Chairman's Statement

Park Island Phase 5 in Ma Wan has sold over 95 per cent of the units since it went on sale in early August.

Harbour Green at Olympic Station inspires a cosmopolitan living style by adopting exquisite interior designs.

I am pleased to present my report to the shareholders.

Results

Profit attributable to the Company's shareholders for the year ended 30 June 2006 was HK$19,850 million, including a revaluation surplus on completed investment properties of HK$9,400 million, net of deferred tax. This represents an 11 per cent increase over last year. Earnings per share were HK$8.23, an increase of ten per cent over last year.

Underlying profit attributable to the Company's shareholders, excluding the effect of fair-value changes on investment properties, was HK$10,468 million, an increase of two per cent over last year. Underlying earnings per share were HK$4.34, an increase of two per cent over last year.

Dividend

The directors have recommended the payment of a final dividend of HK$1.50 per share for the year ended 30 June 2006. Together with the interim dividend of HK$0.70 per share, the dividend for the full year will be HK$2.20 per share, the same as last year.

Business Review

Property Sales

Property sales turnover for the year as recorded in the accounts was HK$10,890 million, as compared with last year's sales of HK$10,274 million. The Group sold and pre-sold an attributable HK$5,102 million of properties in Hong Kong during the year, as compared to HK$21,166 million in the previous year. Harbour Green was the only new project to go on sale during the year. The Group has sold about HK$4,000 million worth of properties since July 2006.

The Group completed five projects consisting of 2.5 million square feet of attributable floor area during the year. The great majority of this is residential area and more than 80 per cent has been sold so far. Park Island Phase 5 in Ma Wan went on sale in early August and over 95 per cent of the units have been sold. Severn 8 on the Peak will be launched shortly.

Situated at 500 feet above the ground, The Grand Sky Pool of The Arch at the Kowloon Station sets new benchmark in luxury living.

Project	Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (square feet)
The Arch	1 Austin Road West, Kowloon	Residential	Joint venture	1,076,000
Park Island Phase 5	8 Pak Lai Road, Ma Wan	Residential	Joint venture	800,000
Noble Hill	38 Ma Sik Road, Sheung Shui	Residential	100	532,000
Severn 8	8 Severn Road, The Peak	Residential	100	59,000
Novotel Citygate	51 Man Tung Road, Tung Chung	Hotel	20	47,500
Total				**2,514,500**

Land Bank

Five sites were added to the Group's land bank in Hong Kong during the year, through agricultural land conversions, government auctions and private negotiations. The total developable gross floor area is 1.2 million square feet, most of which will be for residential use. 38 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
Lot 4313 in DD124 Hung Shui Kiu, Yuen Long	Residential	74	77,000
Ngau Tam Mei Phase 2, Yuen Long	Residential	100	36,000
Kwai Chung Town Lot 215 (additional GFA)	Office	100	191,000
Total			**1,173,000**

Chairman's Statement

Noble Hill in Sheung Shui takes pride in its comprehensive clubhouse facilities which are a rarity in the district.

The clubhouse of Chelsea Court in Tsuen Wan reflects elegance by featuring exquisite materials.

The Group secured a prime residential/commercial site at the West Rail Tuen Mun Station overlooking Tuen Mun Park through tender in August this year. The development will comprise 1.3 million square feet of premium residential premises and a shopping mall of 269,000 square feet. It will be the only major new residential development in the heart of Tuen Mun over the next few years. The advantageous location and convenient rail and bus transport connections are sure to make this the premier project in the area. The Group also acquired a residential site of about 9,000 square feet of gross floor area in Tsing Lung Tau, at a recent government auction. It will be developed with an adjacent site owned by the Group into luxury houses in a green, low-density environment with sea views.

