

# Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2000, which were approved by the Board on 20 March 2001.

## PRINCIPAL ACTIVITIES

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The principal activities of the Group continued throughout 2000 to be property development and investment and investment holding. Details of the Group's associates and subsidiaries at 31 December 2000 are set out in notes 15 and 37 respectively to the financial statements.

An analysis of Group turnover and contribution to the Group's operating profit of each principal activity is set out in note 3 to the financial statements. Detailed review of the development of the business of the Group during the year, and likely future developments, are set out in the Chairman's Statement on pages 4 to 6, the Chief Executive's Review on pages 7 to 9 and the Financial Review on pages 10 to 12.

## RESULTS AND APPROPRIATIONS

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The results of the Group for the year ended 31 December 2000 are set out in the consolidated income statement on page 26.

An interim dividend of HK\$0.11 per share amounting to HK\$113,686,270 was paid to shareholders during the year.

Your Board recommends the payment of a final dividend of HK\$0.31 per share with a scrip alternative to the shareholders on the register of members on 8 May 2001, absorbing HK\$319,377,904. The ordinary dividends paid and proposed in respect of the full year 2000 will absorb HK\$433,064,174, the balance of the profit will be retained.

## RESERVES

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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

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All of the Group's investment properties were revalued by an independent valuer at 31 December 2000. The revaluation resulted in a surplus as compared to book value amounting to HK\$3,253 million, 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.

## MAJOR PROPERTIES

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Details of the major properties of the Group at 31 December 2000 are set out on pages 63 and 64 of the annual report.

## PROPERTY, PLANT AND EQUIPMENT

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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 AND CONVERTIBLE BONDS

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The Company was authorised at the Annual General Meeting held in 2000 to purchase its own ordinary shares not exceeding 10% of the aggregate nominal amount of its issued share capital at that time. The Company periodically repurchases its ordinary shares when they are significantly undervalued, in order to enhance shareholder value. During the financial year, the Company repurchased an aggregate of 10,207,000 ordinary shares at the total consideration of HK\$90,887,630 on The Stock Exchange of Hong Kong Limited.

In addition, on 1 June 2000, a wholly-owned subsidiary of the Company redeemed US\$117.98 million in nominal value of the 6.75% convertible bonds due 2000 ("2000 Bonds") in accordance with its terms of issue. Such bonds, guaranteed by the Company, were listed on the Luxembourg Stock Exchange. Such issuer also repurchased US\$320,000 in nominal value of the 2000 Bonds at an aggregate consideration of US\$319,200 during the year.

Save as disclosed above, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's listed securities during the year.

Details of movements during the year in the share capital of the Company are set out in note 27 to the financial statements. Except as disclosed in note 28 to the financial statements, there were no other warrants, options or convertible securities issued by the Company or its subsidiaries during the year.

## CORPORATE GOVERNANCE

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The Company is committed to high standard of corporate governance. This section describes how the principles of corporate governance are applied to the Company and the Company's compliance with the Code of Best Practice (the "Code of Best Practice") as set out in the Listing Rules of The Stock Exchange of Hong Kong Limited.

### *Statement of Compliance with the Code of Best Practice*

The Company has complied throughout the review period with the Code of Best Practice.

### *The workings of the Board and its Committees*

#### ■ The Board

The Board currently comprises H. C. Lee, Chairman, Peter T. C. Lee, Managing Director, Pauline W. L. Yu Wong, Director, Property and Michael C. K. Moy, Chief Financial Officer and Director, and eleven non-executive Directors. The biographies of the Directors appear on pages 13 and 14. These demonstrate a range of experience and calibre to bring valuable judgment on issues of strategy, performance, and resources which are vital to the success of the Group.

The Board meets at least quarterly, reviewing trading performance, ensuring adequate funding and monitoring strategy. To enable the Board to discharge its duties, all Directors receive appropriate and timely information.

## **CORPORATE GOVERNANCE (continued)**

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In accordance with the Company's articles of association, the three Directors who have been longest in office as at each Annual General Meeting will retire from office. This applies to all Directors, including non-executive Directors. In accordance therewith, Pauline W. L. Yu Wong, F. K. Hu and Geoffrey M. T. Yeh will retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. During the year, Ulrik Brandt, Claus Michael Valentin Hemmingsen, Raymond L. M. Hu, Markus Friedrich Jebsen and V-nee Yeh served as alternate Directors.

The following committees deal with the specific aspects of the Group's affairs.

