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 2005 was HK$10,371 million, an increase of 50 per cent compared with last year's profit of HK$6,923 million. Earnings per share for the year were HK$4.32, an increase of 50 per cent from last year's HK$2.88 per share.

The Group has not undertaken the early adoption of the new accounting standard for investment property for the year under review. A surplus arising from the revaluation of the Group's investment property portfolio as at 30 June 2005 is reflected in the property revaluation reserve in the balance sheet. The Group will adopt the new accounting standard for investment property in the 2005/06 financial year as required. If the new standard had been applied in the 2004/05 financial year, the Group's profit attributable to shareholders would have been increased by approximately HK$7,600 million, representing the revaluation surplus in its investment property portfolio net of deferred taxation.

Dividends

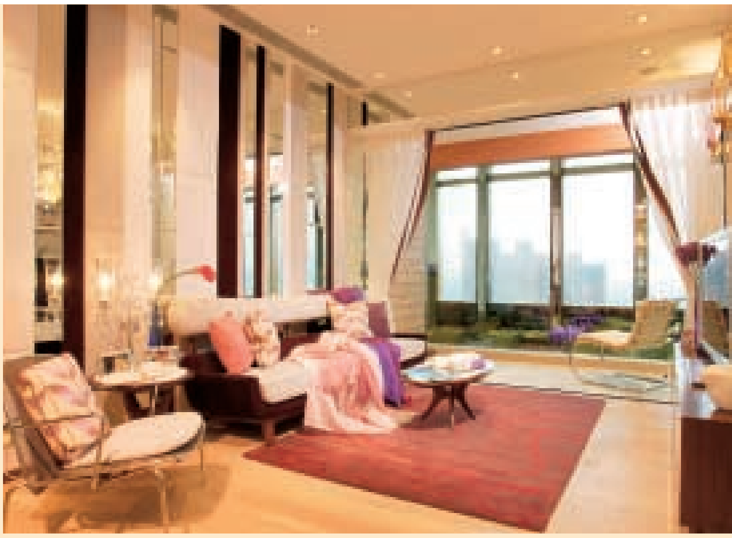
The directors have recommended the payment of a final dividend of HK$1.50 per share for the year ended 30 June 2005. Together with the interim dividend of HK$0.70 per share, the dividend for the full year will be HK$2.20 per share, up 33 per cent from last year's HK$1.65.

Business Review

Property Sales

Property sales turnover for the year as recorded in the accounts was HK$10,274 million, as compared with last year's sales of HK$10,004 million. The Group sold and pre-sold an attributable HK$21,166 million worth of properties in Hong Kong during the year, a 36 per cent increase from last year. Major projects sold during the year included The Arch at Kowloon Station, Chelsea Court in Tsuen Wan and Noble Hill in Sheung Shui.

The Arch, a luxury development at Kowloon Station, drew keen interest and sold exceptionally well.



Low-density Noble Hill in Sheung Shui appeals to buyers with convenient transport.

The Group completed five residential projects consisting of 3.2 million square feet of attributable floor area during the year. Approximately 80 per cent of the total residential floor area has been sold. Details are shown below.

Project	**Location**	**Group's Interest** (%)	**Attributable Gross Floor Area** (square feet)
Chelsea Court	100 Yeung Uk Road, Tsuen Wan	100	1,113,000
Park Island Phase 3	8 Pak Lai Road, Ma Wan	Joint venture	1,017,000
The Pacifica*	9 Sham Shing Road, Cheung Sha Wan	50	718,000
18 Farm Road*	18 Farm Road, Kowloon	100	268,000
Central Heights*	9 Tong Tak Street, Tseung Kwan O	25	80,000
Total			**3,196,000**

* Contains a small portion of retail space.

During the year, the Group also completed the APM shopping mall and office space in Millennium City Phase 5, with a total gross floor area of 1.28 million square feet. The Four Seasons Hotel and Four Seasons Place at IFC had soft openings in early September 2005.

