Chairman's Statement

I am pleased to present my report to the shareholders.

RESULTS

The Group's profit after taxation and minority interests for the year ended 30 June 2004 was HK$6,923 million, an increase of nine per cent compared with last year's profit of HK$6,370 million. Earnings per share for the year were HK$2.88, representing an increase of nine per cent compared with HK$2.65 per share for the previous year. Last year's net profit and earnings per share have been adjusted for deferred taxation.

Superior quality and the green environment at Park Island, Ma Wan, attracted buyers.

The public sale of BeneVille in Tuen Mun aroused market interest.

DIVIDENDS

The directors have recommended the payment of a final dividend of HK$1.05 per share for the year ended 30 June 2004. Together with the interim dividend of HK$0.60 per share, the dividend for the full year will be HK$1.65 per share, up three per cent from last year's HK$1.60.

REVIEW

Property Sales

The year's turnover from property sales as recorded in the accounts was HK$10,004 million, as compared with HK$12,543 million last year.

The Group sold and pre-sold an attributable HK$15,592 million worth of properties in Hong Kong during the year, a 28 per cent increase from last year. Major projects sold during the year included YOHO Town Phase 1 in Yuen Long, Park Island Phase 3 on Ma Wan, Sham Wan Towers in Island South, 8 Waterloo Road in Kowloon, BeneVille in Tuen Mun and The Pacifica in Cheung Sha Wan.

A total of seven projects were completed during the year containing 3.5 million square feet of attributable gross floor area. The vast majority of the space is residential, and about 92 per cent of it has been sold.

Project	Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (sq.ft.)
YOHO Town Phase 1	8 Yuen Lung Street Yuen Long	Residential	100	1,180,000
Liberté	833 Lai Chi Kok Road Cheung Sha Wan	Residential/ Shopping centre	35.44	562,000
Sham Wan Towers	3 Ap Lei Chau Drive Ap Lei Chau	Residential/ Shopping centre	100	470,000
BeneVille	18 Tuen Kwai Road Tuen Mun	Residential	100	371,000
8 Waterloo Road	8 Waterloo Road Kowloon	Residential	Joint venture	344,000
Vianni Cove	33 Tin Kwai Road Tin Shui Wai	Residential	40	321,000
Ocean Shores Phase 3B	88 O King Road Tseung Kwan O	Residential	49	284,000
Total				**3,532,000**

Land Bank

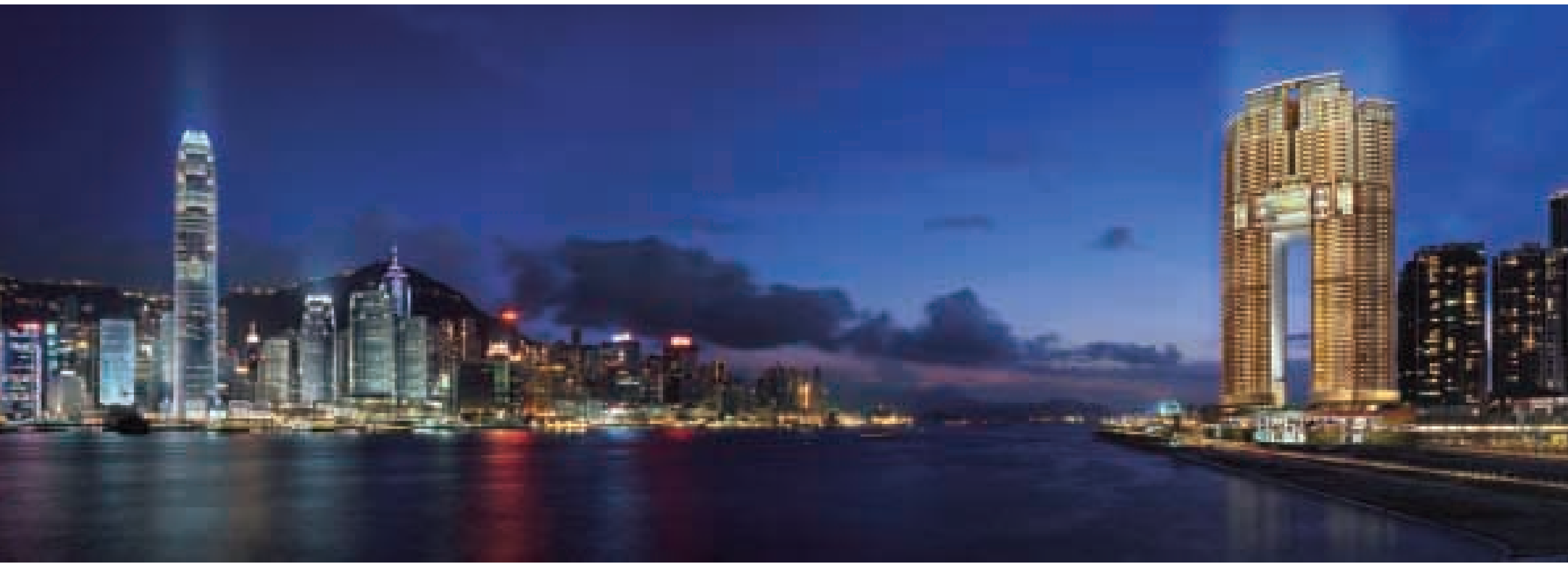
The Group's total land bank in Hong Kong was 42.8 million square feet as at 30 June 2004, comprising 22.3 million square feet of properties under development and 20.5 million square feet of completed investment properties.

