

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2004, which were approved by the Board of Directors on 8 March 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2004 to be property investment, management and development. Details of the Group's associates and principal subsidiaries at 31 December 2004 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 Management's Discussion and Analysis of the Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 82.

An interim dividend of HK10 cents per share amounting to HK\$104,793,062 was paid to shareholders during the year.

The Board of Directors recommends the payment of a final dividend of HK30 cents per share with a scrip alternative to the shareholders on the register of members on 10 May 2005, absorbing HK\$314,989,098. The ordinary dividends proposed and paid in respect of the full year 2004 will absorb HK\$419,782,160, 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 32 and 33 to the financial statements.

INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer at 31 December 2004. The revaluation resulted in a surplus as compared to carrying amount of HK\$3,676,823,627, with the Group's attributable share being HK\$3,453,324,229, which has been credited 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 2004 as 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

During the year, the Company issued a total of 6,392,126 ordinary shares. Details of movements in the share capital of the Company are set out in note 31 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 (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange (the "Stock Exchange") of Hong Kong Limited.

Further information on the Company's corporate governance practices is set out in the following separate reports:

- (a) "Corporate Governance Report" – it gives detailed information on the Company's early adoption of the Stock Exchange's Code on Corporate Governance ("Corporate Governance Code"); local and international best practices.

CORPORATE GOVERNANCE *continued*

- (b) "Directors' Remuneration and Interests Report" – it gives detailed information of Directors' remuneration and interests (including information on Director compensation, service contracts, Directors' interests in shares; contracts and competing business).
- (c) "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 T.C. Lee, Chairman, Michael T.H. Lee, Managing Director and Pauline W.L. 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 corporate governance committees, namely the Audit Committee and Emoluments Review Committee. The biographies of the Directors as at the date of this Report appear on pages 45 and 46.

Michael Chi Kung Moy resigned as a Director on 28 January 2004.

Subject to shareholders' approval at the Annual General Meeting ("AGM") to be held on 10 May 2005, the Company's Articles of Association will be amended to effect early adoption of the Corporate Governance Code such that every Director shall be subject to retirement by rotation at least once every three years at the AGM.

Under the Company's current Articles of Association, Fa-kuang Hu, Dr. Geoffrey Meou-tsen Yeh and Pauline Wah Ling Yu Wong who have been longest in office will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

Per Jorgensen, Dr. Deanna Ruth Tak Yung Rudgard and Anthony Hsien Pin Lee, having held office for three years since last re-election, offer to retire at the forthcoming AGM in line with the spirit of the proposed amendment to the Company's Articles. Being eligible, these Directors offer themselves for re-election at the forthcoming AGM.

During the year, Raymond Liang-ming Hu, Markus Friedrich Jebesen, Li Kam Wing, Charles Gary Wellins and V-nee Yeh served as alternate Directors.

The Company has received from each Independent non-executive Director an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company considered all Independent non-executive Directors to be independent.

DIRECTORS' INTERESTS IN SHARES

Details of Directors' interests in shares of the Company are set out in Directors' Remuneration and Interests Report.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2004, the interests or short positions of Substantial Shareholders and Other Persons of the Company, in the 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:

Aggregate long positions in shares and underlying shares of the Company

Name	Capacity	No. of shares held	% of the issued share capital*
Lee Hysan Estate Company, Limited	Interests of controlled corporations	429,046,912 (Note 1)	40.86
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J.P. Morgan Chase & Co.	(Note 2)	84,210,504	8.02
Marathon Asset Management Ltd.	Investment Manager	52,597,064	5.01

* The percentages have been compiled based on the total number of shares of the Company in issue as at 31 December 2004 (i.e. 1,049,963,659 ordinary shares).

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES *continued*

Aggregate long positions in shares and underlying shares of the Company *continued*

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) As notified by J.P. Morgan Chase & Co., these shares were held in their respective capacities as investment manager (holding 51,746,168 shares) and custodian (holding 32,464,336 shares).

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 2004.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 40 to the financial statements.

Some of these transactions also constitute "Connected Transactions" (including "Continuing Connected Transactions") under the Listing Rules, as identified below.

CONNECTED TRANSACTIONS

As at 31 December 2004, loans totalling HK\$617,175,561 had been advanced by the Group to Barrowgate Limited (equity interests held by the Group: 65.36%; Hang Seng Bank: 24.64%; Jebson and Company Limited: 10%) for general funding purpose. Such balance includes a loan of HK\$10,457,600 advanced by the Group in 2004. Loans totalling HK\$327,255,746 had been advanced by the other shareholders to Barrowgate as at 31 December 2004 in proportion to their respective shareholdings. These quasi-equity loans are non-interest-bearing and have no fixed settlement date and are not repayable within one year. The grant of loans by the Group constitutes a grant of financial assistance and is a connected transaction under applicable Listing Rules, however, it is exempt from applicable reporting, announcement and independent shareholders' approval requirements.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted "continuing connected transactions" (the "Transactions") under the Listing Rules. Details of the Transactions are set out as follows:

I. Lease granted by the Group

(a) Lee Gardens Two, 28 Yun Ping Road, Hong Kong ("Lee Gardens Two")

The following lease arrangements were entered into by Barrowgate Limited (property owner of Lee Gardens Two) with the following connected persons (also substantial shareholders of Barrowgate Limited). Particulars are set out below:

