# Chairman's Statement

I am pleased to present my report to the shareholders.

## RESULTS

The Group's unaudited profit after tax and minority interests for the six months ended 31 December 2005 was HK$13,505 million, including a revaluation surplus on completed investment properties net of deferred tax of HK$7,426 million. Earnings per share were HK$5.62, an increase of 167 per cent over last year.

If the revaluation surplus net of deferred tax were to be excluded, underlying net profit for the period would be HK$6,079 million, representing an increase of ten per cent over the corresponding period last year. Underlying earnings per share would be HK$2.53, an increase of ten per cent over last year.

## DIVIDEND

The directors have declared an interim dividend of HK$0.70 per share, the same as that for the corresponding period last year. This reflects the Group's intention to preserve its financial strength, given the increased net debt position and reinvestment opportunities, particularly in mainland China. It will be payable on 27 March 2006 to shareholders whose names appear on the Register of Members of the Company on 24 March 2006.

## BUSINESS REVIEW

### Property Sales

The attributable value of properties sold and pre-sold in Hong Kong during the period was HK$1,748 million, compared to HK$4,457 million for the corresponding period in the previous year. Phase 1 of Harbour Green at Olympic Station was the only new project the Group put on sale during the six months ended 31 December 2005.

The turnover from property sales as recorded in the accounts was HK$7,283 million for the period, compared to HK$5,130 million last year. The Group completed the three projects described below in the period under review. About 90 per cent of The Arch has been sold and Severn 8 on The Peak will be put on the market shortly.

| Project | Location | Usage | Group's Interest (%) | Attributable Gross Floor Area (square feet) |
|---|---|---|---|---|
| The Arch | 1 Austin Road West<br>Kowloon | Residential | Joint venture | 1,076,000 |
| Severn 8 | 8 Severn Road<br>The Peak | Residential | 100 | 59,000 |
| Novotel Citygate | 51 Man Tung Road<br>Tung Chung | Hotel | 20 | 47,500 |
| **TOTAL** | | | | **1,182,500** |

## Land Bank

The Group remained active in replenishing its land bank in Hong Kong through various means during the period under review, acquiring about 1.1 million square feet of gross floor area as described below. The residential development on Ming Yuen Western Street in North Point is being retained as a rental property.

| Location | Usage | Group's Interest (%) | Attributable Gross Floor Area (square feet) |
|---|---|---|---|
| New Kowloon Inland Lot 6350 Ngau Chi Wan | Residential | 100 | 775,000 |
| 38 Ming Yuen Western Street North Point | Residential | 100 | 94,000 |
| Kwai Chung Town Lot 215 (additional GFA) | Hotel | 100 | 191,000 |
| **TOTAL** | | | **1,060,000** |

The Group currently has a land bank of 41.9 million square feet in terms of gross floor area in Hong Kong, made up of 22.3 million square feet of completed investment properties and 19.6 million square feet of properties under development. It also owns over 21 million square feet of agricultural land in terms of site area, the majority of which is along major existing and planned railways in the New Territories and is being converted mainly to residential use.

The Group acquired a prime site with a gross floor area of 1.35 million square feet on Orchard Road in Singapore through a 50-50 joint venture. The plot will be developed into a large, high-end retail and luxury residential complex destined to become an icon in the city-state's famed shopping district.

## Property Development

The residential property market showed resilience during the period under review, with only mild price corrections. Transactions in the secondary market moderated but remained at healthy levels, and showed signs of a rebound over the past two months. The number of new projects put on sale during the past few months was low, due partly to seasonal factors and supply constraints. Primary market prices stayed relatively firm.

Brand building remained a focus for the Group. It offers an optimal range of products, efficient layouts, modern designs and superior finishes, and sets new standards of luxury in clubhouse facilities and superior customer service in new projects. Strong brand recognition enhances the positioning and marketability of the Group's new developments.