The year under review saw the Group add a hotel site in Ting Kau with 310,000 square feet of gross floor area to its land bank, and it acquired a 50 per cent stake in the residential development at KIL 11076, with 793,000 square feet of attributable gross floor area. The Group took advantage of positive conditions in the residential market and agreed on land conversion premiums with the government for three sites encompassing nearly three million square feet of combined gross floor area: Tin Ping Shan in Sheung Shui, To Fung Shan in Shatin and Yuen Long Town Lot 504.

The Group also holds more than 21 million square feet of agricultural land in terms of site area. The majority of this is in the process of land use conversion and the sites are mainly along existing or planned railways in the New Territories. The Group will continue replenishing its residential development land bank through various means when appropriate opportunities arise, with an emphasis on land use conversion.

Property Development

Hong Kong's residential property market has performed well so far this year. Transaction volume remained high and prices increased by more than 20 per cent in 2004. Overall residential prices are still very attractive and affordable, at 55 per cent below the peak of 1997. Market sentiment remained positive, as evidenced by encouraging results from public land tenders and government land auctions.



IFC in Central and The Victory Arch at Kowloon Station are the latest additions to Hong Kong's skyline.

Homebuyers were more diverse as investors and upgraders returned to the market. Recent modifications to tenancy law should also encourage more investment in property for rental.

YOHO Town in Yuen Long is a vibrant community for young urban socialites.

Continued close monitoring of the changing market helps the Group to ensure that it offers the right products. The Group currently offers a wide range of flat sizes with an emphasis on small and medium units, but more large and high-end units will be included in selected future developments. The Group has built a leading market position and a strong brand name, which allows for premium pricing and further enhances development margins. It also adds value by offering buyers ideal homes with stylish architecture, better layouts, high-quality finishes and comprehensive clubhouse facilities.

The Group expects to complete five million square feet of gross floor area in the 2004/05 financial year, of which 3.1 million square feet will be residential. Details are as follows:

	Attributable Gross Floor Area (million square feet)				
	Residential	**Shopping Centre**	**Office**	**Hotel**	**Total**
For Sale	3.1	0	0	0	3.1
For Investment	0	0.7	0.7	0.5	1.9
Year Total	**3.1**	**0.7**	**0.7**	**0.5**	**5.0**

Property Investment

Gross rental income for the year, including the Group's share of joint-venture investment properties, was HK$5,461 million. This compares to HK$5,628 million for the previous year. Net rental income fell by about two per cent to HK$3,998 million, but a recent upsurge in leasing activity produced a satisfactory performance in the Group's rental portfolio, which was 95 per cent let.