The recent acquisitions bring the Group's Hong Kong land bank to 42.4 million square feet, consisting of 22.4 million square feet of completed investment properties and 20 million square feet of properties under development. The Group also holds more than 23 million square feet of agricultural land in terms of site area. Most of this is along existing or planned railways in the New Territories and is in the process of land use conversion. The Group will replenish its residential development land bank through various means when appropriate opportunities arise, with an emphasis on land use conversion.

The Group entered into a 50/50 joint venture during the year to develop a landmark shopping mall project on Orchard Road in Singapore, with 1.4 million square feet of high-end retail space and luxury homes.

Property Development

Residential transactions in the primary market have picked up significantly in recent months after a relatively quiet period in the first half of the year. The secondary market has seen healthy transaction volumes and steady prices in 2006. The expectation that interest rates have peaked improved market sentiment. Homebuyers' confidence remained positive amid improved job market conditions and rising incomes.

The Arch in Kowloon has set new standards of quality, design and materials for luxury apartments, as well as for comprehensive facilities and service in the clubhouse 500 feet in the air. Approximately 90 per cent of the units have been sold and virtually all buyers have taken possession.

The Group constantly works to reinforce its brand name for quality and enhance its competitive edge in the market. It plans to complete 3.5 million square feet of properties in the coming financial year, of which 2.6 million square feet will be slated for residential development.


International Commerce Centre will be the tallest building of Hong Kong and the world's third tallest on completion. From left (right photo), HKSAR Chief Executive Donald Tsang, Group Chairman & Chief Executive Walter Kwok and Director of the Liaison Office of the Central People's Government in the HKSAR Gao Siren at the ground breaking ceremony of International Commerce Centre.

	Attributable Fross Floor Area (million square feet)				
	Residential	**Shopping Centre**	**Office**	**Hotel**	**Total**
For Sale	2.6	0.0	0.0	0.0	2.6
For Investment	0.0	0.2	0.4	0.3	0.9
Year Total	**2.6**	**0.2**	**0.4**	**0.3**	**3.5**

Property Investment

The Group's gross rental income, including its share from joint-venture investment properties, rose by 14.5 per cent over last year to HK$6,466 million. Net rental income was HK$4,615 million, an increase of 13.5 per cent over the previous year. Occupancy of the Group's rental portfolio remains high at 95 per cent.

The increase in rental income was primarily a result of positive lease renewals and higher contributions from APM mall and Four Seasons Place, which opened in March and September 2005 respectively. Continuously high demand from new and existing tenants drove office vacancies in prime areas to low levels, creating a spill-over demand for office buildings in decentralized areas. The Group's office portfolio has done well in this positive environment, registering high occupancy and increased rents.

The next four years will see the Group complete several large rental properties in Hong Kong, with more than six million square feet of floor area. These will further boost income from the Group's rental portfolio.

The most significant project the Group has under construction is International Commerce Centre above the Airport Express Kowloon Station. The project will be an ultra-modern landmark setting a new benchmark for design and quality, and the location will offer exceptionally convenient transport connections with a planned cross-border railway terminal. The entire project will contain 2.5 million square feet of office space. Preleasing of the 450,000 square feet that is scheduled for completion by the end of 2007 will begin shortly when the marketing showroom opens. The response to soft marketing has been very encouraging, with many potential tenants already registering their interest.

Chairman's Statement

IFC gains reputation for being the first office choice among multinational companies and an entertainment hub for the shoppers.

APM mall in Millennium City 5 has become the territory's major shopping destination.

The Kowloon Station development will include the integrated Elements shopping arcade, which should open by the end of 2007. Elements will set new standards in retailing with its wide-ranging mix of retailers, and aims to be Asia's most innovative shopping experience. Preleasing has been encouraging so far, attracting interest from many tenants new to Hong Kong and established brands.

Millennium City Phase 6 in Kowloon East is progressing well. It will offer approximately 400,000 square feet of superior-quality office space with state-of-the-art facilities upon completion in mid 2007. The Group is also developing a premium office project on Kwai Chung Town Lot 215. Construction of the first phase of 600,000 square feet has commenced. Upon completion of the above-mentioned projects, the Group's status as one of the largest grade-A office landlords in Hong Kong will be cemented, with a diverse portfolio of over ten million square feet. The Group is stepping up efforts to reinforce its brand name in the office sector.