Land Bank in Hong Kong

Seven residential sites were added to the Group's land bank during the year, through agricultural land conversions, government auctions, public tenders and private negotiations. The total developable gross floor area is about 2.5 million square feet as follows:

Chelsea Court in Tsuen Wan offers exquisite luxury.

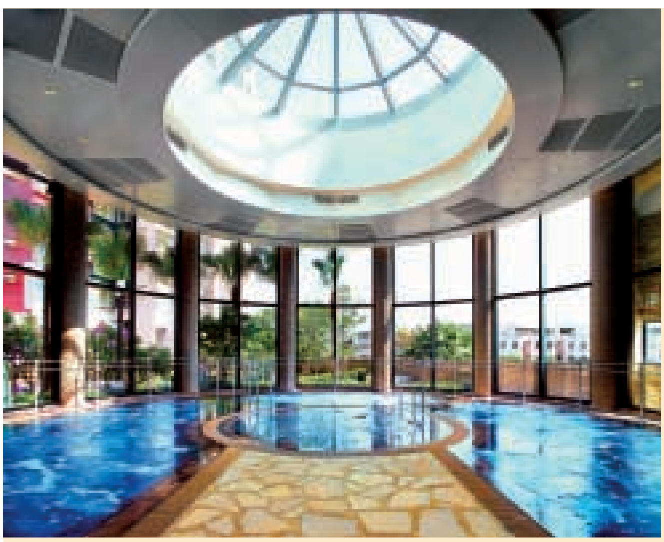
Park Island Phase 3 Oceanfront in Ma Wan is just as popular as the previous phases.

Chairman's Statement

Location	Usage	Group's Interest (%)	Attributable Site Area (square feet)	Attributable Gross Floor Area (square feet)
New Kowloon Inland Lot 6308 San Po Kong	Residential/ Shopping Centre	100	137,000	1,230,000
Tuen Mun Town Lot 465	Residential	100	478,000	621,000
Lot 4038 in DD 120 Yuen Long	Residential	100	62,000	308,000
Shun Ning Road / Po On Road Sham Shui Po	Residential/ Shopping Centre	Joint venture	15,000	134,000
9 Shouson Hill Road Island South	Residential	100	121,000	91,000
Pak Sha Tsuen, Yuen Long	Residential	100	162,500	49,000
Lam Tei, Tuen Mun	Residential	100	13,000	27,000
Total			**988,500**	**2,460,000**

The Group held an attributable gross floor area of 41.9 million square feet in its Hong Kong land bank on 30 June 2005, comprising 22 million square feet of completed investment properties and 19.9 million square feet of properties under development.

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



Premium facilities in Group developments include amenities like a stylish indoor pool at YOHO Town in Yuen Long (left) and the elegant clubhouse at 18 Farm Road in Kowloon (right).

Property Development

The residential market remained resilient in the past few months despite higher mortgage interest rates. The volume of transactions in the secondary market stayed at reasonable levels and prices also held up relatively well. Homebuyers remained confident.

Fewer new projects went on the market for pre-sale during the year. The fact that buyers demand high-quality new private housing from a reliable developer works to the Group's benefit, as it is one of the leading brand names in the Hong Kong residential market. The Group is strengthening its brand name to solidify its market advantage.

