

# DIRECTORS' REMUNERATION AND INTERESTS REPORT

## DIRECTOR COMPENSATION

### Executive Director Emoluments

The Board first established the Emoluments Review Committee in 1987 to review and determine the remuneration of executive Directors.

The Committee is chaired by Sir David Akers-Jones, Independent non-executive Deputy Chairman, and has a majority of Independent non-executive Directors. Its other members are F.K. Hu and Dr. Geoffrey M.T. Yeh (Independent non-executive Director).

Management makes recommendations to the Committee on the Company's framework for, and cost of, executive Director remuneration and the Committee then reviews these recommendations. On matters other than those concerning him, the Chairman or Managing Director may be invited to Committee meetings. No Director is involved in deciding his own remuneration.

The Group's remuneration policy seeks to provide a fair market remuneration in a form and value to attract, retain and motivate high quality staff and at the same time to reflect the importance of aligning awards with shareholder interests. Remuneration packages are set at levels to ensure comparability and competitiveness with Hong Kong-based companies competing within a similar talent pool, with particular emphasis on the property industry. Independent professional advice will be sought to supplement internal resources where appropriate.

Following a review completed in November 2003 by the Committee, the Company has developed a policy that involves top management (the Chairman and Managing Director) having a remuneration package consisting of several remuneration components. The fixed part of the package is a combination of basic salary and benefits. The proportion of performance-based compensation has been increased under this new structure. In addition, there are arrangements for a long-term incentive plan. The new levels of remuneration, taking effect as from December 2003, reflected comparator market information and advice from independent consultants (Watson Wyatt Hong Kong Limited). Such salary levels would be reviewed by the Committee on an annual basis.

The Committee met in March 2005 to review the 2005 fixed basic salary of the Chairman and Managing Director and their 2004 performance-based annual bonus. Details are set out in note 8 to the financial statements. The most recent meeting of the Committee was held in March 2006 to review executive Director compensation packages. There was 100% attendance without any executive Director presence.

Details of Directors' (including individual executive Directors) emoluments and options are set out in notes 8 and 42 respectively to the financial statements.

### Non-executive Director Emoluments

The Directors' fees are subject to shareholder approval at general meeting. The non-executive Directors (including the Independent non-executive Directors) received fees totalling HK\$839,382 and the Independent non-executive Deputy Chairman received a total annual fee of HK\$157,500 for 2005 (Please refer to note 8 to the financial statements).

Taking into consideration the level of responsibility, experience and abilities required of the Directors, and fees offered for similar positions in comparable companies, new levels of Directors' fees were reviewed and approved at the AGM held on 10 May 2005. The new fees came into effect on 1 July 2005, and are as follows:

	HK\$ per annum
<u>Board of Directors</u>	
Chairman	140,000
Deputy Chairman	120,000
Director	100,000
<u>Audit Committee</u>	
Chairman	60,000
Member	30,000
<u>Other Committees</u>	
Chairman	30,000
Member	20,000

### DIRECTOR COMPENSATION *continued*

The non-executive Directors received no other compensation from the Group except for the fees disclosed above.

None of the non-executive Directors receive any pension benefits from the Company, nor do they participate in any bonus or incentive schemes.

### Long-term Incentives: Share Option Schemes

The Company has granted options under two executive share option schemes. The purpose of both schemes was to strengthen the link between individual staff and shareholder interests. The power of grant to executive Directors is vested in the Emoluments Review Committee and endorsed by all Independent non-executive Directors as required under the Listing Rules. As approved by the Board, either the Chairman or the Managing Director may make grants to management staff below executive Director level.

Key terms of the share option schemes of the Company are summarised as follows:

#### The 1995 Share Option Scheme (“the 1995 Scheme”)

The 1995 scheme was approved by shareholders on 28 April 1995 and had a term of 10 years. It expired on 28 April 2005. All outstanding options granted under the 1995 Scheme will continue to be valid and exercisable in accordance with the provisions of the 1995 Scheme.

As at 31 December 2005, shares issuable under options granted under the 1995 scheme was 1,885,000, representing less than 0.18% of the issued share capital of the Company.

The maximum entitlement of each participant is substantially below the limit set out under the scheme rules (being 25% of the maximum number of shares in respect of which options may at any time be granted under the 1995 Scheme). The exercise price was initially fixed at 80% of the average of the closing prices of the shares on the Stock Exchange for the 20 trading days immediately preceding the date of grant or the nominal value of a share whichever is the greater. The exercise price for options granted after 1 September 2001 was amended to comply with amendments to the Listing Rules. Consideration to be paid on each grant of option is HK\$1.00, with full payment for exercise price to be made on exercise of the relevant option.

Grants made prior to 8 March 2005 are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue.

#### The 2005 Share Option Scheme (“the 2005 Scheme”)

The Company adopted a new share option scheme (the “2005 Scheme” and together with the 1995 Scheme are referred to as “the Schemes”) at the AGM held on 10 May 2005, which has a term of 10 years and will expire on 9 May 2015.

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed such number of shares as required under the Listing Rules, currently being 10% of the shares in issue (being 104,996,365 shares) as at 10 May 2005, the date of the AGM approving the 2005 Scheme. Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meetings for “refreshing” the 10% limit under the scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option scheme of the Company must not exceed 30% of the shares in issue from time to time (or such number of shares as required under the Listing Rules). No options may be granted if such grant will result in this 30% limit being exceeded.