The local retail sector has flourished and the Group's shopping centres attracted more visitors, benefiting retail tenants with higher traffic and turnover. The successes of the APM and IFC malls, which are both fully let, have reinforced its leading position in the retail leasing market. The Group will ensure that its shopping malls remain attractive by carrying out timely renovations and improving tenant mixes.

Renovations are progressing at New Town Plaza and Tai Po Mega Mall, and the initial phases should be complete in early 2007. Higher rental income is anticipated as a result. Regular promotional campaigns will continue in the Group's malls, to draw shoppers and boost tenants' business. World Trade Centre will undergo a major upgrade. Nine floors with 120,000 square feet of floor area will be converted to theme restaurants, entertainment and leisure facilities. Work will begin in late 2006 and will bring the total retail area to 280,000 square feet upon completion in 2008, offering patrons more shopping, entertainment and leisure options under the same roof.

The thriving business climate in Hong Kong has raised demand for high-end residential rental accommodation. 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.

Construction of Shanghai IFC has begun and the whole project is expected to be completed by 2011.

Huai Hai Zhong Road in Puxi, Shanghai will be developed into a top-quality shopping mall, office and luxury residential complex.

Mainland Business

The mainland economy continued to show strong growth during the year. Rising incomes, increased investor confidence and continuous inflows of capital have led to buoyant property markets across the country. Administrative measures put in place for the residential market should help sustain healthy long-term development in the mainland property sector.

The Group is in the process of transferring its successful experience of operating shopping malls and offices in Hong Kong to major mainland cities. The demand for space in high-quality office, shopping mall and residential developments continued to rise, and the Group is stepping up the pace of its mainland investments to capitalize on the opportunity. It acquired a prime, 400,000-square-foot site on Huai Hai Zhong Road in Puxi, Shanghai in the first half of 2006. This site will be developed into a top-quality shopping mall, office and luxury residential complex.

Plans are under way for a world-class luxury residential project of 1.7 million square feet on the bank of the Huangpu River in Pudong. Construction has begun on Shanghai IFC, which will have four million square feet of gross floor area. It will include top-grade office space, a trendy shopping mall and two deluxe hotels in the Lujiazui financial district. The first phase with 900,000 square feet of office space will be finished in 2009 and the entire project will be completed by 2011.

The Group also took 40 per cent stakes in joint-venture projects in Hangzhou and Wuxi. They will have a combined attributable floor area of 8.5 million square feet, the majority being residential space for sale.

The Group held an attributable 19.8 million square feet of gross floor area on the mainland as at 30 June 2006, comprising 2.6 million square feet of completed investment properties and 17.2 million square feet of properties under development.

The mainland rental portfolio continued to produce good results. Shanghai Central Plaza was fully let at higher retail and office rents. Sun Dong An Plaza is undergoing an extensive upgrading into a major retail hub that befits its status as the Group's principal shopping mall in Beijing. When the renovations are complete, the mall will attract trendy young consumers with new international brands and flagship stores, becoming the shopping, dining and entertainment focus in Beijing for local residents, domestic visitors and travellers from overseas. Renovations are also planned for the office towers, which are 95 per cent occupied.

Chairman's Statement

Four Seasons Hotel with its first-class hospitality sets new standards of service quality in Hong Kong.

One of the Group's two hotels at Kowloon Station, Ritz-Carlton, will take full advantage of the hotel industry's bright prospects.

Hotels

More attractions continued to draw increasing tourist numbers to Hong Kong, while the territory's status as an international centre for trade and finance meant that the number of business travellers also rose. The Group is developing two premium hotels at Kowloon Station, to be operated by Ritz-Carlton and W Hotels, and another quality hotel in Ting Kau with about 700 guest rooms, so as to take advantage of the bright prospects for the hotel sector. The Group will also develop its first two mainland hotels as part of the Shanghai IFC project, also to be operated by Ritz-Carlton and W Hotels.

