

**DIRECTORS' REPORT
CORPORATE GOVERNANCE
AND ACCOUNTS 2003**

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 December 2003, which were approved by the Board of Directors on 9 March 2004.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2003 to be property investment, management and development. Details of the Group's associates and principal subsidiaries at 31 December 2003 are set out in notes 15 and 41 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 Chairman's Statement and Operating and Financial Review of the Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 61.

An interim dividend of HK\$0.10 per share amounting to HK\$104,044,299 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 11 May 2004, absorbing HK\$276,546,456. The ordinary dividends proposed and paid in respect of the full year 2003 will absorb HK\$380,590,755, 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 31 and 32 to the financial statements.

INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer at 31 December 2003. The revaluation resulted in a deficit as compared to carrying amount of HK\$892 million, with the Group's attributable share being HK\$777 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 2003 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.

SHARE CAPITAL

The Company issued a total of 8,954,608 ordinary shares under the scrip dividend scheme accompanying year 2002 final dividends and year 2003 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 30 to the financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied throughout the year with 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 following separate reports:

- (a) "Corporate Governance Guidelines - A Statement of Policy for Hysan" — this Policy Statement approved by the Board, provides guidance on how corporate governance principles are applied to the Company.
- (b) "Corporate Governance Best Practices - Hysan's Statement of Adherence" — it gives detailed information on the Company's compliance with corporate governance best practices, including practices set out in the Code on Corporate Governance Practices proposed by The Stock Exchange of Hong Kong Limited in January 2004.
- (c) "Directors' Remuneration and Interests Report" — it gives detailed information of 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 business under the Listing Rules); Related Party and Connected Transactions.
- (d) "Audit Committee Report" — it sets out terms of reference, work performed and findings of the Audit Committee for the review year.

THE BOARD

The Board currently comprises Peter Ting Chang Lee, Chairman, Michael Tze Hau Lee, Managing Director and Pauline Wah Ling Yu Wong, Director, Property and eight 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 36 and 37.

Dr. Victor Kwok King Fung did not stand for re-election at the last Annual General Meeting held on 13 May 2003. Michael Chi Kung Moy resigned as a Director on 28 January 2004.

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. Accordingly, Sir David Akers-Jones, Hans Michael Jebsen and Michael Tze Hau 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, Charles Gary Wellins, Raymond Liang-ming Hu, Markus Friedrich Jebsen and V-nee Yeh served as alternate Directors.

DIRECTORS' REPORT *continued***SUBSTANTIAL SHAREHOLDERS**

As at 31 December 2003, the interests or short positions of every person, other than Directors or the chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company, were as follows:-

Name	Capacity	No. of shares	% of the issued share capital
Lee Hysan Estate Company, Limited	Corporate	429,046,912 <i>(Note 1)</i>	41.11
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Marathon Asset Management Ltd.	Investment Manager	66,041,651	6.33
The Capital Group Companies, Inc.	Corporate	62,203,604 <i>(Note 2)</i>	5.96
Prudential Asset Management (Hong Kong) Limited	Investment Manager	53,138,000 <i>(Note 3)</i>	5.09
Prudential Corporation Holdings Limited	Corporate	53,138,000 <i>(Note 3)</i>	5.09
Prudential PLC	Corporate	53,138,000 <i>(Note 3)</i>	5.09

All interests stated above represent long positions.

Notes:

- (1) These interests represent the same block of shares. Lee Hysan Estate Company, Limited is a wholly-owned subsidiary of Lee Hysan Company Limited.
- (2) These shares are held by The Capital Group Companies, Inc. in the capacity of investment manager and such holding were held via a number of its group subsidiaries.
- (3) These interests represent the same block of shares. Prudential Asset Management (Hong Kong) Limited is a wholly-owned subsidiary of Prudential Corporation Holdings Limited which in turn is a wholly-owned subsidiary of Prudential PLC, as notified under Part XV of the SFO.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 31 December 2003.

These interests are in addition to those disclosed in "Directors' Remuneration and Interests Report" section in respect of the Directors.

SHAREHOLDINGS INFORMATION

As at 31 December 2003:

Authorised share capital: HK\$7,250,000,000, comprising of 1,450,000,000 ordinary shares of HK\$5.00 each.

Issued and fully paid-up capital: HK\$5,217,857,665 comprising of 1,043,571,533 ordinary shares of HK\$5.00 each.

Class of shares: one class of ordinary shares of HK\$5.00 each with equal voting rights.

TOP 10 LARGEST SHAREHOLDERS

(as at 31 December 2003, as per register of members of the Company)

	Number of shares held	%
1. HKSCC Nominees Limited	398,351,217	38.17
2. HSBC Nominees (Hong Kong) Limited	126,805,976	12.15
3. Hang Seng (Nominee) Limited	124,236,102	11.90
4. Lee Hysan Estate Co., Ltd.*	90,118,724	8.64
5. Kenwin Assets Limited*	43,902,720	4.21
6. Overton Holdings Limited*	43,902,720	4.21
7. Atlas Corporate Management Ltd*	39,809,001	3.81
8. Shanghai Commercial Bank (Nominees) Ltd	32,510,110	3.12
9. Liu Chong Hing (Nominees) Ltd	20,248,255	1.94
10. Clipperton Company Limited*	17,019,739	1.63
Total	936,904,564	89.78

Note:* denotes entities whose interests are attributable to the substantial shareholder: Lee Hysan Estate Company, Limited (see "Substantial Shareholders" section above)

LOCATION OF SHAREHOLDERS

(as at 31 December 2003, as per register of members of the Company)

Location of Shareholders	Number of shares held	%
Hong Kong	1,033,754,435	99.06
U.K.	4,342,652	0.41
US and Canada	5,126,512	0.49
Singapore	61,903	0.01
Others	286,031	0.03
Total	1,043,571,533	100.00

DIRECTORS' REPORT *continued*

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.

DONATIONS

During the year, the Group made donations totalling HK\$1,957,600 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

Hong Kong, 9 March 2004