I am pleased to present my interim report to the shareholders.

INTERIM RESULTS

The Group's unaudited profit after tax and minority interests for the six months ended 31st December 2003 was HK$2,840 million, a decrease of 22 per cent compared with HK$3,663 million for the same period last year. The decline in earnings was due mainly to project timing, which resulted in fewer residential developments being completed during the period under review. Residential completions are expected to be much higher in the second half than the first half of the financial year. Earnings per share were HK$1.18, representing a 23 per cent decline compared with HK$1.53 for the corresponding period last year. Last year's figures for profit and earnings per share have been adjusted for deferred taxation.

DIVIDEND

The Directors have declared an interim dividend of HK$0.60 per share, the same as the dividend paid for the corresponding period last year. The dividend will be payable on 6th April 2004, to shareholders whose names appear on the Register of Members of the Company on 6th April 2004.

BUSINESS REVIEW

Property Sales

The Group sold and pre-sold HK$6,965 million worth of properties in attributable terms during the period under review, compared with HK$8,187 million for the same period in the previous year. Major contributors to property sales during the period included YOHO Town Phase 1 in Yuen Long, Park Central and Ocean Shores Phase 3 in Tseung Kwan O, and The Pacifica Phase 1 in Cheung Sha Wan. With improved market sentiment, the Group has recorded property sales of more than HK$3,800 million since the beginning of 2004.

Property sales turnover for the six months ended 31st December 2003, as recorded in the accounts, was HK$3,019 million, compared with HK$8,889 million in the corresponding period last year. Due to the timing of the issuance of occupation permits, the Group only completed two developments with an attributable gross floor area of 0.8 million square feet during the period under review:

Project	**Location**	**Usage**	**Group's Interest** *(%)*	**Attributable Gross Floor Area** *(square feet)*
Liberté	833 Lai Chi Kok Road Cheung Sha Wan	Residential/ Shopping centre	35.44	562,000
Ocean Shores Phase 3B	88 O King Road Tseung Kwan O	Residential	49	284,000
Total				**846,000**

Over 95 per cent of the residential properties completed during the first half of the current financial year have been sold.

Land Bank

In February 2004, the Group bought 50 per cent of a residential development at KIL 11076 in Hunghom, with 793,000 square feet of attributable gross floor area, from a previous member of the development consortium. The Group also added a hotel site in Ting Kau to its land bank since last July, with a gross floor area of 310,000 square feet. The project will be held as a long-term investment.

The Group currently owns a land bank of 45.5 million square feet in Hong Kong, consisting of 20.5 million square feet of completed investment properties and 25 million square feet of properties under development. The Group also holds over 21 million square feet of agricultural land in terms of site area. Most of these sites are located along existing or future railway lines in the New Territories and the majority are at an advanced stage of land use conversion, mainly to residential use.

Property Development

The residential property market has made a significant recovery since July last year, due mainly to better confidence and an economic recovery amid the Central Government's positive measures and local government efforts. Continued buoyancy in equity prices also contributed to market momentum, particularly in the luxury property sector. The profile of homebuyers is now more diverse with the majority being genuine end-users, including more up-graders.

The resumption of land sales through the Application List system and comprehensive, market-driven housing and land policies should help strengthen homebuyers' confidence and sustain the current market recovery.

With the improving operating environment, the Group has taken steps to leverage its premium brand in the marketing and sales of new projects and enhance development profit margins further. In addition to reinforcing its corporate brand, the Group has implemented various initiatives to establish unique identities for individual projects.

The Group always monitors changing customer preferences closely, in relation to flat size, layout, design, finishes and quality. It will continue making a wide range of flat sizes available to homebuyers, and future developments will have a greater number of larger, high-end units.