The Group's existing hotels had a good year. Occupancy and room rates at the Four Seasons have remained high since it opened last September, and the Royal Garden, Royal Park and Royal Plaza hotels enjoyed high occupancy and double-digit increases in room rates.

Telecommunications and Information Technology

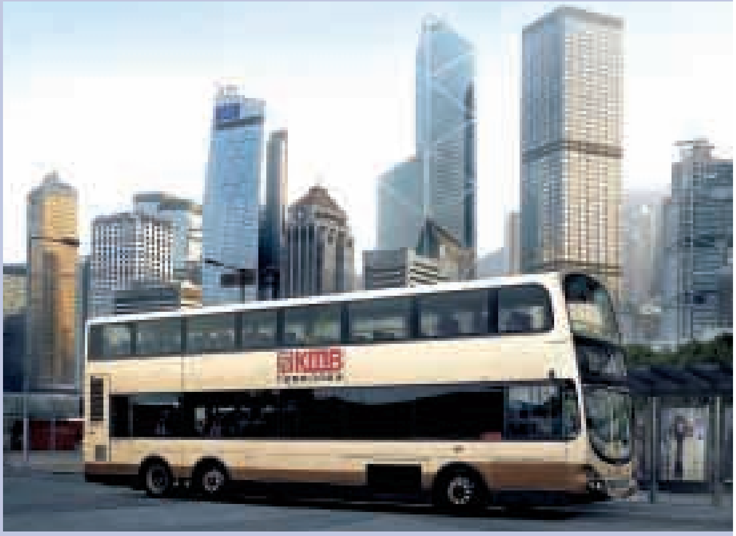
SmarTone

SmarTone continued to deliver a creditable operational performance during the year, despite the pressure on profits due to increased handset subsidies and 3G costs. The company achieved growth in service revenue and average revenue per user, and made encouraging progress in 3G. Though competition is intense in the market, the Group is confident about SmarTone's prospects given its trusted brand name, seasoned management team and solid strategy, and it will continue to hold SmarTone as a long-term investment.

SUNeVision

SUNeVision saw ongoing revenue and profit growth for the period under review. iAdvantage kept building upon its position as the leading carrier-neutral data centre operator in Hong Kong and on the mainland, surpassing 70 per cent occupancy for the period under review. SUNeVision's financial position remained solid after the payment of a special cash dividend, and the company continues to hold sufficient financial resources to meet expected operational needs and support future growth. The Group is confident in the company's continuing fiscal strength and earnings prospects.

The demand for SUNeVision's iAdvantage service is anticipated to grow.



Transport International's flagship company KMB continues to uplift its service to strengthen competitiveness.

Transportation and Infrastructure

Transport International Holdings

Transport International Holdings (TIH) has faced a challenging operating environment in Hong Kong. Its flagship company Kowloon Motor Bus has been losing passengers to new railway lines while dealing with rising operating cost from higher fuel prices, wages and tunnel tolls. TIH recorded a higher profit from its mainland transport businesses and will continue to look for investment opportunities on the mainland in view of the positive long-term outlook there. The presale of its Manhattan Hill residential development in West Kowloon will boost TIH's financial position. RoadShow, the TIH subsidiary in the media sales business, achieved satisfactory results.

Other Infrastructure Businesses

The Wilson Group did well during the year, while both the River Trade Terminal and Airport Freight Forwarding Centre are operating satisfactorily. Traffic on the Route 3 (CPS) remained steady during the year. The Group's infrastructure projects are all in Hong Kong, and given their potential returns and strong cash flows over time, the Group will continue to hold them as long-term investments.