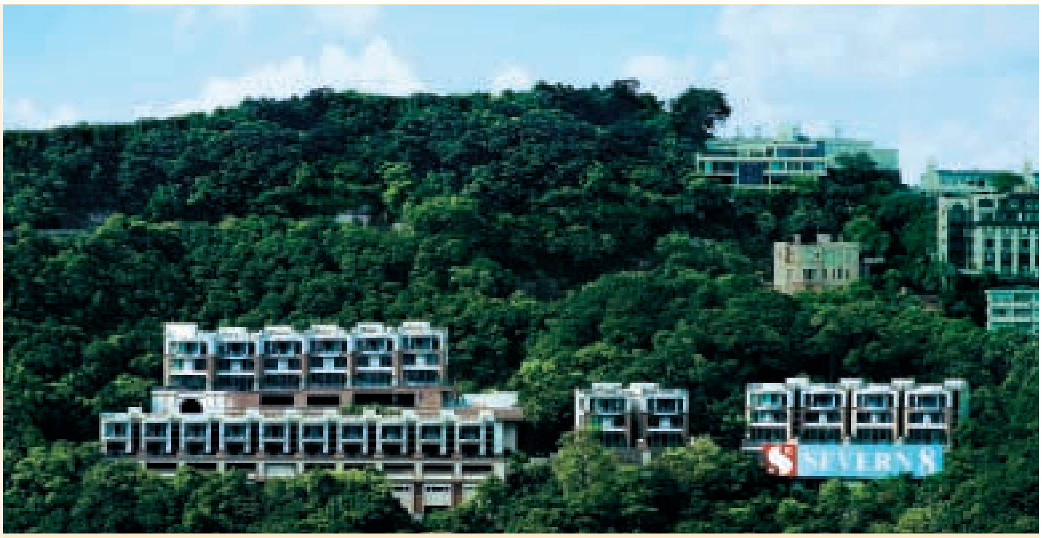
The Group has been adding value to its projects for many years, with better architecture, layouts, finishes and clubhouse facilities, while also offering premium customer care with total lifestyle concepts and full after-sales service. In addition, the Group offers a wide range of flat sizes within its developments to suit different customers' needs.

The Group plans to complete 2.5 million square feet of residential gross floor area for the 2005/06 financial year.

Property Investment

The Group's gross rental income, including its share from joint-venture investment properties, rose by 3.4 per cent over last year to HK$5,649 million. Net rental income was HK$4,063 million compared with HK$3,998 million for the previous year. Occupancy of the Group's rental portfolio remains high at 96 per cent.

Retail rental income increased during the year as a result of rent increases in both renewals and new leases, as well as greater contributions from turnover-based rents. The Group creates value through renovations and realigning tenant mixes to make its malls more attractive. Renovations to New Town Plaza phase one should be finished by mid 2006. The Group will carry on staging promotions and marketing campaigns to attract more shoppers and to boost tenants' business.



Green surroundings and spectacular views at Severn 8 on The Peak.

Chairman's Statement

Higher demand for quality office space pushed vacancy rates to low levels, and positive rent reversions emerged in early 2005. Office demand from existing and new tenants remains strong.

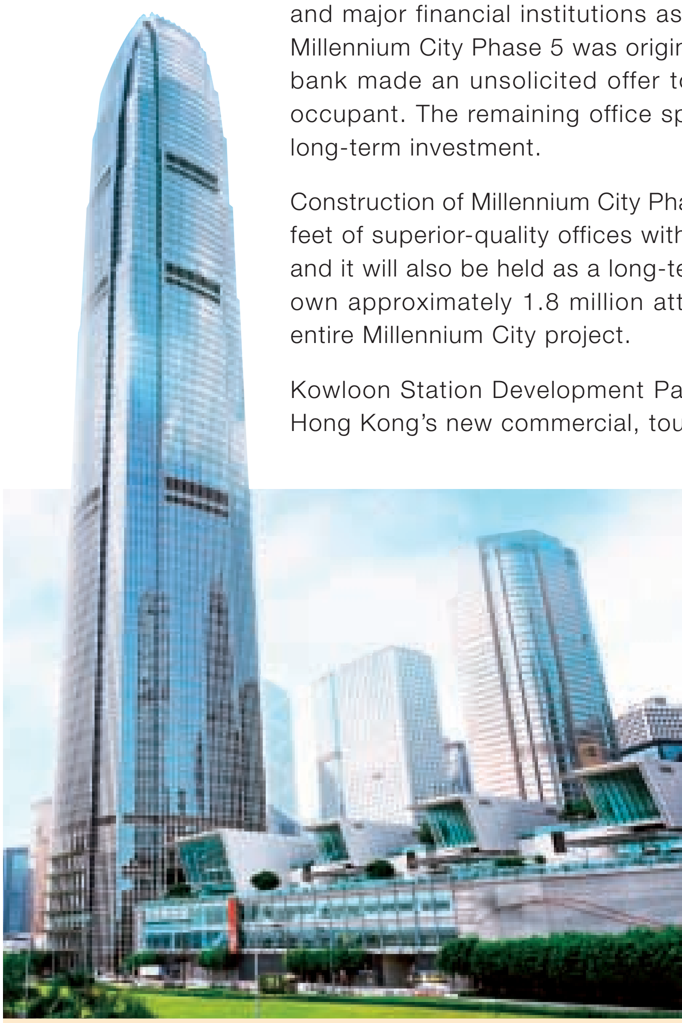
The Group's Signature Homes residential rental portfolio again recorded good performance during the year. Leasing of Four Seasons Place, which has over 500 serviced suites, has been encouraging and tenants started taking up occupancy in September this year.