Project completions in the first half of the current financial year and those planned in the second half are as follows:

| | Residential | Hotel | Total |
|---|---|---|---|
| | | *Attributable gross floor area (square feet)* | |
| **First Half Year** | | | |
| For Sale | 1.2 | - | 1.2 |
| For Investment | - | * | * |
| Subtotal | 1.2 | * | 1.2 |
| **Second Half Year** | | | |
| For Sale | 1.3 | - | 1.3 |
| For Investment | - | - | - |
| Subtotal | 1.3 | - | 1.3 |
| **TOTAL** | **2.5** | ***** | **2.5** |

** less than 100,000 square feet*

## Property Investment

The Group's gross rental income for the period under review, including its share from joint-venture rental properties, increased by 12 per cent to HK$3,126 million. Net rental income for the period was up ten per cent to HK$2,235 million. The increase in rental income was primarily driven by higher contributions from IFC mall, as well as from the APM mall and Four Seasons Place that opened for business in March and September of 2005 respectively. Occupancy of the Group's rental portfolio remained high at about 96 per cent.

The retail sector continued to perform well. The Group's shopping centres attracted more visitors and retail tenants benefited from higher sales turnover. The success of APM and IFC malls, which are both fully let, has reinforced the Group's commitment to enhancing branding and maintaining its leading position in the retail leasing market.

The Group will maintain its efforts to keep its shopping malls attractive, with renovations and refinements to tenant mixes. Renovations in New Town Plaza and Tai Po Mega Mall will be finished in late 2006, and higher rents are expected. Regular promotional campaigns in the Group's malls will continue to draw shoppers and boost tenants' business.

Rents in prime office buildings have risen due to high demand from existing and new tenants, particularly in prime areas. The Group will complete more than six million square feet of new investment properties over the next four years, which will make it one of the largest high-quality office landlords in Hong Kong and give an added boost to rental income.

The most important project under construction is International Commerce Centre (ICC) sited prominently on the West Kowloon waterfront. ICC will rise to 118 storeys and provide 2.5 million square feet of office space. It will be the tallest building in Hong Kong and third tallest in the world when complete in 2010. The first phase of ICC will contain 450,000 square feet of office space scheduled for completion in late 2007. The prime location is at the heart of a future cultural and business hub; convenient to the airport and just one stop from Central. The proposed Guangzhou-Shenzhen-Hong Kong Express Rail Line terminating at West Kowloon Station will add to ICC's attraction for international and mainland companies looking to set up headquarters in Hong Kong. Soft marketing began recently and interest has been encouraging.

Construction of Millennium City Phase 6 is progressing well and should be finished in mid 2007. The development will comprise about 400,000 square feet of office space equipped with state-of-the-art facilities. The Group intends to hold the project as a long-term investment.

More business activity in Hong Kong has boosted the demand for high-end rental accommodation. The Group's market-leading Signature Homes residential leasing arm has established a solid reputation. The serviced suites in Four Seasons Place at IFC offer an unparalleled standard of luxury living and premium service, and have recorded satisfactory occupancy since leasing began in September 2005.

## Hotels

The number of visitor arrivals kept rising in 2005, mainly as a result of more tourists from overseas and business travellers. The opening of Hong Kong Disneyland and successful hosting of the WTO Ministerial Conference last year further reinforced Hong Kong's position as a regional focus for tourists and business travellers.

First-class facilities and service have made the Four Seasons Hotel at IFC the preferred new choice of accommodation for discerning travellers since it opened in September 2005, and occupancy has been satisfactory. The hotel's gourmet food and beverage outlets are also popular with connoisseurs of fine cuisine. The Group's Royal Garden, Royal Park and Royal Plaza hotels recorded average occupancies of about 90 per cent, and room rates showed double-digit growth over last year.

Hong Kong's increasing popularity as a tourist destination and an expanding mainland economy mean that the numbers of both leisure and business travellers to the territory should keep rising in the years ahead. The Group's existing hotels and two world-class hotels being built as part of its Kowloon Station development should be in a good position to benefit from the bright prospects for Hong Kong's hospitality industry.