The Group's income from retail rentals was more resilient than the rest of the portfolio. Its shopping malls saw increased pedestrian flows and higher business turnover for tenants, particularly for malls in areas popular with Mainland visitors. The Group also staged promotions in major Chinese cities for its Hong Kong shopping malls to tap the growing influx of Mainland visitors. Retail rents were higher, in a trend that looks likely to continue.

New demand for office space has emerged in certain industries, accompanied by modest rent increases overall and better results from high-quality buildings in prime locations. Hong Kong's status as an international financial centre, more business opportunities arising from Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and the new policy of facilitating investments in Hong Kong by Mainland companies should underpin solid demand for premium Hong Kong office space over the medium to long term.

Airport Railway Kowloon Station Development Packages 5, 6 & 7 will include the tallest building in Hong Kong, featuring the latest technology and facilities.

Rents for luxury residential properties and serviced suites have also risen of late. The serviced suites at Four Seasons Place in IFC are set to open in mid 2005. The Group's Signature Homes luxury residential leasing arm will further enhance its personalized service to make the Group's high-end developments more attractive to tenants.

The 'six-star home' exhibition centre of Signature Homes makes every guest feel at home.

Two IFC is now the most prestigious office tower in Hong Kong, commanding a rental premium in the market. IFC Mall has become the new shopping and entertainment destination in Central. More renowned restaurants and shops are set to open in coming months, which will offer IFC Mall shoppers additional attractions and convenience. Both Two IFC and IFC Mall are over 90 per cent let.

New investment properties under development will drive growth in the Group's rental income. Millennium City Phase 5 will include the 600,000 square-foot APM mall that is destined to become the Group's new retail magnet in Kowloon East. The mall and tenant mix have been designed to offer consumers an all-new shopping and entertainment experience. APM will open in early 2005, and commitments have already been received for 85 per cent of the space. Phase 5 also includes about

700,000 square feet of office space. The Group's original plan was to keep all of this for rent, but it later sold 407,000 square feet to a major local bank for its own use. The remaining space will be retained as a long-term investment and pre-leasing is progressing well.

Kowloon Station Development Packages 5, 6 & 7 will include residential, office, retail and hotel space in Hong Kong's future cultural and entertainment hub. The project will feature an ultra-modern tower incorporating the finest architecture and latest technology, which will be the tallest in Hong Kong upon completion in 2008. The project will also include approximately one million square feet of high-end residences for sale.

The first Four Seasons Hotel in Hong Kong will be open in mid 2005 to tap the expanding tourist market.

Hotels

The number of visitors arriving in the territory grew remarkably during the year, due mainly to the Central Government's lifting of restrictions on individual Mainland travellers. New tourist attractions slated for completion in the next several years, like Disneyland and the Tung Chung cable car, should fuel additional growth in Hong Kong's tourism sector.

An improved climate set the scene for an impressive showing by the Group's hotels during the year, with average occupancy above 90 per cent and room rates higher than pre-SARS levels. The new Four Seasons hotel complex at IFC is scheduled to open in mid 2005. The Group's Kowloon Station development will have two world-class hotels, including one operated by the W Hotels group scheduled to open in 2008. All the Group's hotels are expected to take advantage of the business opportunities that Hong Kong's status as a centre of business and tourism brings.

Telecommunications and Information Technology

SmarTone

SmarTone posted another encouraging performance for the year. Net profit rose by 23 per cent to HK$466 million, mainly due to a recovery in roaming revenue, increased use of multimedia service and improved operational efficiency. SmarTone's commitment to high-quality customer service and network performance has driven growth in its customer base over the years, while its attractive data and multimedia services have found favour with more high-value business users.

The company plans to introduce its 3G service commercially in the fourth quarter of 2004, with a seamless 2G/3G handover and territory-wide coverage. The Group is confident about SmarTone's future growth, given its seasoned management, sound

SmarTone will launch its 3G service in the fourth quarter of 2004.

business strategy and financial strength, and it will continue to hold SmarTone as a long-term investment.