The new APM shopping mall in Millennium City in Kowloon East offers a novel shopping experience and the latest lifestyle trends. The 600,000-square-foot mall was the first in Hong Kong to pioneer the concept of late-night shopping, and was an instant hit when it opened in March this year. APM is fully leased and expected to generate gross rental income of about HK$240 million annually. IFC mall has become the new shopping hub in Central with its diverse mix of brand-name retailers, dining and leisure. It is also fully let and there is a waiting list of potential tenants. The popularity of both IFC mall and APM make them important new additions to the Group's successful network of shopping centres.

Two IFC is the most prominent office building in Hong Kong, with multinational corporations and major financial institutions as occupants. The 700,000 square feet of office space in Millennium City Phase 5 was originally intended as a rental property, but then a major local bank made an unsolicited offer to buy a portion of the building and became an anchor occupant. The remaining office space is fully let, and the Group intends to hold this as a long-term investment.

Construction of Millennium City Phase 6 is underway. This will contain about 400,000 square feet of superior-quality offices with state-of-the-art facilities upon completion in mid 2007, and it will also be held as a long-term investment. When Phase 6 is finished, the Group will own approximately 1.8 million attributable square feet of investment office space in the entire Millennium City project.

Kowloon Station Development Packages 5, 6 & 7 are adjacent to what is destined to be Hong Kong's new commercial, tourist and cultural hub. The entire project will be held as a



A prime location and superior quality make Two IFC the ideal address for large corporations and multinationals.

Kowloon Station Development Packages 5, 6 & 7 will feature distinctive architecture and a supreme location.

long-term investment except for one million square feet of luxury residences for sale, and of these, 742,000 square feet are scheduled for completion in the first half of 2007. A mega tower in the project will offer office tenants the very latest in ultra-modern facilities, and six-star hotel amenities in the upper floors. Soft marketing will commence shortly. Completion of the mega tower is expected in phases from 2008, and when finished it will cement the Group's status as one of the largest high-quality office landlords in Hong Kong, with a portfolio of over ten million square feet.

Hotels

The number of visitors to Hong Kong rose at a satisfactory pace during the year, particularly arrivals from overseas markets. Mainland tourists accounted for more than half of all arrivals, and their numbers are expected to increase over time. The new Disneyland and major events such as the sixth WTO Ministerial Conference will draw additional visitors. Other new attractions such as the Tung Chung cable car will reinforce Hong Kong's position as a major tourist destination in Asia.

The Group's hotels fared well during the year, seeing high occupancy and increased room rates. The deluxe, six-star Four Seasons Hotel at IFC offers guests the finest hospitality, dining and leisure. This is the first Four Seasons Hotel in Hong Kong, and response to its soft opening in early September was encouraging. The Kowloon Station Development now under construction will have two more first-class hotels; one to be managed by Ritz-Carlton and the other by W Hotel. All the Group's hotels are expected to benefit from the arrival of more business and leisure travellers in the years to come.