Connected person	Date of Agreement	Terms	Premises	Annual consideration HK\$
Jebson and Company Limited (10% equity interest in Barrowgate Limited)	10 September 2003	4 years commencing from 1 September 2003	Office units at 28th to 31st Floors	13,870,776
	Various carpark agreements	On monthly basis with various commencement dates	3 carparking spaces	

CONTINUING CONNECTED TRANSACTIONS *continued*

I. Lease granted by the Group *continued*

(a) Lee Gardens Two, 28 Yun Ping Road, Hong Kong ("Lee Gardens Two") *continued*

Connected person	Date of Agreement	Terms	Premises	Annual consideration HK\$
Hang Seng Bank Limited (24.64 % equity interest in Barrowgate Limited)	3 September 2004	2 years and 16 days commencing from 15 September 2004	Shop units at Ground Floor and Basement	9,836,256

(b) Bamboo Grove, 74-86 Kennedy Road, Hong Kong ("Bamboo Grove")

Certain leases were entered into by Kwong Wan Realty Limited, a wholly-owned subsidiary of the Company and property owner of Bamboo Grove, with Lee Hysan Estate Company, Limited, a substantial shareholder of the Company (holding 40.86% interest). Details of the leases are set out below:

Connected person	Date of Agreement	Terms	Premises	Annual consideration HK\$
Lee Hysan Estate Company, Limited	17 October 2003	2 years commencing from 1 November 2003	An apartment and 1 carparking space	1,975,200
Lee Hysan Estate Company, Limited	12 January 2004	2 years commencing from 16 January 2004	An apartment and 2 carparking spaces	1,289,880

(c) Lee Gardens Two, 28 Yun Ping Road, Hong Kong

The following lease arrangements were entered into by Barrowgate Limited with MF Jebsen International Limited, which was a connected person by virtue of the interest of an associate of a non-executive Director:

Connected person	Date of Agreement	Terms	Premises	Annual consideration HK\$
MF Jebsen International Limited	23 April 2004 and a Supplemental Deed of 12 July 2004	4 years commencing from 1 February 2004 and 3 years and 7 months commencing from 1 July 2004	Office units at 24th and 25th Floors	6,324,624
	1 May 2003	On monthly basis commencing from 1 May 2003	1 carparking space	

CONTINUING CONNECTED TRANSACTIONS *continued*

II. Leasing and property management services with a non-wholly-owned subsidiary at Lee Gardens Two

The following management agreements were entered into by Hysan Leasing Company Limited and Hysan Property Management Limited, both being wholly-owned subsidiaries of the Company, with Barrowgate Limited for the provision of services to Lee Gardens Two, including (i) leasing, marketing and lease administration services; and (ii) property management services:

Connected person	Date of Agreement	Terms	Premises	Consideration HK\$ (Note)
Barrowgate Limited	25 February 2004 and a supplemental Appointment Letter of 19 July 2004	3 years commencing from 1 April 2004	Whole premise of Lee Gardens Two	5,710,307 (i) and 1,762,677 (ii)

Note: These represent the actual considerations for the period from commencement of the respective management agreements to 31 December 2004, calculated on the basis of the fee schedules as prescribed therein.

All the Transactions were entered in the ordinary and usual course of business of the respective companies after due negotiations on an arm's length basis with reference to the prevailing market conditions.

Announcements were published on 20 July 2004 and 6 September 2004 respectively regarding the Transactions in accordance with the Listing Rules. The Stock Exchange has granted a waiver for the transactions as refer to in section I (c) and II above by virtue of Rule 14A.42 from strict compliance with the requirements of Rules 14A.35, 14A.45 to 14A.47 of the Listing Rules on condition that details of the transactions be included in the Company's subsequent published annual report for financial years in which the transactions are subsisting.

The Company has engaged the auditors of the Company to perform certain factual finding procedures with respect of the above mentioned Transactions in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported the following findings on these Transactions to the Board of Directors:

1. the Transactions had received the approval from the Board of Directors;
2. the Transactions did not exceed the cap stated in the relevant announcements; and
3. the Transactions were entered into in accordance with the agreement governing such transactions.

Pursuant to Rule 14A.37 of the Listing Rules, all Independent non-executive Directors of the Company have reviewed and confirmed that the respective contracts and terms of the Transactions are:

1. in the ordinary and usual course of business;
2. on normal commercial terms; and
3. fair and reasonable and in the commercial interests of the Group.

INTEREST IN CONTRACTS OF SIGNIFICANCE

During the year, there subsisted a number of lift and escalator maintenance contracts entered into between Ryoden Lift Services Limited ("RLS") and Hysan Property Management Limited, a wholly-owned subsidiary of the Company. Both Mr. F.K. Hu and his alternate, Mr. Raymond L.M. Hu were considered as having interests in these contracts by virtue of their indirect equity interests in RLS. Such contracts constitute contracts of significance for the purpose of the Listing Rules. In light of the size of the equity interest of Mr. F.K. Hu (and that of his alternate as mentioned above) in RLS, these contracts do not constitute related party transactions (under applicable accounting principles) or continuing connected transactions (under the Listing Rules).

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.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

DONATIONS

During the year, the Group made donations totalling HK\$3,400,126 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 AGM.

By order of the Board

Peter T. C. Lee

Chairman

Hong Kong, 8 March 2005