Corporate Finance

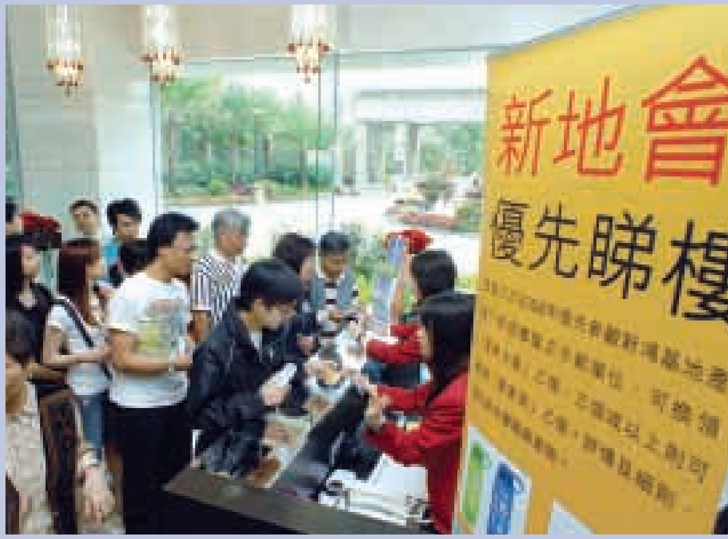
The Group is in a robust financial position, with low gearing and high interest coverage. Its net debt to shareholders' funds ratio was low at 13.4 per cent as at 30 June 2006, reflecting the Group's prudent financial management.

The Group placed 89 million shares in early May at an underwritten price of HK$89, raising net proceeds of HK$7,837 million. This put the Group in a better financial position for future expansion, both in Hong Kong and on the mainland.

The Group is constantly looking for ways to control interest costs. Its excellent credit rating and ample liquidity in the market helped create an enthusiastic response to the Group's self-arranged, five-year HK$12,000 million dual-tranche syndicated credit facility and ten-year HK$1,800 million in bonds under the EMTN programme. The Group has ample stand-by unsecured banking facilities on a committed basis to meet business development needs.

Chairman's Statement

The concierge service in office buildings makes the Group stand apart in customer service.



SHKP Club membership exceeds 240,000 and it continues to offer exclusive privileges such as show flat previews to its members.

The majority of the Group's borrowings are denominated in Hong Kong dollars, so they pose a negligible foreign exchange risk. The Group has taken no speculative positions in derivatives.

A strong financial position and market leadership have earned the Group an A1 rating with a stable outlook from Moody's and an A rating with a stable outlook from Standard & Poor's, which are the highest ratings the two agencies have assigned to any Hong Kong developer.

Customer Service

Superior customer service is one thing that sets the Group apart. Its two property management subsidiaries, Hong Yip Service Company and Kai Shing Management Services, are dedicated to offering residents and tenants the best service and customer care, as well as working to promote a greener Hong Kong. The companies are well recognized for their commitment to excellence and have won numerous awards for service, eco-friendly maintenance and landscaping. The Group continues to set new standards for service, and its introduction of concierge service in office buildings has been well received.

The SHKP Club recently celebrated its tenth anniversary and membership surpassing 240,000. The Club regularly stages a variety of events for the benefit of its members and the community at large. It initiated a 'Loving Home' campaign during the year under review, generating widespread interest and participation from members and the public. The Club's co-brand VISA card offers members a broad spectrum of shopping benefits.

Corporate Governance

Maintaining high standards of corporate governance is a cornerstone of the Group's business philosophy. This is achieved through an effective Board of Directors, timely disclosure of information and a proactive investor relations programme. Audit, Remuneration and Nominating Committees are all in place, and the Group will continue its efforts to stay at the forefront of best corporate governance practices.

The Group's sophisticated management and good corporate governance are recognized by the investment community. Some of the various accolades received during the year included the Group being named Asia's best property company by *FinanceAsia* magazine for the fourth consecutive year and best developer in both Asia and Hong Kong by *Euromoney* magazine for the second year running.

SHKP Book Club organizes a series of events and evokes enthusiastic response from the public.

