpark portion.

Half-yearly Results

The unaudited profit after taxation attributable to shareholders of Hong Kong and China Gas for the six months ended 30 June 2007 amounted to HK$5,469.9 million, including a HK$2,235.7 million gain resulting from the acquisition of shares in Towngas China by way of asset injection and a HK$1,270.4 million profit resulting from the sale of properties and revaluation surplus on an investment property.

(I) Gas business in Hong Kong

For the six months ended 30 June 2007, the 1.9% drop in the volume of residential gas sales was offset by 3.2% growth in the volume of commercial and industrial gas sales, leading to a slight increase of 0.2% in the total volume of gas sales in Hong Kong. As at 30 June 2007, the number of customers was 1,631,302, an increase of 24,461 from the end of June 2006.

(II) Business development in mainland China

Hong Kong and China Gas's mainland businesses are progressing well. Its first coalbed gas liquefaction joint venture project started in early July 2007 in Jincheng, Shanxi province with commissioning expected by mid-2008. It also established its first joint venture for energy exploitation in early 2007 in Jilin province.

Following the acquisition of Towngas China as an associated company, its well-recognised and reputable brand name of "Towngas" in Chinese has been adopted by Hong Kong and China Gas for the mainland city-gas businesses.

Inclusive of Towngas China, 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.

(III) Environmentally-friendly energy business

The energy businesses run by ECO Energy Company Limited, which is wholly-owned by Hong Kong and China Gas, and its subsidiaries (together known as "´ECO") are progressing well.

Revenue from ECO's dedicated liquefied petroleum gas filling stations increased during the first half of 2007. ECO is now leveraging its expertise by developing environmentally-friendly energy businesses on the mainland. An experimental project involving the construction and operation of several compressed natural gas filling stations for heavy duty trucks is running in Shaanxi province.

ECO's landfill gas project is also progressing well and the North East New Territories ("NENT") landfill gas treatment facility was commissioned in early 2007. Treated landfill gas is being transported to Tai Po gas production plant via a 19 km pipeline to partially substitute naphtha as a fuel for town gas production.

In 2002, ECO signed a 40-year franchise agreement with the Hong Kong Airport Authority to design, construct and commission a permanent aviation fuel facility at Tuen Mun Area 38 so as to supply aviation fuel directly to Hong Kong International Airport. The project is progressing as scheduled and is expected to be commissioned by 2010.

Chairman's Statement

(IV) Property developments

For the six months ended 30 June 2007, HK$728.2 million was recognized as its share of profits arising from the sale of units at Grand Promenade, Grand Waterfront and King's Park Hill property development projects, whilst its share of a revaluation surplus from International Finance Centre was HK$542.2 million. For the same period of last year, Hong Kong and China Gas's share of profits from its sales of properties was HK$117.7 million and its share of a revaluation surplus from the abovementioned investment property was HK$588.2 million. Leasing for the 150,000-square feet commercial area at Grand Waterfront, a property development project located at the Ma Tau Kok south plant site, started in the second half of 2007.

As a result of the implementation of a dual naphtha and natural gas feedstock mix in October 2006, feedstock costs have decreased to the benefit of customers in Hong Kong. Also, in mainland China, Hong Kong and China Gas will develop upstream, midstream, downstream and emerging energy markets at a faster rate and it is expected to have good prospects for its mainland businesses.

Discontinued Operations

A review of the Discontinued Operations is contained in the Financial Review.

Corporate Finance

All of the Group's bilateral banking facilities to fund the general operations are denominated in Hong Kong Dollars. For the Group's subsidiary, China Investment Group Limited, a portion of its borrowings to fund its toll road project in mainland China is denominated in Renminbi. Apart from its investments in China which are denominated in Renminbi and are not hedged, the Group had no other material open foreign exchange positions at the year end.

Prospects

Through the disposal of interests in certain companies, the Group successfully unlocked value for Shareholders and allowed them to realize part of this value in cash through the distribution, as explained in the circular to Shareholders dated 20 April 2007. Following completion of the transaction, the Group concentrated on the infrastructure business in mainland China, in addition to its shareholding in Hong Kong and China Gas.

Traffic flows in the Yangtze River Delta region are expected to grow in tandem with the robust economic development there, whilst car ownership will also increase because of improving affordability. Thus, the Group entered into agreement on 29 August 2007 to acquire the remaining 35.94% interest in China Investment Group Limited at a consideration of approximately HK$145.02 million, making it a wholly-owned subsidiary of the Group. This acquisition is a reflection of the Group's strategy to expand the infrastructure business.

Hong Kong and China Gas is expected to perform well both in Hong Kong and mainland China. In Hong Kong, its price competitiveness has been enhanced through the introduction of natural gas, while its mainland business will also further prosper since the total number of its piped city gas projects has increased with the acquisition of Towngas China.

Appreciation

Mr. Lau Chi Keung, Executive Director, stepped down from the Board during the year. I would like to thank him most sincerely for his many loyal years of service and invaluable contributions to the Group. On behalf of all his colleagues, I wish him a pleasant retirement.

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

Lee Shau Kee
Chairman

Hong Kong, 17 September 2007