Telecommunications and Information Technology

SmarTone

SmarTone outperformed the market despite a competitive environment, with improved ARPU, higher service revenue and a better customer profile. The costs associated with introducing 3G service nonetheless put pressure on profitability.

The Four Seasons Hotel was opened for occupation in September, adding extra prestige to the Group's hotel portfolio.

Chairman's Statement

SmarTone expects to build on 3G as the foundation for future business growth. The company will focus on exploiting 3G to improve its superior customer propositions further and create long-term value for shareholders by increasing revenue share and achieving greater scale. SmarTone will focus on enhancing efficiency, though there will be additional costs associated with providing 3G service. The Group is confident about SmarTone's prospects, given its sound management team, strategy and financial strength, and will continue to hold SmarTone as a long-term investment.

SUNeVision

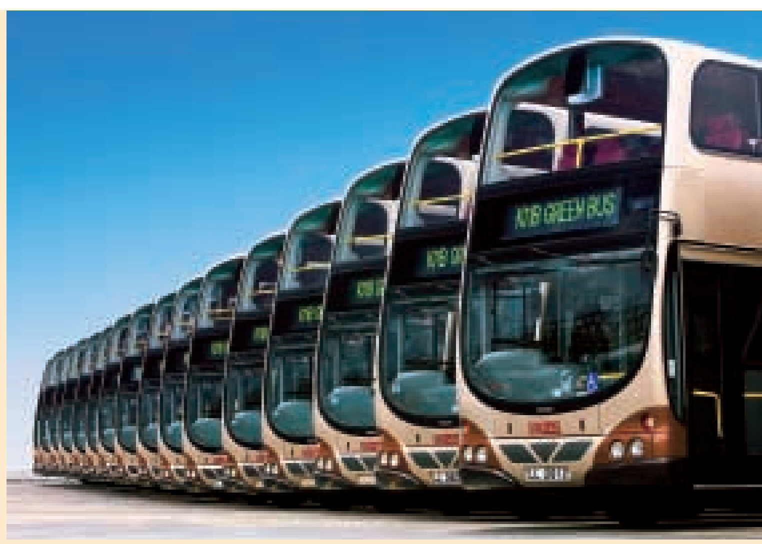
SUNeVision continued to grow during the year and achieved its second year of profit, amounting to HK$154 million. iAdvantage will keep strengthening its leading position as a provider of superior facilities and value-added service to its local and multinational customers, aiming to achieve higher occupancy. SUNeVision's financial position stayed strong with about HK$1,500 million in cash and interest-bearing securities. The Group is confident in the company's financial and earning strength, given the improving prospects for its core operations.

Transportation and Infrastructure

Kowloon Motor Bus

Business remained challenging for Kowloon Motor Bus (KMB), in the face of rising fuel costs and fare concessions. Management took initiatives to increase productivity further without compromising service quality. KMB plans to pre-sell its Manhattan Hill residential development at Lai Chi Kok in the first half of 2006. Its investments in transport-related businesses on the mainland have shown satisfactory results. KMB will continue looking for opportunities in the transportation business on the mainland, given the positive long-term outlook. An improved economic climate resulted in KMB's RoadShow subsidiary recording satisfactory media sales.

SUNeVision's iAdvantage is building upon its leading position as a carrier-neutral data centre operator in Hong Kong and on the mainland.



KMB is committed to delivering quality service with its new bus fleet.

Infrastructure

The Group enlarged its long-term holding in Asia Container Terminals to 57 per cent during the year by exercising a pre-emptive right. It then received an unsolicited and attractive offer, and eventually sold its entire interest in December 2004. The proceeds will be reinvested when a suitable opportunity arises.

The Wilson Group performed well during the year, while both the River Trade Terminal and Airport Freight Forwarding Centre had satisfactory operations. Traffic flow on the Route 3 (Country Park Section) remained steady.

The Group's infrastructure projects are all in Hong Kong and are expected to produce steady cash flows over time. The Group intends to hold the projects as long-term investments, given the healthy cash flows and potential returns.