The Group initiates an extensive programme along with The Chinese University of Hong Kong to promote mental health.

Corporate Citizenship

The Group supports numerous charitable and educational programmes. It began the SHKP Book Club to promote reading and personal development through events such as seminars, book fairs and book review competitions. The Book Club receives enthusiastic support from local schools, and its new Young Writers' Debut competition has attracted a great deal of interest. The Group also offers scholarships to many students at both local and mainland educational institutions.

The Group is collaborating with The Chinese University of Hong Kong on an extensive programme to promote mental health in Hong Kong. This will be a high-profile initiative to tackle the problem and raise public awareness through education. The Group also encourages its staff to become involved in community work via the SHKP Volunteer Team.

Staff development and training is another area that receives the Group's encouragement and support. A wide variety of courses provide staff members with the opportunity to develop both professionally and personally. The Group also provides career opportunities through its management trainee and other recruitment programmes.

Prospects

The global economy is expected to keep growing in the year ahead despite monetary tightening in most industrialized countries and high oil prices. The high likelihood that the two-year interest rate hike cycle in the US has come to an end should be a positive for the macro environment. The mainland economy is expected to keep growing, but at a healthier and more sustainable pace after the implementation of macro-control measures earlier this year. Against this background, Hong Kong's economy should continue to grow steadily in the year ahead.

The residential property market is expected to fare better as mortgage interest rates peak. Steadily rising incomes, a better job market and more marriages will support the demand for new homes, while the supply of new units will fall in the next few years. Affordability for homebuyers is also relatively high. All these factors suggest that prices in the future will gradually rise.

Chairman's Statement

Convenient transportation and deluxe clubhouse of Manhattan Hill at West Kowloon will attract professionals and upgraders.

Situated on a prime site, Severn 8 on The Peak offers prestige and tranquil living environment.

The Group will continue replenishing its Hong Kong land bank through various means including farmland conversion, so as to step up residential completions over the long term. It will also maintain its practice of offering premium-quality developments with modern designs supported by comprehensive clubhouse facilities, to satisfy the aspirations of modern homebuyers. The Group's reputation for quality has earned it a trusted brand name, a fact that is evidenced by media surveys of the public. The Group will make maximum use of its brand identity and the enhanced marketability it provides to raise development margins on new projects.

The rental portfolio will continue to perform well with higher rents for new leases and renewals, as the demand for office and retail space remains strong. Office rents will continue to climb moderately as a result of a tight supply of new space and continued demand from new and existing tenants. Office rents in decentralized districts will start catching up with those in core areas, while higher retail sales fuelled by improving employment and rising incomes will support retail rents.

Property development on the mainland will contribute to the Group's growth over the long term. The Group is developing a number of landmark projects on the mainland, which should enhance its market positioning there. It will also keep looking for opportunities to develop residential projects in selected major cities. The administrative measures put in place recently to cool the property market will provide a better opportunity for the Group to lay the foundation for future growth.

The Group is now developing over six million square feet of property in Hong Kong that will be held for rent. These projects and others on the mainland will further boost the Group's rental income over the medium to long term. The Group will consider reconfiguring its investment property portfolio through various means, to increase asset turnover and improve return on equity. One such vehicle being evaluated is a REIT, which would be a new business for recurrent income while optimizing the rental portfolio through expansion of the REIT.

The Group plans to complete 2.6 million square feet of residential space for sale in the current financial year. Major residential projects that will go on the market in the next nine months include Severn 8 on the Peak, Manhattan Hill in West Kowloon and The Vineyard in Yuen Long. Barring unforeseen circumstances, the results for the coming financial year are expected to be satisfactory.

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

Appreciation

Non-executive director Mr Law King-wan will soon retire from the Company's board after having been with the Group since its very beginning. He has made an immense contribution to the Group's growth and success over the years, and I would like to thank Mr Law for his dedication and loyalty.

I would also 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, 14 September 2006