The breakdown of property completions in the first half and expected completions in the second half of the financial year is as follows:

	Residential	Shopping Centre	Total
		Attributable gross floor area (million square feet)	
First Half Year			
For Sale	0.8	0	0.8
For Investment	0	**	**
Subtotal	0.8	**	0.8
Second Half Year			
For Sale	2.5	0	2.5
For Investment	0	0.1	0.1
Subtotal	2.5	0.1	2.6
Full Year Total	**3.3**	**0.1**	**3.4**

*** less than 0.1 million square feet*

Property Investment

Gross rental income for the period under review amounted to HK$2,489 million. Including its share in joint venture projects of HK$238 million, the Group's total gross rental income was HK$2,727 million, a slight three per cent decline from last year. Overall occupancy of the rental portfolio remained at about 92 per cent.

There has been an impressive recovery in retail sales as a result of the Individual Visit Scheme for Mainlanders and greater domestic consumer confidence. The Group's shopping centres, especially those in popular tourist districts and along the railway lines, have seen an upsurge in consumer spending. Tenants' business turnover is improving and higher rents for new leases and renewals should help the Group's overall rental income.

The Group always works to keep its shopping centres attractive and build long-term relationships with tenants. It will continue to organize mall promotions to attract traffic and business, as well as adjust tenant and trade mixes regularly to take advantage of opportunities arising from the influx of Mainland visitors. The Group will maintain its policy of constantly renovating its shopping centres.

Office leasing has shown signs of improvement, spurred by demand from companies up-grading their premises and others establishing a new presence in Hong Kong. Rents in grade-A office developments like IFC have increased from levels a year ago. The capital value of offices has also risen considerably as economic recovery and improved market sentiment attract more investment. New office supply in coming years will be limited, and more business opportunities as a result of the Closer Economic Partnership Agreement will ensure continuous demand for high-quality office space.

IFC is redefining Central and shifting the focus of the business district to the waterfront. The 88-storey Two IFC is Hong Kong's newest landmark and the most prestigious office address for elite companies. IFC Mall is the new nexus of leisure and entertainment in Central with a diverse mix of branded retailers, while abundant parking and extensive transport links provide unparallel accessibility and convenience to shoppers. Current commitments put IFC Mall at 80 per cent occupancy and office space in Two IFC at 70 per cent. The project's prime location and premium quality are expected to boost occupancy in the coming year.

Kowloon Station Development Packages 5, 6 & 7 will include residential, office, retail and hotel facilities in a future commercial and cultural centre of Hong Kong. The development above the Airport Expressway Kowloon Station will incorporate the latest technology and finest design, including an ultra-modern tower that will be a new landmark on the territory's skyline. The Victory Arch in Package 3 of the development will have one million square feet of residential accommodation, set to go on sale in the third quarter of this year.

The APM shopping mall in Millennium City Phase 5 will be the Group's retail flagship in East Kowloon, with 600,000 square feet of space to be completed in the second half of 2004. The mall will offer a brand new shopping and leisure experience. Phase 5 of Millennium City is the latest stage of East Kowloon's transformation into a prime commercial hub. It comprises about 700,000 square feet of offices developed for rental. The Group later sold part of the office units to a major local bank for its own use, while the remainder will be retained as a long-term investment.

The Group aims to maintain an optimal mix in its high-quality investment property portfolio. New landmark investment properties under development will further lift asset quality and potential growth in rents.

Telecommunications and Information Technology

SmarTone

SmarTone delivered a solid performance in the six months ended 31st December 2003 with a year-on-year five per cent increase in net profit to HK$235 million. The higher profit was mainly due to a recovery in roaming revenue, increased use of multimedia services and a continuing focus on enhancing operational effectiveness and efficiency.

SmarTone has made good progress in strengthening its brand and extending its leadership in service quality, laying a robust foundation for establishing a sustainable competitive advantage. Its 3G network is being rolled out and will be put into commercial service in the second half of 2004. With SmarTone's strong management team, sound business strategy and solid financial position, the Group is confident in its growth prospects and is committed to holding SmarTone as a long-term investment.