SUNeVision

SUNeVision reported its first full-year net profit since listing, amounting to HK$108 million. Its financial position remains strong with approximately HK$1,300 million in cash and interest-bearing securities on hand. iAdvantage data centres continue to offer customers more value-added services, and the division has signed up prestigious new clients to build on its solid subscriber base for future growth. SUNeVision is well positioned to sustain its profitability in the future.

KMB continues to enhance efficiency by controlling costs and reorganizing its fleet.

Transportation and Infrastructure

Kowloon Motor Bus

The MTR's Tseung Kwan O extension and SARS led to fewer passengers travelling with Kowloon Motor Bus (KMB) and a corresponding decline in revenue in 2003, but continuous cost-control measures and service improvements helped retain customers, attract new riders and mitigate the impact.

KMB will keep upgrading its fleet. The company is committed to operating in an environmentally-friendly manner and maintaining the highest safety standards. KMB's bus and transportation investments on the Mainland are progressing well, and the diversification of its core business on the Mainland will provide new growth opportunities over the long term. Media sales by RoadShow, KMB's listed subsidiary, are expected to improve with the economic recovery and the company's planned expansion on the Mainland.

Infrastructure

The Wilson Group reported satisfactory results as the local economic recovery continued. Route 3 (Country Park Section) saw traffic volume remain steady throughout the year. The Airport Freight Forwarding Centre continued to do well, while the River Trade Terminal is operating smoothly. Construction of the two berths at Container Terminal 9 is finished and the completed berths have been swapped for two at Container Terminal 8. All these infrastructure projects are in Hong Kong and are expected to generate steady cash flows and returns over the long term.

Mainland Business

The Mainland economy continued to grow during the year and the Group's Mainland projects have been

The Lujiazui Development in Shanghai will offer 4.5 million square feet of top-quality offices, hotels and a shopping mall.

The Group has been "Building Homes with Heart" for over three decades.

operating smoothly, posting satisfactory results for the year under review.

The Group's new project in Shanghai's Lujiazui finance and trade zone will be an integrated 4.5 million square-foot complex including first-class office space, hotels and a shopping mall. Construction will proceed in phases and completion of the entire project is expected by 2011.

Shanghai Central Plaza turned in an encouraging result, achieving full occupancy in the office and retail space, plus higher rents. The mix of tenants and trades in Beijing's Sun Dong An Plaza will be realigned to meet changing customer needs, particularly in anticipation of the 2008 Olympic Games.

Corporate Finance

The Group has always followed a prudent financial management policy, maintaining low gearing and high liquidity, and its financial position remains strong. Its net debt to shareholders' funds ratio was 9.4 per cent as at 30 June 2004, amid constant inflows of cash from recurrent rental income and strong property sales, as well as an upward revaluation of its investment properties.

The Group has ample committed, undrawn facilities for future expansion. It will continue to procure adequate standby funding from various sources. The anticipated gradual rise in interest rates should not have a significant impact on the Group's financial position, given its low gearing.

Following the objective of lengthening its debt-maturity profile, the Group secured self-arranged, dual-tranche, fully-revolving syndicated facilities for HK$5,500 million at competitive financing costs in March 2004, with tenors of five and seven years. All the Group's credit facilities are unsecured. The Group has not taken any speculative positions on derivatives, and almost all of its financing is denominated in Hong Kong dollars so its exposure to foreign exchange risk is negligible.

The Group won a branding award in the property category, proof of its brand appeal to customers.

Customer Service

Premium customer care is part of the Group's formula for success, and it continues to look for new ways of maximizing customer satisfaction. The Group constantly works to provide ever-better service in every aspect of its operations. Its two member property management subsidiaries offer residents carefree living, and they consistently win awards from various organizations for first-class management service.

The SHKP Club has over 190,000 members and serves as an efficient channel for two-way communication. The Club and other initiatives like senior executives making personal home visits to flat buyers enable the Group to stay current with people's expectations of quality service.


The SHKP Club conducts regular surveys to keep up with members' interests and needs.

Corporate Governance

High standards of corporate governance have always been an integral part of the Group's management philosophy. The Group has made substantial efforts to strengthen its corporate governance practices throughout the years. The Group has an Audit Committee to ensure proper reporting and adequate internal controls, with a majority of the committee members being independent non-executive directors. Other measures to safeguard shareholders' interests include the Group's effective board of directors and the prompt disclosure of relevant information to shareholders.