## Mainland Business

The Group currently owns an attributable 11.6 million square feet of gross floor area on the mainland, comprising 2.6 million square feet of completed investment properties and nine million square feet of properties under development.

Mainland investments are performing well for the Group. Renovations to Sun Dong An Plaza in Beijing are under way and scheduled for completion by early 2008. The renovations are part of a major initiative to reposition the mall as a trendy shopping and entertainment attraction for high-spending young professionals. Occupancy of Shanghai Central Plaza remained over 96 per cent, and both office and retail rents rose compared to the previous year.

A joint venture the Group entered into during the period under review will develop a project in Hangzhou comprising 5.9 million square feet of gross floor area containing retail, luxury residential, serviced apartment, hotel and office space. The Group has a 40 per cent interest in the project.

The Group also fully owns two more projects under way in Shanghai. One is Shanghai IFC, a commercial complex of about four million square feet in Pudong's Lujiazui financial centre overlooking the Huangpu River, on which construction will start soon. The offices will be built to the same standard as IFC in Hong Kong, with panoramic views and comprehensive communications and IT infrastructure. A high-end shopping mall will house international brand-name retailers plus a hotel and serviced apartments run by world-renowned hospitality operators. The other project in Wei Fong on the Pudong waterfront overlooking the Bund will be a world-class luxury residential development with 1.7 million square feet of gross floor area. Planning is at an advanced stage and construction is expected to start in the second half of 2006.

## Telecommunications and Information Technology

### *SmarTone*

SmarTone recorded higher service revenue during the period under review, but net profit came under pressure from higher 3G-related costs and increased handset subsidies in response to stiff competition. The company will meet the challenging market environment by maintaining its focus on customers and service quality. It will also continue to innovate and invest for future growth. The Group is confident in SmarTone's prospects, given its sound management and business strategy, and will continue to hold the company as a long-term investment.

### *SUNeVision*

SUNeVision saw continued profit growth for the period under review. iAdvantage is the leading carrier-neutral data centre operator in Hong Kong. It kept building its customer base by winning new clients including major multinational and local businesses. SUNeVision's financial position remained strong, with approximately HK$1,500 million in cash and interest-bearing securities on hand. The Group is confident in the company's financial and earnings strength, given improving prospects for its core operations.

## Transportation and Infrastructure

### *Transport International*

The Kowloon Motor Bus Holdings Limited changed its name to Transport International Holdings Limited (TIH) in November 2005. The company's business environment remained challenging, due mainly to loss of passengers to new rail lines and increases in fuel costs and tunnel tolls. TIH will continue to increase operating efficiency without compromising service quality. The company's franchise has been renewed until 2017, under a new fare-adjustment mechanism. TIH saw profit growth from its mainland transport businesses, and pre-sales of its Manhattan Hill residential development in West Kowloon should further strengthen its financial position. The company will continue to look for investment opportunities in the mainland transport sector, in view of the positive long-term outlook for China's economy. The media-sales business of TIH's subsidiary, RoadShow Holdings Limited, achieved satisfactory results.

### *Infrastructure*

The Wilson Group performed well during the year, while both the River Trade Terminal and Airport Freight Forwarding Centre had satisfactory operations. Traffic on the Route 3 (Country Park Section) increased moderately during the period under review. 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 these projects as long-term investments, given their healthy cash flows and potential returns.

## Corporate Finance

The Group will maintain its conservative financial policies, with high liquidity and low financial leverage. Its net debt to shareholders' funds ratio as at 31 December 2005 was 16.5 per cent. The vast majority of the Group's borrowings are denominated in Hong Kong dollars, so exposure to foreign currency risk is negligible. Almost all the Group's credit facilities are unsecured, and it has substantial committed undrawn facilities on standby for business expansion.

The Group issued four ten-year bonds, raising HK$1,800 million under its Euro Medium-Term Note programme in November 2005 and January 2006, in line with its practice of lengthening its debt maturity profile. The bonds were issued at competitive terms and later swapped to a floating interest rate. The Group will continue to source long-term financing to match its investment needs and broaden its funding base.