Mainland Business

Mainland investments performed well for the Group during the year. In June this year the Group acquired a premium site in a prime location by Huangpu River in Shanghai's Pudong district with a panoramic view of the Bund. The site can accommodate 1.7 million square feet of gross floor area and will be a landmark waterfront residential development with first-class international luxury. Construction of the Group's integrated commercial development in the Lujiazui financial trade zone is expected to start early next year, and the entire project should be completed by 2011. This will be an integrated office, retail and hotel development of a concept and scale comparable to IFC in Hong Kong.

Shanghai Central Plaza maintained its impressive performance with almost full occupancy and higher rents for both retail and office space during the year under review. The Sun Dong An Plaza office tower in Beijing was 95 per cent let, and the Group plans to renovate the retail space as an up-market mall for tourists and young consumers. Renovations should be finished in 2007, in time for the 2008 Beijing Olympics. The shareholding in Sun Dong An Plaza recently underwent a restructuring that gave the Group full control of its management and all the revenue from the office and retail space, except for 16,000 square metres operated by the mainland partner.

The Lujiazui project in Shanghai is destined to be the Group's flagship mainland development.

Chairman's Statement

Corporate Finance

The Group maintained a strong financial position, largely due to recurring cash flows from operations. As at 30 June 2005, its net debt to shareholders' funds ratio was 11 per cent.

The Group is financially well positioned for expansion, given its low gearing and the availability of substantial committed, undrawn facilities. The trend in corporate borrowing is towards narrower spreads, and in February 2005 the Group arranged a five-year HK$12,600 million, fully-revolving syndicated facility at very attractive terms. This will lower the Group's overall cost of funding. It will keep looking for new sources of funding and lengthen its debt maturity profile when appropriate opportunities arise. Almost all of the Group's financing is denominated in Hong Kong dollars, so it has negligible exposure to foreign exchange risk. The Group has not taken any speculative positions in derivatives.

The Group manages its finances prudently and focuses on maintaining low gearing and high liquidity. Moody's upgraded the Group's credit rating from A2 to A1, the same as Hong Kong's sovereign rating. The Group's financial strength will continue to be sustained by healthy returns from property sales and recurrent rental income.

Corporate Governance

A reputation for high standards of corporate governance is one of the keys to the Group's success. It recently appointed two more non-executive directors, one of whom is independent, to strengthen the Board's composition further. In addition to the Audit Committee that has been in place for many years, Remuneration and Nomination Committees were established during the year under review. The Group also has effective internal controls in place to safeguard shareholders' interests and its assets, and it puts great emphasis on the transparent and timely disclosure of relevant information to shareholders and investors.

The Group's effective management and good corporate governance are recognized by the investment community. *Euromoney* magazine named the Group number one among Best Property Developers in both Asia and Hong Kong in 2005. The Group was also voted Asia's

The SHKP Club has over 210,000 members and promotes two-way communication between the Group and its market.

The Group's property management companies are committed to raising quality of service to new heights.

Best Property Company by *FinanceAsia* magazine for the third consecutive year, and was ranked number one in Hong Kong for Corporate Governance by *The Asset* magazine.

Customer Service and Human Resources

First-class service has always been a priority on the Group's agenda, and it constantly looks for fresh ideas to satisfy customers. The Group's two property management subsidiaries strive to offer residents high-quality living environments with comprehensive service and the finest leisure facilities, and they consistently win many awards for their efforts.

The SHKP Club offers the Group a two-way communication channel with the market. The Club currently has over 210,000 members, and it celebrated two important new milestones in its evolution during the year; the introduction of a new Star membership category with added privileges for owners and residents of the Group's residential developments and the new SHKP Club VISA card offering a wide range of shopping benefits and other services.

Facilitating staff development and personal growth have long been among the Group's management objectives. The Group continues to implement a wide range of initiatives to ensure that it attracts and retains the best people.