The Group's management and standard of corporate governance have won international recognition. FinanceAsia magazine named the Group Asia's Best Property Company in 2004, for the second consecutive year. The Group was also named Hong Kong's Best Property Developer for corporate governance by Euromoney magazine in 2003.

Walter Kwok, Chairman & Chief Executive at the SHKP-Kwoks' Foundation Scholarship Presentation Ceremony at Sun Yat Sen University in Guangzhou.

Corporate Citizenship

Positive involvement in the community is an integral part of the Group's corporate culture. It contributes to a broad range of charities and participates in various social programmes designed to help the less fortunate in society and promote education at all levels. The Group values its staff highly and puts considerable effort into training and development. Regular seminars are held to ensure that staff have the professional skills and knowledge they need.

The Group promotes environmental protection in every aspect of its operations, from incorporating environmentally-friendly architectural features and construction materials in new projects, to creating green living environments and practising conservation to save valuable natural resources in the developments it manages. These efforts have received widespread recognition and praise from a variety of organizations.

PROSPECTS

The global economy is likely to show resilience despite increased oil prices. Monetary conditions will remain relatively accommodative, even though interest rates are rising modestly in the US.

Current Mainland moves to selectively rein in the economy will be good for sustainable growth and stability over the longer term, and should help to lay a solid foundation for the next stage of development. This will also provide a stable economic environment for Hong Kong. Favourable Central Government policy initiatives like CEPA, the Individual Visit Scheme and the new policy of facilitating investment in Hong Kong by Mainland companies will sustain growth in the local economy.

Higher employment and a return to mild inflation as the local economy keeps expanding should underpin homebuyers' confidence. Record low mortgage interest rates, very affordable prices and attractive financing packages like the Hong Kong Mortgage Corporation's 95 per cent mortgage insurance scheme will continue to encourage home ownership. These factors and a decline in the future supply of new units will have a positive effect on the Hong Kong residential market over the next few years.

The Group will sustain a high volume of residential completions for sale in the next few years. It will also add to its land bank through various means, particularly by converting agricultural land to residential use. The Group's many strengths, like its well-established brand name for quality and service, are expected to translate into higher profit margins and development returns.

Better performance is expected from the Group's rental portfolio in the next few years. New landmark investment projects like Two IFC and the APM shopping mall will provide additional contributions to rental income. The Group will build new landmark projects to boost recurrent income further, and at the same time, it will enhance asset turnover by selectively disposing of non-core rental properties as and when appropriate.

Major residential projects to go on pre-sale in the next nine months include Chelsea Court in Tsuen Wan, The Victory Arch at Kowloon Station, the Ting Ping Shan project in Sheung Shui and Severn 8 on the Peak. Proceeds from the upcoming pre-sales and continuous rental income will make ongoing contributions to the Group's healthy financial position.

The Group's sizeable, low-cost residential land bank provides a solid foundation for business growth. The successful completion and leasing of IFC will be followed by the Group's next milestone project on Kowloon Station Development Packages 5, 6 & 7. The Group has pre-sold about 40 per cent of the residential projects scheduled for completion in the coming financial year. It is well positioned to take advantage of the recovery in property prices with its strategy of maintaining a high production volume of residential units for sale. With positive prospects for the property market and a significant improvement in development profit margins anticipated, the Group's results for the coming year will, barring unforeseen circumstances, be encouraging.

IFC, Central, is the new heart of Hong Kong, a truly inspiring place to work, shop and live.

Canary West stands next to Olympic Station, in a prime location in West Kowloon.

APPRECIATION

Executive Director Victor So Hing-woh resigned from the board in July 2004. He made a valuable contribution to the Group's development during his service.

Finally, I would like to take this opportunity to express my gratitude to my fellow directors for their guidance, and to all the staff for their dedication and hard work.

Kwok Ping-sheung, Walter
Chairman & Chief Executive

Hong Kong, 23 September 2004