

Chairman's Statement

OVERVIEW

The 2006 global economy was generally favourable throughout the year, despite signs of slowdown in certain sectors of the U.S. economy towards the latter part of the year. The Hong Kong economic environment remained strong, supported by robust domestic demand and a strong financial market. Grade A office rental growth was underpinned by a generally limited supply and sustained demand in light of more business activities. More private consumption, in addition to spending by tourists, helped drive retail rents. Increased demand from expatriate executives ensured a steady growth for luxury residential rentals.

PERFORMANCE

Overall 2006 turnover was HK\$1,268 million, up 1.4% from 2005. If the element of the Entertainment Building (disposed of at the end of 2005) is excluded, the turnover increase would be 8.3%, driven by revenue growth in all sectors (office: 10.2%, retail: 6.0%, residential: 11.0%). Office sector turnover saw a healthy year-on-year increase, with positive rental reversions beginning in the second half of 2005 continuing into 2006.

Profit excluding asset value changes and prior year tax provision was HK\$755 million, up 17.8% from the corresponding figure in 2005 (2005: HK\$641 million).

Earnings per share, excluding asset value changes and prior year tax provision, correspondingly rose to HK71.60 cents.

Underlying profit, excluding unrealised revaluation changes on investment properties and related items, was HK\$1,012 million (2005: HK\$1,005 million).

Profit was HK\$3,099 million, 24.8% down from last year's HK\$4,121 million, due mainly to the HK\$1,650 million less fair value changes on the Group's investment properties taken to the income statement.

The external valuation of the Group's investment property portfolio increased to HK\$32,473 million, up 8.9%. Adjusted shareholders' funds rose by 13.2% to HK\$30,729 million.

The Board recommends the payment of a final dividend of HK40.0 cents per share (2005: HK35.0 cents). Together with the interim dividend of HK10.0 cents per share (2005: HK10.0 cents), there is an aggregate distribution of HK50.0 cents per share, representing a year-on-year increase of 11.1%. Subject to shareholder approval, the final dividend will be payable in cash with a scrip dividend alternative.



Peter T.C. Lee, Chairman

BUSINESS AND SUSTAINABILITY

Hysan aims to apply the highest standards of professionalism to our everyday business, and plays an active part in different aspects of community life. To us, the commitment to being both financially successful and a responsible business is not a mutually exclusive set of targets. In our quest to deliver long-term sustainable value to our shareholders, we have to understand the wider context in which our company operates, and we therefore make decisions that balance short-term requirements and long-term concerns. These concerns include taking into consideration the impact of our actions on society and the environment.

Further information on our commitment to Corporate Responsibility is set out in a separate report that we have introduced this year.

DIRECTORS AND STAFF

I would like to take this opportunity to express my thanks not only to all our Board members for their wise counsel, but also to our dedicated staff members for their valuable contribution and good work during the year.

OUTLOOK

Further growth in the Hong Kong economy is projected for 2007, though at a more moderate rate when compared with last year. The stabilisation of interest rates and improving employment conditions should continue to provide a favourable environment for our property investment business.

Peter T.C. Lee *Chairman*
Hong Kong, 6 March 2007