

Chairman's Statement

The core businesses of the Group performed well in 2006 to deliver turnover and operating profit growth from a sound operating base.

Hong Kong's economy was in its best shape since the Asian financial crisis. 2004, 2005 and 2006 were important base-building years for Hong Kong to lay a solid foundation for success.

Real GDP grew by 6.8% in 2006, supported by strong consumer spending, tourism, capital investment and exports. The buoyant financial and stock markets, improving employment and stabilising interest rate environment boosted local confidence and the 'feel good' sentiment, while the composite consumer price index rose at a moderate 2.0%.

The economic partnership between the Mainland and Hong Kong through CEPA and usage of the Hong Kong platform for the 'bringing in, going out' process for Mainland enterprises continue to bear fruit and benefit Hong Kong.

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Rental rates continued to rise across all property sectors in Hong Kong. Harbour City and Times Square, the core assets of the Group representing close to 60% of total assets, remained the most premier 'shoppertainment' destinations in Hong Kong for both tourists and locals. Their combined turnover rose by 12% to HK\$4,722 million and operating profit by 14% to HK\$3,414 million.

Expansion and commitments to the property sector in the Mainland continued. Development sites in Chengdu, Suzhou and Wuxi were acquired in late 2006 and early 2007, and the land bank and investment properties in China is now over 50 million square feet. Some of the investments began to bear fruit with successful property pre-sales at Wuhan Times Square and Wellington Garden in Shanghai in 2006.

Modern Terminals' expansion into the Mainland also continued. It contracted in December 2006 to increase its investment in the Shekou Container Terminals. Phase 2 of the Taicang terminal opened for business in 2006 and the first two berths of the Dachan Bay terminal will open towards the end of 2007. In Hong Kong, a record 5.4 million TEUs were handled in 2006, 7% higher than 2005. The transformation therefore accelerates.

Swift response to market forces enabled the CME businesses to achieve satisfactory performance in a keen competitive environment.

Group turnover increased by 7% to HK\$13,364 million (2005: HK\$12,543 million) and operating profit increased by 8% to HK\$6,471 million (2005: HK\$6,003 million). However, borrowing costs rose in a higher interest rate environment and taxation charge rose primarily due to deferred tax items recorded by i-CABLE Communications Limited since 2005. Net profit attributable to Shareholders excluding the net surplus arising on the revaluation of investment properties decreased by 5% to HK\$4,285 million (2005: HK\$4,499 million). Including a lower unrealised surplus from the revaluation of investment properties, net profit attributable to Shareholders was HK\$10,757 million (2005: HK\$13,888 million). Earnings per share were HK\$4.39 (2005: HK\$5.67).

Rising property rentals supported the valuation of the Group's investment property portfolio, which stood at HK\$86,684 million at the end of 2006, 11% higher than 2005. The financial position of the Group remained strong with gearing ratio improving to 22.5%.

A final dividend of 44 cents per share has been recommended to bring the total dividend for the year to 80 cents per share (2005: 80 cents).

Economic development in China continues to support Hong Kong. The latest economic data indicate another successful year for Hong Kong in 2007. The fourth stage of CEPA facilitates further access of Hong Kong companies into China, while more Mainland cities are included in the Individual Visit Scheme that supports Hong Kong's tourism industry.

Economic growth in China provides attractive investment opportunities for Hong Kong and overseas companies, and the Group is increasing its pace of investment in the Mainland.

Globalisation allows smoother flow of world capital and stimulates competition, but Hong Kong possesses the competitive edges to face its challenges. The Group looks forward to a promising and fulfilling future.

On behalf of our Shareholders and my fellow Directors, I wish to express our heartfelt thanks to all staff for their dedication and contribution throughout the year.

Peter K C Woo

Chairman

Hong Kong, March 21, 2007