SUNeVision

SUNeVision remained profitable in the period under review. As the general economic environment improves, SUNeVision will continue to look for growth opportunities and work for better performance, striving to achieve full-year profitability. With approximately HK$1,200 million in cash and interest-bearing securities on hand, SUNeVision's financial position remains strong. The company intends to use its financial strength to seek investment opportunities that allow it to grow from its existing core operations.

Transportation and Infrastructure

Kowloon Motor Bus

Kowloon Motor Bus (KMB) saw a decline in both fare revenue and patronage for the first half of 2003, mainly due to the impact of SARS and the opening of the MTR's Tseung Kwan O extension. The company undertook several initiatives to mitigate the situation, such as introducing new routes and more air-conditioned buses, optimizing service frequency and staging more promotions.

KMB is committed to retaining its leading position as a provider of efficient, reliable and quality bus service, protecting the environment by using the latest technology. Its investments in bus and other transportation businesses on the Mainland are performing steadily. KMB will continue to look for growth opportunities in its core transportation business, in both Hong Kong and China. KMB's listed subsidiary, RoadShow, retains its leading position in onboard media sales in the territory and on the Mainland.

Other Infrastructure Business

The Wilson Group achieved satisfactory performance as a result of a recovery in the local economy, while Route 3 (Country Park Section) recorded stable traffic volume during the period.

The Airport Freight Forwarding Centre has already attained profitability, while the River Trade Terminal is operating smoothly and throughput is growing. Construction of the Group's two berths at Container Terminal 9 is proceeding and completion is approaching. The swap of berths is expected to take place in mid 2004.

All these infrastructure projects are in Hong Kong and are expected to generate steady cashflows and returns over the long term.

Hotels

The Group's three hotels performed well, achieving an average occupancy rate of about 90 per cent during the period. Tourism in Hong Kong has recovered sharply since the third quarter of 2003, due to the Individual Visit Scheme and a weaker US dollar. These factors, together with new tourist attractions to be completed in the coming years, should further boost incoming visitor numbers.

The Group's existing hotel operations and the six-star hotels under development above Hong Kong and Kowloon stations are well positioned to capitalize on future tourism prospects. The Four Seasons Hotel and Four Seasons Place at IFC will contain 1,000 guest rooms and luxury suites featuring comprehensive, personalized service. The facility will open for business in early 2005.

Mainland Business

With continued growth in the vibrant Mainland economy, the Group's businesses there performed satisfactorily during the period under review.

The Group's new project in Shanghai's Lujiazui finance and trade zone will be an integrated 4.5 million square-foot development, in terms of gross floor area, with top-quality office space, a hotel, serviced apartments and a shopping centre. The Group will take over the site by mid 2004.

Shanghai Central Plaza did well, achieving over 96 per cent occupancy, and the pre-sale of Arcadia Shanghai Phase 2 was encouraging with virtually all units sold. Renovations to Sun Dong An Plaza in Beijing are being planned, to capitalize on opportunities associated with the 2008 Olympic Games.

Corporate Finance

The Group consistently follows prudent financial management policies, maintaining high liquidity and low gearing. Solid cashflows from rental income and property sales put the Group's net debt to shareholders' funds ratio at 11.7 per cent as of 31st December 2003.

Moody's has upgraded the Group's credit rating to 'A2' with a positive outlook, the highest rating for a Hong Kong property company. This reflects both the recent recovery of the residential market and the Group's financial strength and conservative policies.

In March 2004, the Group closed a benchmarking deal for a HK$5,500 million dual-tranche, fully-revolving syndicated facility for tenors of five and seven years at competitive financing costs. The proceeds will be used to refinance short-term debts and for general working capital. The Group will continue to lengthen its debt maturity profile and procure adequate stand-by facilities through various funding sources.

The Group has substantial committed undrawn facilities on standby for future business expansion. All of its credit facilities are unsecured. It has not made any speculative arrangements on derivatives and its exposure to foreign exchange risk is minimal, as almost all of its financing is denominated in Hong Kong dollars. The Group will take advantage of low interest rates and ample liquidity in the market to seek opportunities for longer-term financing at competitive rates, as and when appropriate.

