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 2006 was HK$10,910 million, including a revaluation surplus on investment properties of HK$5,639 million net of deferred tax, compared to HK$13,505 million for the corresponding period last year. Earnings per share were HK$4.38, compared to HK$5.62 for the same period last year.

If the effect of fair-valuation changes on investment properties had been excluded, the underlying net profit for the period would be HK$5,297 million, as compared to HK$6,079 million for the corresponding period last year. Underlying earnings per share would be HK$2.13, compared to HK$2.53 for the same period last year.

DIVIDEND

The directors have recommended the payment of an interim dividend of HK$0.70 per share for the six months ended 31 December 2006, the same as that for the corresponding period last year. It will be payable on 2 April 2007 to shareholders whose names appear on the Register of Members of the Company on 29 March 2007.

BUSINESS REVIEW

Property Sales

Property sales turnover for the period under review as recorded in the accounts was HK$6,888 million, compared with HK$7,283 million during the same period last year. The Group sold and presold an attributable HK$7,500 million worth of properties in Hong Kong during the period, compared to HK$1,748 million last year. Major projects sold included Park Island Phase 5 on Ma Wan, Severn 8 on The Peak and Harbour Green in West Kowloon.

The Group completed four projects consisting of 2.2 million square feet of attributable floor area during the period, of which 1.9 million square feet are residential area for sale. Details are shown below:

Project	Location	Usage	Group's Interest *(%)*	Attributable Gross Floor Area *(square feet)*
Harbour Green	8 Sham Mong Road West Kowloon	Residential	Joint venture	1,110,000
The Vineyard	23 Ngau Tam Mei Road Yuen Long	Residential	100	383,000
Manhattan Hill	1 Po Lun Street West Kowloon	Residential/ Shopping centre	33	376,000
Royal View Hotel	353 Castle Peak Road Ting Kau	Hotel	100	310,000
Total				**2,179,000**

Hong Kong Land Bank

The Group continued to replenish its land bank in Hong Kong. It currently holds 42.5 million square feet of properties in Hong Kong, consisting of 22.7 million square feet of completed investment properties and 19.8 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. The majority of these sites are in the process of land use conversion and located along existing and planned railways in the New Territories.

Seven sites were added to the Group's land bank in Hong Kong since July 2006, through rail company tenders, government auctions, conversions and private negotiations. The total gross floor area amounted to 3.6 million square feet, most of which is for residential use. This includes the recently-won, mixed-use project above the MTR Tseung Kwan O Station and an industrial site in Kwun Tong.

Location	Usage	Group's Interest *(%)*	Attributable Gross Floor Area *(square feet)*
West Rail Tuen Mun Station Development	Residential/ Shopping centre	Joint venture	1,556,000
Tseung Kwan O Area 56 Development	Residential/Office/ Hotel	Joint venture	1,541,000
Ngau Tam Mei Phase 1A Yuen Long	Residential	100	48,000
195 Prince Edward Road West Kowloon	Residential	100	46,000
12 Mount Kellett Road The Peak	Residential	100	43,000
Tsing Lung Tau Lot 68	Residential	100	9,000
181 Hoi Bun Road Kwun Tong	Industrial	100	309,000
Total			**3,552,000**

Property Development

Homebuyers have greater confidence as a result of an improving job market and consecutive years of pay rises. The volume of transactions in the residential market has risen modestly with stable prices since the middle of 2006, as fears over interest rate hikes diminished. More attractive mortgage interest rates in recent months have fuelled homebuyers' demand and market activity. Limited supply led to higher prices for luxury properties, and this sector continued to outperform the mass market.

Chairman's Statement

The Group welcomed the government budget announced last week. The various relief measures and rebates, in particular the reduction in stamp duty on property transactions and waiving rates for two quarters, will encourage new homebuyers to enter the property market.

The period under review saw the Group continue to build on its leading position in the property market by delivering premium products and customer service. Severn 8 on The Peak set new standards for a deluxe townhouse development. The project has produced a very encouraging market response, with the Group's brand name helping it achieve record prices.

The Group remains committed to building homes with heart, offering premium developments with a range of flat sizes, efficient layouts and comprehensive clubhouse facilities to suit different people's needs and aspirations. The Group plans to complete an attributable 1.3 million square feet of properties in the second half of the current financial year, made up of the premium office space in Millennium City Phase 6 and the first phase of Kowloon Station Development Packages 5, 6 & 7, which will be mainly residential units for sale.