### **■ Audit Committee**

The Audit Committee which is chaired by Sir David Akers-Jones, its other current members being Per Jorgensen and Chien Lee, meets not less than twice per annum. The Committee provides a forum of reporting by the Group's external auditors. Meetings are also attended, by invitation, by the Managing Director and the Chief Financial Officer.

The Audit Committee is responsible for reviewing a wide range of matters including the half-year and annual accounts before their submission to the Board, monitoring the controls which are in force to ensure the integrity of information reported to the shareholders, and overseeing compliance generally.

### **■ Emoluments Review Committee**

The Group's Emoluments Review Committee comprises three non-executive Directors and is chaired by The Honourable Lee Quo-Wei. Its other members are F. K. Hu and Geoffrey M. T. Yeh. It reviews the remuneration of the executive Directors, within agreed terms of reference.

Further details on the remuneration, service contracts of Directors are listed in the section headed "Directors' remuneration and interests" below.

### **■ Investment Committee**

The Group's Investment Committee comprises the Managing Director, Victor K. K. Fung, H. M. Jebsen, Michael T. H. Lee, with Anthony H. P. Lee as the Chairman. The five Directors, demonstrating a range of valuable experience and background, meet as necessary to advise and make recommendations on the investment strategies of the Group within agreed terms of reference.

## ***Directors' remuneration and interests***

### **■ Emoluments**

Details on Directors' emoluments are set out in note 5 to the financial statements.

### **■ Service Contracts**

No Director has a service contract that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

**CORPORATE GOVERNANCE (continued)****■ Directors' Interests in Shares**

As at 31 December 2000, the interests of the Directors and Alternate Directors in the ordinary shares of the Company, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name	No. of shares held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
H. C. Lee	3,211,705	–	–	–	3,211,705
Lee Quo-Wei	1,540,298	1,843,878	3,993 (Note 1)	1,376,314 (Note 2)	4,764,483
Peter T. C. Lee	2,000,000	–	3,843,030 (Note 3)	–	5,843,030
F. K. Hu	–	–	255,012 (Note 4)	–	255,012
H. M. Jebesen	60,000	–	2,432,914 (Note 3)	–	2,492,914
Per Jorgensen	6,678	–	–	–	6,678
Chien Lee	970,000	–	3,843,030 (Note 3)	3,750,000 (Note 5)	8,563,030
Michael T. H. Lee	1,023,233	–	–	–	1,023,233
Deanna R. T. Y. Rudgard	1,871,600	–	–	–	1,871,600
Pauline W. L. Yu Wong	304,000	–	–	–	304,000
Geoffrey M. T. Yeh	–	–	1,000 (Note 3)	–	1,000
V-nee Yeh (alternate to Geoffrey M. T. Yeh)	41,355	–	80,852 (Note 3)	–	122,207

## Notes:

1. The Honourable Lee Quo-Wei and Mrs. Lee were together entitled to control no less than one-third of the voting power at general meetings of a private company which beneficially held all those shares described above as his corporate interests.
2. 809,546 ordinary shares were held by a charitable foundation which was exempted from tax under Section 88 of the Inland Revenue Ordinance and of which The Honourable Lee Quo-Wei and Mrs. Lee were members of its Board of Trustees. 566,768 ordinary shares were held by two trusts of which Mrs. Lee was one of the two trustees. Neither The Honourable Lee Quo-Wei nor Mrs. Lee was a beneficiary of the shareholdings as referred to in this note.
3. Such shares were held through corporations in which the respective Directors were members entitled to exercise one-third or more of the voting power at general meetings.
4. Such shares were held by another corporation which is wholly-owned by Mr. F. K. Hu and he thus beneficially held all those shares.
5. Such shares were held through discretionary trusts of which Mr. Chien Lee was a beneficiary.

**CORPORATE GOVERNANCE (continued)**

As at 31 December 2000, certain Directors had personal interests in options to subscribe for ordinary shares in the Company granted under the Company's Executive Share Option Scheme, details of which are set out below under "Executive Share Options" (also see note 28 to the financial statements).

Apart from the above, as at 31 December 2000, there were no other interest or right recorded in the register required to be kept under Section 29 of the SDI Ordinance.

**■ Executive Share Options**

On 28 April 1995, an Executive Share Option Scheme (the "Scheme") was approved by the shareholders under which the Directors may, at their discretion, offer any employee (including any Director) of the Company or of any of its wholly-owned subsidiary options to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Scheme.