Corporate Citizenship

The Group's commitment to the community is best described by its dedication to 'Building Homes With Heart'. This means more than creating the finest residential developments for customers, but extends to making Hong Kong a better place to live for everyone.

The Group is committed to promoting culture and education, including the encouragement of personal development and the broadening of people's horizons. It established the SHKP Book Club during the year under review, and staged a series of activities to foster a culture of reading in Hong Kong.

The Group also maintained its support for a wide range of charities and programmes to help the less fortunate. The SHKP Volunteer Team expanded the scope of its activities during the year

Crowds flock to IFC Mall to see Picasso's famous stage curtain *Parade*, showcased in Hong Kong for the first time.

The Group set up the SHKP Book Club to promote reading in Hong Kong.

Chairman's Statement

and branched out into new fields of community service. The Group promotes green living by incorporating eco-friendly features and construction materials in its developments, and these efforts have been highly praised by a variety of organizations.

Prospects

The global economy should continue to grow and the US economy is expected to remain relatively robust, notwithstanding surges in oil prices and increases in US interest rates. The mainland economy is expected to keep growing at a steady pace despite tightening measures being adopted for certain sectors.

The recent reform in the RMB exchange rate regime should attract more capital to the mainland and Hong Kong. Abundant liquidity, improved consumer confidence and continuous growth in tourism and trade signal a positive outlook for Hong Kong's economy.

The residential market is expected to remain promising. Income growth, low mortgage interest rates, affordable housing prices and a rise in marriages should continue to bolster the demand for residential property. A decline in the supply of new units in the next few years is likely to support the rising trend in housing prices that started in the middle of 2003.

As always, the Group takes advantage of market conditions to replenish its development land bank by various means, particularly converting agricultural land to residential use. The Group has sufficient paid-up land for development over the next five years. The average completion rate for new residential projects over the next three years is expected to be about 2.7 million square feet annually. Steadily rising property prices should boost the Group's development profit margins, while its established brand name, high-quality products and premium customer service further enhance returns.

The rental portfolio is expected to do well in the coming year, driven by higher rents for new leases and renewals, the addition of a full-year contribution from APM and new income from Four Seasons Place.

Tight new supply and more business opportunities in Hong Kong will keep pushing office rents higher. The Group plans to add another 6.3 million square feet to its Hong Kong investment property portfolio over the next four years, including 4.2 million square feet of

Harbour Green at Olympic Station will go on sale soon.

Manhattan Hill in Lai Chi Kok will offer deluxe units to meet market needs.

office space in prime locations. These new projects will increase the Group's share of the high-end rental market over time. The Group will also selectively replace non-core investment properties with new landmark projects, to enhance asset quality and returns further.

New residential projects set for pre-sale in the next nine months include Harbour Green at Olympic Station in Kowloon West, Severn 8 on the Peak, Park Island Phase 5 on Ma Wan and Manhattan Hill in Lai Chi Kok. Proceeds from these projects and substantial rental income will keep the Group's financial position strong.

Looking ahead, the Group will continue to focus on property development in Hong Kong, building residential properties for sale and shopping malls and offices for rent. It will also apply its core competence to expand into property development in mainland China.

Given enhanced margins and good prospects for both the sales and leasing markets, and barring unforeseen circumstances, the Group's results for the coming financial year are expected to be encouraging.

Appreciation

Dr. Eric Li Ka-cheung was appointed a non-executive director and member of the Group's Audit Committee in May this year. His wealth of experience in finance and accounting, as well as in civic affairs, will help the Group's business.

Professor Richard Wong Yue-chim was appointed an independent non-executive director, chairman of the Nomination Committee and member of the Remuneration Committee in May 2005. His extensive knowledge and experience in economics and policy development will contribute to the Group's business.

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

Walter Kwok Ping-sheung
Chairman & Chief Executive

Hong Kong, 15 September 2005

Chairman & Chief Executive Walter Kwok (centre), and Vice Chairmen & Managing Directors Thomas Kwok (left) and Raymond Kwok (right).