Customer Service, Human Resources and the Environment

Meeting market demand for quality homes with hygienic environments is a top priority for the Group. It is committed to offering the finest property designs and layouts, backed by first-class management service. The Group promotes environmental awareness among the residents of the properties it manages and incorporates eco-friendly features in new developments.

The Group is constantly setting new standards in property management and offering residents premium service to satisfy all their needs. Its member property management subsidiaries Hong Yip and Kai Shing have won numerous accolades for environmental initiatives and first-class service.

The SHKP Club facilitates two-way communication with the market and gives the Group a better understanding of customers' needs. The Club now has more than 180,000 members. It is always offering members new benefits and services, as well as diverse activities and property-related offers, to build customer loyalty.

The Group currently has about 20,000 employees. It believes that high-quality personnel are one of its greatest assets, so it makes upgrading staff skills and enhancing its strong management team a priority. The Group is also constantly looking for talented new staff and providing comprehensive training, to sustain its long-term competitiveness.

Corporate Governance

High standards of corporate governance in all aspects of business are an integral part of the Group's determination to maximize shareholder returns. This commitment includes maintaining effective accountability mechanisms through well-developed reporting systems and internal controls, as well as prompt disclosure of information to investors to ensure full transparency.

The Group's ongoing efforts and achievements in corporate governance have won widespread recognition and awards from noted international sources. In 2003, Euromoney magazine named the Group Hong Kong's Best Property Developer for corporate governance, and for the third year in a row, number one among Asia's Best Property Companies.

PROSPECTS

Better global economic prospects, China's continued economic buoyancy, a weaker US dollar and ample liquidity suggest that the Hong Kong economy will gain momentum in 2004. The Individual Visit Scheme and CEPA will continue to boost local economic growth.

Homebuyers should gain greater confidence as the job market improves and deflationary pressures gradually ease. The price of mass residential developments is still attractive and affordable, currently at 1992 levels and 60 per cent below the peak of 1997. These factors, together with record low mortgage interest and the fact that it is more economical for people to buy than to rent, mean that demand for residential property should remain firm.

New supply of residential property is expected to decline in the coming years and increasing demand suggests that residential property prices should rise over the medium term. The Group will be responsive to these trends and aim to enhance development profit margins and returns to shareholders. It will make use of its financial strength and take advantage of current market conditions to replenish its residential land bank through various means. The Group is actively negotiating with the government on land premium for converting certain agricultural land to residential use.

The Group's rental portfolio is expected to show steady performance in the coming months with more up-side potential in retail rents. Recurrent income, generated primarily by the Group's rental portfolio, should improve over time as new investment properties come on stream. Efforts to create value and make the rental portfolio more attractive are also expected to show results. The Group will consider selling some non-core rental properties to enhance asset returns as and when appropriate.

Remarkable economic growth and a steady inflow of overseas capital mean that new business and investment opportunities will keep emerging on the Mainland. The Group will continue to take advantage of these opportunities by investing selectively in major cities such as Beijing, Shanghai, Guangzhou and Shenzhen.

The Group has been part of Hong Kong for over 30 years, and throughout that time it kept its faith in the territory. The recent economic downturn has made the last few years difficult for Hong Kong, but the Group always remains confident in the long-term future. With signs of an economic recovery, the Group is moving forward with renewed vigor, striving to lift the quality of its products and services to new heights for the people of Hong Kong.

The Group will continue to launch new residential projects for pre-sale. The major ones in the next nine months include BeneVille in Tuen Mun, Park Island Phase 3 on Ma Wan, 18 Farm Road in Ho Man Tin and The Victory Arch at Kowloon Station. Proceeds from these pre-sales and solid rental income will further enhance the Group's financial position.

Over 80 per cent of the residential units scheduled for completion in the current financial year have been pre-sold. The Group will complete more residential projects in the second half of the current financial year and expects to record a much higher contribution from property sales than in the first half. Barring unforeseen circumstances, the Group's results for the year will be satisfactory.

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, 11th March 2004