Property Investment

The Group's gross rental income for the period under review, including its share from joint-venture investment properties, was up 12 per cent to HK$3,498 million. Net rental income for the period was HK$2,535 million, an increase of 13 per cent over the previous year. Occupancy of the Group's rental portfolio remains high at 94 per cent. Overall rental income growth was primarily driven by increased rents for new leases and renewals for all types of property, with better growth from the office portfolio.

Office rents have risen mainly because of steady high demand, particularly in prime areas where the booming financial sector has sought space to expand. The Group's diverse office portfolio performed well in this positive environment, and new office projects to be completed over the next four years will further boost rental income.

The most significant office project under development is International Commerce Centre. This will be the tallest building in Hong Kong when completed in 2010, and it is destined to be both a landmark and a prestigious business address. The project is above Kowloon Station on the Airport Express, with easy access to Central and the airport, as well as the mainland via planned cross-border rail connections. It will incorporate a comprehensive range of facilities including two deluxe hotels – Ritz Carlton and W Hotel – and the stylish 900,000-square-foot Elements shopping mall set to open by the end of 2007. Soft marketing of the first 450,000 square feet of office space scheduled for completion by the end of this year is under way and the response has been encouraging. A marketing showroom will open shortly to support preliminary leasing.

Millennium City Phase 6 in East Kowloon is progressing as planned. It will contain approximately 400,000 square feet of superior office space with state-of-the-art facilities upon completion in mid 2007. The Group is also developing a large office project on Kwai Chung Town Lot 215. Construction of the first phase of 600,000 square feet is under way. Its modern design and international specifications will set a new benchmark for premium offices in the district. The completion of these projects will cement the Group's status as one of the largest grade-A office landlords in Hong Kong.

The local retail sector continued to do well and the Group's shopping centres attracted more visitors, benefiting retail tenants with higher traffic and turnover. The success of the APM and IFC malls, which are both fully let, has further reinforced the Group's leading position in the retail leasing market.

The Group will ensure that its shopping malls remain attractive by carrying out regular renovations, promotional campaigns and refinements to tenant mixes. World Trade Centre has been one of the most popular shopping malls in Causeway Bay. It has now been repositioned under the new name 'WTC more'. Renovations are under way to increase the retail area from 160,000 to 280,000 square feet, as nine office floors are being converted to retail use. It will be a chic modern hive of shopping and entertainment, offering customers a whole new experience.

Mainland Business

Robust economic growth, strong capital inflows and rising incomes resulted in buoyant property markets in most major mainland cities, while the macroeconomic control policies introduced in 2006 helped ensure a healthy, sustainable property market.

The Group currently owns an attributable 19.8 million square feet of gross floor area on the mainland, comprising 2.6 million square feet of completed investment properties and 17.2 million square feet of properties under development.

The Group's mainland business did well during the period under review. Foundations for the four-million-square-foot Shanghai IFC at Lujiazui in Shanghai are complete and work on the superstructure is under way. The world-class design and layout, up-to-date specifications and convenient location will provide excellent value to tenants. The first phase of 900,000 square feet of premium office space, a trendy shopping mall of one million square feet and a deluxe W Hotel will be completed by mid 2009. Completion of the whole project is planned for 2010, when the luxury Ritz Carlton Hotel will also begin operations.

The Huai Hai Zhong Road project at Puxi in Shanghai will have 2.7 million square feet, comprising a distinctive shopping mall of 1.2 million square feet, 1.3 million square feet of premium offices and 200,000 square feet of luxury residences. Construction has just begun and completion is scheduled for 2010. Planning of a world-class 1.7-million-square-foot luxury residential project on the Pudong waterfront with a world-renowned view of the Bund is in the final stages.

Construction recently began on 40-per-cent-owned joint-venture projects in Hangzhou and Wuxi. MIXC.Hangzhou will be completed in phases. The first phase of one million square feet of high-end residences and a shopping mall of 1.6 million square feet is scheduled for completion in 2009. Phase 1 of the Taihu International Community project in Wuxi with 1.2 million square feet of low-rise luxury residences is scheduled for completion in 2008. Marketing and pre-sales will commence later this year.

Rental properties in Shanghai continued to do well. Shanghai Central Plaza was virtually fully let with increased rents for both the office and retail space, and Shanghai Arcadia registered satisfactory occupancy during the period under review. The one-million-square-foot shopping mall that is part of Sun Dong An Plaza in Beijing was recently renamed 'Beijing APM'. It is undergoing a major revamp to reposition the mall as a major attraction for young shoppers with international brands and trendy stores in time for the 2008 Olympic Games. This will reinforce the mall's attraction as a shopping, dining and entertainment focus for both local residents and tourists. The 430,000 square feet of quality office space that forms the remainder of the project will also be refurbished soon.