## Corporate Governance

Maintaining high standards of corporate governance has always been one of the Group's top priorities. This is achieved through an effective board of directors, timely disclosure of information and a pro-active investor relations programme. The Group appointed two additional non-executive directors, one of whom is independent, and established Remuneration and Nomination committees during 2005, and it will continue its efforts to stay at the forefront of best corporate governance practices.

# Chairman's Statement

The Group's dedication to management excellence and good corporate governance is widely recognized by the investment community. The various accolades received in 2005 included the Group being named the number one property developer in both Asia and Hong Kong and number one among the best companies in Hong Kong by Euromoney magazine.

## Customer Service

Good customer service has long been one of the key factors in the Group's success. On the front line of service are the Group's property-management subsidiaries, Hong Yip and Kai Shing, which have won numerous awards for their first-class customer care.

The SHKP Club was established to facilitate two-way communication, and this year it celebrates its tenth anniversary and membership approaching 230,000. The Club offers its members a variety of activities and is planning a new series of events to promote the ideal of loving homes.

## Corporate Citizenship

Serving the community is another of the Group's priorities, as Hong Kong has always been its home. The Group sponsors a wide range of charitable, educational and cultural initiatives, including the SHKP Book Club that was formed to promote reading in Hong Kong. The in-house Volunteer Team of staff members is always ready to serve the community.

The Group places great emphasis on enabling its staff, its most valuable asset, to develop their careers and fulfill their potential. The Group also cares about the environment. It follows green practices in its own operations and encourages residents and tenants to do the same, to make Hong Kong a better place to live.

## PROSPECTS

The global economy is expected to grow steadily this year, notwithstanding higher oil prices and interest rates. Mainland economic growth should remain buoyant. Improved consumer confidence, a steady rise in incomes, topping out of interest rates and abundant liquidity should ensure that Hong Kong's economy remains vibrant in 2006.

The residential market in Hong Kong is likely to do well this year, in light of solid economic fundamentals and favourable demand and supply conditions. Overall prices are still highly affordable in historical terms. Further pay increases, mild inflation and stabilizing mortgage interest rates should boost homebuyers' confidence. Positive demographic trends like the rising number of marriages, births and new households also stimulate a healthy demand for private housing, while the supply of new units is expected to decline for the next few years.

Rents for both renewals and new leases in the Group's investment portfolio are expected to rise. Retail sales growth will underpin retail rents, while expansion by local businesses and an influx of overseas and mainland companies will increase demand for office space. Office rents will also be bolstered by a tight supply of quality new office space for the next two years. The Group will replace some of its existing rental properties by developing new landmark projects including ICC. It intends to increase shareholder returns by managing its assets more efficiently and is also reviewing the feasibility of launching a real estate investment trust.

The Group will maintain its focus on the property business in Hong Kong and build upon its advantages, including a sizable development land bank and strong brand name. Residential completions are expected to rise modestly in the next three years, and the Group will replenish its land bank for future development needs. It will continue efforts to enhance development margins by offering a diverse mix of flats with stylish, innovative designs to meet the latest consumer preferences. The Group has been working to project its recognized brand name in residential property onto its office, retail and residential leasing portfolios.

The Group is confident about growth on the mainland and has been developing landmark projects to strengthen its brand name. It will continue investing selectively in prime locations in major mainland cities when appropriate opportunities arise.

New residential developments will be offered for sale according to schedule to take advantage of market conditions. Major projects planned for pre-sale in the next nine months include Severn 8 on The Peak, Manhattan Hill in West Kowloon and Park Island Phase 5 in Ma Wan.

Given the positive outlook for Hong Kong's economy and property market, the Group's results for the current financial year should be satisfactory barring unforeseen circumstances.

## APPRECIATION

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.

Kwok Ping-sheung, Walter
*Chairman & Chief Executive*

Hong Kong, 3 March 2006