

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2002, which were approved by the Board of Directors on 11 March 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2002 to be property development and investment and investment holding. Details of the Group's associates and principal subsidiaries at 31 December 2002 are set out in notes 15 and 39 respectively to the financial statements.

An analysis of Group's turnover is set out in note 4 to the financial statements. As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided. A detailed review of the development of the business of the Group during the year, and likely future developments, is set out in the Chairman's Statement and the Operating and Financial Review of the Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 43.

An interim dividend of HK\$0.10 per share amounting to HK\$103,355,198 was paid to shareholders during the year.

The Board of Directors recommends the payment of a final dividend of HK\$0.265 per share with a scrip alternative to the shareholders on the register of members on 13 May 2003, absorbing HK\$274,173,485. The ordinary dividends paid and proposed in respect of the full year 2002 will absorb HK\$377,528,683, the balance of the profit will be retained.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in notes 29 and 30 to the financial statements.

INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer at 31 December 2002. The revaluation resulted in a deficit as compared to carrying amount of HK\$2,158 million, with the Group's attributable share being HK\$2,073 million, which has been charged directly to the investment property revaluation reserve.

Details of movements during the year in the investment properties of the Group and the Company are set out in note 13 to the financial statements.

Details of the major investment properties of the Group at 31 December 2002 are set out in section under "Schedule of Principal Properties" of the Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 12 to the financial statements.

Directors' Report

SHARE CAPITAL AND FIXED RATE NOTES

The Company issued a total of 3,313,550 ordinary shares under the scrip dividend scheme accompanying year 2001 final dividends and year 2002 interim dividends. During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities. Details of movements during the year in the share capital of the Company are set out in note 28 to the financial statements.

During the year, a subsidiary of the Company issued an aggregate of US\$200 million 7% ten-year notes under the established medium term note programme with a full guarantee of the Company. The notes were listed on the Luxembourg Stock Exchange. The net proceeds were predominately used to refinance the maturing debts and for general corporate purpose.

CORPORATE GOVERNANCE

The Company is committed to a high standard of corporate governance and has complied throughout the year with the Code of Best Practice (the "Code of Best Practice") as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Further information on the Company's corporate governance practices is set out in the section "Corporate Governance". Such section sets out detailed information on (a) Board effectiveness (including workings of Audit Committee and other Board committees); (b) Directors' remuneration and interests (including information on Directors' emoluments, service contracts, interests in shares, executive share options, interests in contracts of significance and interests in competing businesses under the Listing Rules); and (c) Connected and Related Party Transactions. Further information on Group human resources and social responsibility are set out in relevant sections of the Annual Report.

THE BOARD

The Board currently comprises Peter T. C. Lee, Chairman and Managing Director, Michael T. H. Lee, Chief Operating Officer and Director, Pauline W. L. Yu Wong, Director, Property and Michael C. K. Moy, Chief Financial Officer and Director, and nine other non-executive Directors, Sir David Akers-Jones acts as the Independent non-executive Deputy Chairman, also chairing the two corporate governance committees, namely the Audit Committee and Emoluments Review Committee. The biographies of the Directors appear on pages 24 and 25.

Under the Company's articles of association, all Directors are subject to retirement by rotation. The three Directors who have been longest in office as at each Annual General Meeting will retire from office and be subject to re-election. Dr. Victor K.K. Fung, having served on the Board since 1998, gave notice that he would not stand for re-election as at the forthcoming Annual General Meeting. Accordingly, Peter T. C. Lee and Chien Lee will retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. During the year, Claus Michael Valentin Hemmingsen, Raymond Liang-ming Hu, Markus Friedrich Jebsen and V-nee Yeh served as alternate Directors.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Companies Ordinance requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their respective profit or loss for the year then ended. In preparing the financial statements, the Directors are required to:

- (a) select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable;
- (b) state the reasons for any significant departure from accounting standards; and
- (c) prepare the financial statements on the going concern basis, unless it is not appropriate to presume that the Company and the Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as at 31 December 2002, the Company has been notified of the following interests, being ten per cent (10%) or more of the Company's issued share capital:

	No. of shares
Lee Hysan Estate Company, Limited and certain of its subsidiaries	<u>429,046,912</u>

These interests are in addition to those disclosed in "Corporate Governance" section of the Annual Report in respect of the Directors.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers was less than 30% of total turnover.

The aggregate purchases attributable to the Group's five largest suppliers was less than 30% of total purchases.

POST BALANCE SHEET EVENT

Details of the post balance sheet event are set out in note 38 to the financial statements.

DONATIONS

During the year, the Group made donations totalling HK\$1,457,382 for charitable and other purposes.

AUDITORS

A resolution for the re-appointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Peter T. C. Lee
 Chairman and Managing Director

Hong Kong, 11 March 2003