Hotels

Visitor arrivals continued to grow in recent months and hotel industry's performance remained impressive. Given Hong Kong's status as a hub of finance, business and tourism, demand for hotel rooms is expected to keep rising.

The Group is developing two more premium-brand hotels at Kowloon Station to take advantage of the growing business opportunities. W Hotel is scheduled for completion in 2008 and Ritz Carlton in 2010. The newly-acquired project above the MTR Tseung Kwan O Station will also include a premium hotel. The recently-completed Royal View Hotel on the Ting Kau waterfront in Tsuen Wan will open for business soon, with most of the 691 guest rooms offering stunning views of the Tsing Ma and Ting Kau bridges. When all these hotels are in operation, the Group will own about 4,500 hotel rooms in Hong Kong in attributable terms.

The Group's Four Seasons, Royal Garden, Royal Plaza and Royal Park hotels performed well during the period under review, recording high average occupancy of 90 per cent and healthy increases in room rates.

Telecommunications and Information Technology

SmarTone

Competition in the mobile communication sector remained intense during the period under review. SmarTone continued to deliver growth in service revenue and net profit stabilized despite increases in operating expenses and handset subsidy amortization due to 3G. Riding on its leadership in service quality and innovation, the company will continue to focus on targeted customer segments to increase revenue market share. The Group is confident in SmarTone's prospects and will continue to hold the company as a long-term strategic investment.

SUNeVision

SUNeVision saw continued revenue growth and profitability in the period under review. Its iAdvantage subsidiary remained Hong Kong's leading carrier-neutral data centre operator and sustained its recruitment of new clients such as top-tier multinational and local firms, achieving satisfactory improvements in occupancy. The payment of normal and special dividends of approximately HK$1,400 million in October 2006 nonetheless left SUNeVision in a strong financial position with approximately HK$300 million in cash and interest-bearing securities on hand. The Group remains confident in the company's financial strength and earning prospects.

Transportation and Infrastructure

Transport International Holdings

Higher fuel prices, tunnel tolls and wages have affected the franchised bus business operated by Transport International Holdings (TIH), but the loss of patronage to new rails has stabilized and the results for the non-franchised transport business have been encouraging. TIH's investments in transport-related businesses on the mainland have made good progress and the company will continue to explore new opportunities on the mainland given the positive long-term outlook. The sale of its Manhattan Hill residential development in West Kowloon should enhance the company's financial position. TIH also owns 73 per cent of RoadShow Holdings Limited, which is mainly engaged in the media sales business in Hong Kong and on the mainland.

Other Infrastructure Businesses

The Wilson Group achieved satisfactory results during the period, as did both the River Trade Terminal and Airport Freight Forwarding Centre. Traffic on Route 3 (CPS) remained steady. All the Group's infrastructure projects are in Hong Kong, and given their potential to generate strong cash flows and good returns over time, the Group intends to hold them as long-term investments.

Corporate Finance

The Group is committed to conservative financial policies, maintaining high liquidity and low gearing. Its net debt to shareholders' funds ratio stood at 17.5 per cent as at 31 December 2006. Almost all the Group's banking facilities are unsecured, and a substantial majority of its borrowings are denominated in Hong Kong dollars so its foreign exchange risks are low. The Group does not take speculative derivative positions and it has no off-balance-sheet or contingent liabilities, except borrowings by joint-venture companies.

The Group always monitors its interest costs closely, and it will continue to source long-term funding at competitive rates in order to lengthen its debt maturity profile. It has ample committed undrawn facilities for its future business expansion. The Group issued a S$270 million bond in November 2006 and another US$300 million bond in early March 2007, both at competitive rates. The first bond will be used to finance the Orchard Turn project in Singapore and the second for general funding. The Group will continue to look for opportunities to further broaden its funding base to finance investments on the mainland.

The Group's robust financial condition and leading market position have earned it an A1 rating with a stable outlook from Moody's and an A rating with a stable outlook from Standard & Poor's. These are the highest ratings given to any developer in Hong Kong.

Customer Service

A dedication to offering the finest customer service is one of the major contributors to the Group's success. Its property-management subsidiaries Hong Yip and Kai Shing provide occupants of the Group's residential estates quality customer care, and this premier standard of service has been extended to the Group's shopping malls and office developments. The companies are widely recognized for their dedication to providing excellent service and working for a greener Hong Kong, winning numerous awards for service, eco-friendly maintenance and landscaping.

