



A DETAILED MANAGEMENT'S DISCUSSION AND ANALYSIS OF HYSAN'S 2006 RESULTS IS ORGANISED INTO FOUR SECTIONS:

OVERVIEW	OPERATIONS REVIEW	FINANCIAL POLICY	INTERNAL CONTROL AND RISK MANAGEMENT
<p>To facilitate an understanding of Hysan's 2006 results under Hong Kong Financial Reporting Standards, this section presents an overview that includes key profit and asset value indicators, and reconciliation with the statutory figures.</p>	<p>This section reviews Hysan's business activities for the year. In addition, a review of the financial results is presented.</p>	<p>This section provides a discussion of Hysan's financial management, including financing, liquidity and cash management, and interest rate management.</p>	<p>This section discusses how Hysan's internal control system manages risks.</p>
<p>Pages 18 to 19</p>	<p>Pages 20 to 31</p>	<p>Pages 32 to 35</p>	<p>Pages 36 to 39</p>

Overview

<i>Profit Indicators</i>				
	2006 HK\$ million	2005 HK\$ million	Change HK\$ million	%
Profit excluding asset value changes and prior year tax provision	755	641	114	17.8
Adjusted for:				
• Prior year tax provision	–	(103)		
	755	538		
Asset value changes:				
• Net realised gain on disposal of available-for-sale investments	170	–		
• Recovery of a loan to an associate	87	–		
• Realised fair value gain on disposal of properties	–	467		
	257	467		
Underlying profit attributable to shareholders	1,012	1,005	7	0.7
Adjusted for:				
• Group's share of unrealised fair value changes on investment properties net of deferred tax	2,087	3,116		
Profit per financial statements	3,099	4,121	(1,022)	(24.8)

<i>Asset Value Indicators</i>				
	31.12.2006 HK\$ million	31.12.2005 HK\$ million	Change HK\$ million	%
Adjusted shareholders' funds	30,729	27,134	3,595	13.2
• Group's share of cumulative deferred tax on properties revaluation	(2,901)	(2,467)		
Shareholders' funds per financial statements	27,828	24,667	3,161	12.8

WHY MANAGEMENT GAVE ADDITIONAL PROFIT AND NET ASSET INDICATORS?

While the adoption of new Hong Kong Financial Reporting Standards since the 2005 financial year did not lead to any change in the Group's business operations or cashflow, there were significant resulting changes in financial reporting. The Group's investment properties had since been recorded on a "fair-value" basis under our accounting policies and "fair value changes" that arise on valuation of investment properties will be recognised through the income statement. Additionally, deferred tax on such "fair value gain" has to be provided for despite the fact that no capital gains tax liability will arise in Hong Kong on disposal of our investment properties. The adoption of these accounting policies has resulted in a higher volatility on earnings.

The increased fluctuations in earnings, however, may pose limitations on the use of unadjusted earning figures, financial ratios, trends and comparison against prior period(s). The effects are particularly significant for property investors whose principal activity is to derive recurring income from the holding of assets, such as the Group's.

To assist stakeholders to better measure the Group's performance as a property investor, management has therefore provided an additional profit indicator by excluding principally (i) "fair value changes" of investment properties; (ii) items that are non-recurring in nature; principally being gains/losses from disposing assets, impairment, reversal, recovery and tax provisions for prior year. On this basis, "profit excluding asset value changes and prior year tax provision" was HK\$755 million, up 17.8% from last year (2005: HK\$641 million).

We also provide an additional net asset indicator known as "adjusted shareholders' funds" figure, which is computed by adding back the Group's share of cumulative deferred tax on property revaluation.