The following executive share options granted by the Company to Directors to subscribe for ordinary shares of the Company, were outstanding and not yet exercised:

Name	Date of Grant	Exercise price per share (HK\$)	Exercise period	Number of options as at 1.1.2000	Number of options granted during the year	Number of options as at 31.12.2000
<b>Directors</b>						
H. C. Lee	3 May 1995	13.46	3 May 1997 to 2 May 2005	1,125,000	-	1,125,000
Peter T. C. Lee	7 January 1999	9.22	7 January 2001 to 6 January 2009	1,350,000	-	1,350,000
Pauline W. L. Yu Wong	3 May 1995	13.46	3 May 1997 to 2 May 2005	900,000	-	900,000
Michael C. K. Moy	23 December 1999	7.54	23 December 2001 to 22 December 2009	1,200,000	-	1,200,000

The consideration paid on each grant of option was HK\$1.00.

Apart from the Scheme (also see note 28 to the financial statements), at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in or debenture of the Company or any other body corporate.

**■ Directors' interests in contracts of significance**

Except as stated in note 36 to the financial statements, no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## CORPORATE GOVERNANCE (continued)

### ■ Disclosure of Directors' interests in competing business under the Listing Rules

The Group is engaged principally in the development, ownership and management of high quality investment properties in Hong Kong. The following Directors are considered to have interests in other activities ("Deemed Competing Business") that compete or are likely to compete with the said core business of the Group, all within the meaning of the Listing Rules.

For reasons stated below, and coupled with the diligence of the Group's Independent non-executive Directors and the Audit Committee, the Group is capable of carrying on its business independent of and at arm's length from the Deemed Competing Business.

- (i) H. C. Lee, Peter T. C. Lee, Anthony H. P. Lee, Chien Lee, Michael T. H. Lee and Deanna R. T. Y. Rudgard are members of the founding family whose range of general investment activities include property investments in Hong Kong and overseas. In the light of the size and dominance of the portfolio of the Group, such disclosed Deemed Competing Business is considered immaterial.
- (ii) (a) The Honourable Lee Quo-Wei is the Chairman of Wideland Investors Limited which through its subsidiaries holds investment properties for rental purpose. He is also a non-executive director of Miramar Hotel and Investment Co. Ltd. and one of its principal businesses in Hong Kong is that of owning and managing investment properties.
- (b) F. K. Hu (and his alternate, Raymond L. M. Hu) are substantial shareholders and directors of Ryoden (Holdings) Limited, Ryoden Development Limited, Designcase Limited and their respective subsidiaries and associated companies, which are engaged in property investment, development, property agency and management, project management in both the PRC and Hong Kong.
- (c) Geoffrey M. T. Yeh (and his alternate, V-nee Yeh) are substantial shareholders and directors of Hsin Chong Construction Group Limited. He is also a substantial shareholder of the ultimate holding company of (and his alternate, V-nee Yeh, is a director of) Hsin Chong Holdings (H.K.) Limited. Certain subsidiaries and related companies of the afore-mentioned companies are engaged in property leasing, marketing, investment and development businesses both in Hong Kong and overseas.

The Company's management team is separate and independent from that of the companies listed above. In addition, the afore-mentioned Directors have a non-executive role and are not involved in the Company's day-to-day operations and management.

### SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31 December 2000, 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	429,046,912

These interests are in addition to those disclosed above in respect of the Directors.

## STAFF

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The Group aims to attract, retain and motivate high calibre individuals committed to attaining our objectives. Total number of employees as at 31 December 2000 was 482. Our remuneration policy has been designed with the view to give employees incentives to perform while aligning any performance awards with returns to shareholders. In addition to cash incentives, the total remuneration package includes staff housing loan, medical insurance and retirement benefits. The Company also operates an Executive Share Option Scheme. Details of the scheme are set out in note 28 to the financial statements. Individual performance is regularly appraised pursuant to our performance management programme. The Group recognises the importance of people development. It trains and develops its staff to help them perform in the most productive way to achieve our business objectives.

## MAJOR CUSTOMERS AND SUPPLIERS

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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

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During the year, the Group made donations totalling HK\$1,703,900 for charitable and other purposes.

## AGM NOTICE

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Accompanying this report is the Notice of the Annual General Meeting setting out the full texts of the resolutions for the meeting and explanatory notes thereon.

## AUDITORS

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A resolution will be submitted to the Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By order of the Board  
**H. C. Lee**  
*Chairman*

Hong Kong, 20 March 2001