Membership in the SHKP Club now stands at over 250,000. The Club stages a variety of events to reinforce and complement the Group's ideal of Building Homes with Heart. The Club's recent 'Loving Home' campaign attracted a great deal of interest from members and the public. The Club's co-brand VISA card continues to offer members numerous shopping and other benefits.

Corporate Governance

Maintaining high standards of corporate governance in every aspect of its business is central to the Group's management philosophy. The Group adheres to this high standard of corporate governance through an effective board of directors, timely disclosure of information and a proactive investor-relations programme. Audit, Remuneration and Nomination committees are all in place, and the Group will continue its efforts to stay at the leading edge of best corporate governance practices.

The Group's effective management and good corporate governance are widely recognized by internationally-renowned financial publications. *Asiamoney* magazine ranked the Group number one among the Best Companies for Corporate Governance in both Hong Kong and Asia in 2006, and *Euromoney* ranked it the number one Property Developer in Hong Kong and Asia for the same year. The Group was also named the number one brand among Hong Kong developers in the 2006 Reader's Digest Trusted Brand Awards.

Corporate Citizenship

Supporting charities and educational initiatives are also priorities for the Group. Its SHKP Book Club continues to gather momentum and its book review competitions are extremely popular with students. The Young Writers' Debut competition will soon introduce a number of new stars on the local literary scene. The Group remains committed to funding numerous scholarships for deserving students at local and mainland educational institutions. The SHKP Mental Health Alliance has made strides in improving mental health in the community by organizing a wide range of seminars and workshops, as well as publishing a free mental health magazine.

The Group's staff are encouraged to become involved in community work via the SHKP Volunteer Team. There are also a wide variety of work-related courses provided for staff, offering opportunities to develop professionally, in addition to the career opportunities that the Group's management trainee and other programmes create for new recruits.

PROSPECTS

The global economy will continue to grow in 2007. While there may be monetary tightening in western economies because of inflationary pressures, US interest rates are likely to remain steady this year alongside moderate economic growth.

Growth in the mainland economy will continue to be robust this year due to the continuing inflow of foreign investment, rising domestic spending, and buoyant exports. With this positive external environment, increased local consumer confidence and ample liquidity will continue to drive Hong Kong's economy steadily forward.

The residential market in Hong Kong is expected to fare better this year. Household incomes have been rising with a better job market. Low mortgage interest rates, high affordability for buyers and renewed confidence will support the demand for housing. The supply of new units will keep declining to low levels over the next few years. All these suggest that prices should rise steadily in the years ahead.

Chairman's Statement

The Group will continue replenishing its Hong Kong land bank through various means, particularly farmland conversion, in order to increase residential completions over the long term. It will keep offering premium-quality developments with a diverse mix of flats, innovative designs, better layouts, comprehensive facilities and total lifestyles to meet customers' preferences and aspirations for their homes. The Group's strong brand identity gives it enhanced development margins on projects.

The Group's property investment portfolio will continue to perform well, with higher rents for both new leases and renewals. Retail rents are expected to rise steadily as a result of buoyant local consumption and tourist spending. The grade-A office leasing market should stay active and rents remain firm if not higher, particularly for space in the Central core, because of demand from various sectors including investments, banking and multinational corporations.

Expansion in the mainland property sector will help drive the Group's long-term growth. The Group has been strengthening its China's team and is now actively looking for new property projects in major mainland cities. With the completion of new landmark projects, the Group aims to replicate its Hong Kong success and strong brand on the mainland.

The Group is developing 7.2 million square feet of investment property for rent in Hong Kong. These projects and landmarks like Shanghai IFC on the mainland will increase the Group's recurrent rental income over the next few years. The Group will also consider disposing of non-core property assets to increase asset turnover and shareholder value.

New residential developments will be offered for sale according to schedule for 2007. Projects set to go on the market in the next nine months include The Vineyard in Yuen Long, a project on Shun Ning Road in Kowloon and the residential units in the Kowloon Station development. Barring unforeseen circumstances, the results for the current financial year are expected to be solid.

APPRECIATION

Non-Executive Director Mr Law King Wan retired from the board in December 2006. He made substantial contributions to the Group's development during his many years of service, and on behalf of the board I would like to thank Mr Law for his valuable efforts.

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, 7 March 2007