

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 December 2005, which were approved by the Board of Directors on 7 March 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2005 to be property investment, management and development. Details of the Group's associates and principal subsidiaries at 31 December 2005 are set out in notes 19 and 43 respectively to the financial statements.

An analysis of Group's turnover is set out in note 7 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 2005 are set out in the consolidated income statement on page 84.

An interim dividend of HK10 cents per share amounting to HK\$105,223,977 was paid to shareholders during the year.

The Board of Directors recommends the payment of a final dividend of HK35 cents per share with a scrip alternative to the shareholders on the register of members on 9 May 2006, absorbing HK\$368,641,294. The ordinary dividends proposed and paid in respect of the full year 2005 will absorb HK\$473,865,271, 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 the consolidated statement of changes in equity on pages 88-89 and note 35 to the financial statements respectively.

INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer at 31 December 2005. The revaluation resulted in a surplus as compared to carrying amount of HK\$4,226,005,332 and is recognised in the consolidated income statement. During the year, the Group has disposed of one of its investment properties, Entertainment Building, which sale was completed on 30 December 2005. Financial analysis of the sale is set out in the Management's Discussion and Analysis of the Annual Report.

Details of movements during the year in the investment properties of the Group and the Company are set out in note 17 to the financial statements.

Details of the major investment properties of the Group at 31 December 2005 are set out in the 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 15 to the financial statements.

SHARE CAPITAL

During the year, the Company issued a total of 3,297,182 ordinary shares. Details of movements in the share capital of the Company are set out in note 34 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 on Corporate Governance Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

- (a) "Corporate Governance Report" (page 49) – it gives detailed information on the Code; the Company's compliance with the same, and adoption of local and international best practices;

CORPORATE GOVERNANCE *continued*

- (b) "Directors' Remuneration and Interests Report" (page 73) – it gives detailed information of Directors' remuneration and interests (including information on Director's compensation, service contracts, Directors' interests in shares; contracts and competing business);
- (c) "Audit Committee Report" (page 80) – it sets out terms of reference, work performed and findings of the Audit Committee for the review year;
- (d) "Report on Internal Controls and Risk Management" (page 38) – it sets out the Company's framework on internal controls and risks assessment including methodology, control activities, work done during the year and further steps to be done.

THE BOARD

The Board currently comprises Peter T.C. Lee, Chairman, Michael T.H. Lee, Managing Director and Pauline W.L. Yu Wong, Executive Director 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.

David Muir Turnbull was appointed as an Independent non-executive Director on 11 May 2005 and resigned on 12 December 2005.

Under the Company's current Articles of Association, one-third (or such other number as may be required under applicable legislation) of the Directors, and where the applicable number is not an integral number, to be rounded upwards, who have been longest in office shall retire from office by rotation. In this light, Peter T. C. Lee, Chien Lee, Sir David Akers-Jones and Hans Michael Jebesen will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

During the year, Raymond Liang-ming Hu, 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 of them 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 on page 77.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2005, 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 <i>(Note 1)</i>	40.74
Lee Hysan Company Limited	Interests of controlled corporations	429,046,912 <i>(Note 1)</i>	40.74
J.P. Morgan Chase & Co.	<i>(Note 2)</i>	72,418,583	6.88

* The percentages have been compiled based on the total number of shares of the Company in issue as at 31 December 2005 (i.e. 1,053,260,841 ordinary shares).

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES *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 beneficial owner (holding 73,000 shares), investment manager (holding 51,674,704 shares) and custodian (holding 20,670,879 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 2005.

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 41 to the financial statements.

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

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\$
(i) Jebsen 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	14,053,410
	Various carpark agreements	On monthly basis with various commencement dates	3 carparking spaces	
	19 April 2005	3 months commencing from 1 May 2005	1 carparking space	
	19 April 2005	On monthly basis commencing from 1 May 2005	1 carparking space	
(ii) 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

CONTINUING CONNECTED TRANSACTIONS *continued*

(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 40.74% interest) (“Lee Hysan Estate”) and Atlas Corporate Management Limited, a wholly-owned subsidiary of Lee Hysan Estate. Details of the leases are set out below:

Connected person	Date of agreement	Terms	Premises	Annual consideration HK\$
(i) Lee Hysan Estate Company, Limited	12 January 2004	2 years commencing from 16 January 2004	An apartment and 2 carparking spaces	1,289,880
(ii) Lee Hysan Estate Company, Limited	9 November 2005	2 years commencing from 1 November 2005	An apartment and 1 carparking space	2,644,800
(iii) Atlas Corporate Management Limited	14 December 2005 (Formal tenancy agreement executed on 5 January 2006)	2 years commencing from 16 January 2006	An apartment and 2 carparking spaces	1,778,280

(c) One Hysan Avenue, Causeway Bay, Hong Kong

The following lease arrangement was entered into by OHA Property Company Limited, a wholly-owned subsidiary of the Company and property owner of One Hysan Avenue, with Atlas Corporate Management Limited. Details of the lease are set out below:

Connected person	Date of agreement	Terms	Premises	Annual consideration HK\$
Atlas Corporate Management Limited	9 November 2005	3 years commencing from 1 November 2005	Whole of 21st Floor	1,357,632

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

The following lease arrangements were entered into by Barrowgate Limited with Chickeeduck Retail (Hong Kong) Limited and MF Jebsen International Limited, each of 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\$
(i) Chickeeduck Retail (Hong Kong) Limited	18 December 2003	3 years commencing from 7 November 2003	Shop units on the 2nd Floor	1,248,157
(ii) 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	6,376,938
	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	5,931,145 (i) and 2,308,715 (ii)

Note: These represent the actual considerations for the year ended 31 December 2005, 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, 6 September 2004, 20 July 2005, 10 November 2005 and 15 December 2005 respectively regarding the relevant Transactions (other than that referred to in section I (d)(i)) in accordance with the Listing Rules. The Stock Exchange has granted a waiver for the Transactions referred to in section I (d) (ii) and section 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.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the Transactions of the Group to assist the Directors to evaluate whether the Transactions:

1. have received the approval from the Board of Directors;
2. were in accordance with the pricing policies of the Company where the Transactions involve provision of goods and services by the Company;
3. have been entered into in accordance with the agreement governing such Transactions; and
4. have not exceeded the cap stated in the relevant announcements.

The auditors have reported their factual findings on these procedures to the Board of Directors that the samples the auditors selected for the Transactions were in agreement in respect of items 1, 3 & 4 above and that according to the samples the auditors selected, in respect of item 2, the rent charged to the connected persons were either the same or fall within or slightly above the range of rental offered to independent third parties. All Independent non-executive Directors of the Company have reviewed the Transactions and the report of the auditors and confirmed that the respective contracts and terms of the Transactions are:

1. in the ordinary and usual course of business of the Company;
2. on normal commercial terms; and
3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the commercial interests of the Group as a whole.

INTEREST IN CONTRACTS OF SIGNIFICANCE

The lease arrangement between Barrowgate Limited, a non-wholly-owned subsidiary, and Jebsen and Company Limited also constitutes a contract of significance due to the annual consideration of the lease having a percentage ratio of 1.1% from the calculation of the revenue test (the percentage ratio for assets ratio and consideration ratio are 0.04% and 0.07% respectively). Details of the transaction are set out under section I(a) (i) of Continuing Connected Transactions.

MAJOR CUSTOMERS AND SUPPLIERS

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

Details of the Group's transactions with its major suppliers during the year are set out below:

	Percentage of the Group's total purchases
The largest supplier	18%
Five largest suppliers in aggregate	33%

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 HK\$1,593,696 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, 7 March 2006