## DIRECTOR COMPENSATION *continued*

The maximum entitlement of each participant under the 2005 Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1% of the total shares in issue as at the date of shareholders' approval). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares. Consideration to be paid on each grant of option is HK\$1.00, with full payment for exercise price to be made on exercise of the relevant option.

### Grant and Vesting Structures

With effect from 8 March 2005, the Board has approved a new grant and vesting structure. Grants will be made on a periodic basis. Vesting period is three years in equal proportion. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

### Grant Movements during the Year

During the year, a total of 1,179,000 shares options were granted under the Schemes.

As at 31 December 2005, an aggregate of 2,389,000 shares are issuable under options granted under the Schemes, representing approximately 0.23% of the issued share capital of the Company.

As at the date of this Report, 100,157,365 shares are issuable under the Schemes, regarding options granted which remain unexercised and options to be granted under the 2005 Scheme, representing 9.5% of the issued share capital.

Details of options granted and outstanding under the Schemes during the year are as follows:

Name	Balance as at 1.1.2005	Date of grant	Changes during the year			Balance as at 31.12.2005	Exercise price HK\$	Exercisable period
			Cancelled/ lapsed	Granted	Exercised			
<b>Executive Directors</b>								
Peter T.C. Lee ( <i>Note 1</i> )	1,350,000	7.1.1999	Nil	Nil	Nil	1,350,000	9.22	7.1.2001 – 6.1.2009
Michael T.H. Lee ( <i>Note 2</i> )	Nil	10.5.2005	Nil	240,000	Nil	240,000	16.60 ( <i>Note 4</i> )	10.5.2005 – 9.5.2015
<b>Eligible Employees (<i>Note 3</i>)</b>								
	Nil	30.3.2005	140,000 ( <i>Note 8</i> )	675,000	Nil	535,000	15.85 ( <i>Note 5</i> )	30.3.2005 – 29.3.2015
	Nil	9.8.2005	Nil	144,000	Nil	144,000	18.79 ( <i>Note 6</i> )	9.8.2005 – 8.8.2015
	Nil	12.10.2005	Nil	120,000	Nil	120,000	18.21 ( <i>Note 7</i> )	12.10.2005 – 11.10.2015
	<u>1,350,000</u>		<u>140,000</u>	<u>1,179,000</u>		<u>2,389,000</u>		

## DIRECTOR COMPENSATION *continued*

Notes:

1. Options granted to Peter T.C. Lee were under the 1995 Scheme with a holding period of 2 years and a vesting period of 5 years.
2. Options granted to Michael T. H. Lee were under the 2005 Scheme with a vesting period of 3 years in equal proportions.
3. Eligible Employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance. The options granted under the Schemes have vesting periods of 3 years in equal proportions.
4. The closing price of the shares of the Company immediately before the date of grant (as of 9 May 2005) was HK\$16.40.
5. The closing price of the shares of the Company immediately before the date of grant (as of 29 March 2005) was HK\$15.35.
6. The closing price of the shares of the Company immediately before the date of grant (as of 8 August 2005) was HK\$18.55.
7. The closing price of the shares of the Company immediately before the date of grant (as of 10 October 2005) was HK\$17.90.
8. The options for 140,000 shares lapsed during the year upon the resignation of certain Eligible Employees.

Apart from the above, the Company had not granted any share option under the Schemes to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

Particulars of the Company's share option schemes are set out in note 42 to the financial statements.

### Value of share options

Pursuant to Rule 17.08 of the Listing Rules, the value of the share options granted during the year is as follows to be expensed through the Group's income statement over the three-year vesting period of the options.

The Company has used the Black-Scholes option pricing model (the "Model") to value the share options granted during the year. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Details of the fair values of share options determined at the date of grant using the Model with significant variables and assumptions are as follows:

	<b>Date of grant</b>			
	<b>30.3.2005</b>	<b>10.5.2005</b>	<b>9.8.2005</b>	<b>12.10.2005</b>
Closing share price at the date of grant	HK\$15.55	HK\$16.60	HK\$18.75	HK\$18.00
Risk free rate ( <i>Note 1</i> )	4.428%	3.817%	4.186%	4.293%
Expected life of option ( <i>Note 2</i> )	10 years	10 years	10 years	10 years
Expected volatility ( <i>Note 3</i> )	31.50%	29.81%	25.56%	25.68%
Expected dividend per annum ( <i>Note 4</i> )	HK\$0.39	HK\$0.39	HK\$0.39	HK\$0.39
Estimated fair values of options granted	HK\$3,659,000	HK\$1,286,000	HK\$847,000	HK\$668,000

## DIRECTOR COMPENSATION *continued*

Notes:

1. Risk free rate: being the approximate yields of 10-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
2. Expected life of option: being the period of 10 years commencing on the date of grant, adjusted based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.
3. Expected volatility: being the approximate historical volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.
4. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

## SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2005, the interests of the Directors and Alternate Director in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), are set out below:

### Aggregate long positions in shares and underlying shares of the Company

Name	No. of shares held					Total	% of the issued share capital*
	Personal interests	Family interests	Corporate interests	Other interests			
Peter Ting Chang Lee	2,000,000	–	4,083,823 (Note 1)	–	6,083,823	0.578	
Michael Tze Hau Lee	1,023,233	–	–	–	1,023,233	0.097	
Fa-kuang Hu	–	–	255,012 (Note 2)	–	255,012	0.024	
Hans Michael Jebsen	60,000	–	2,432,914 (Note 1)	–	2,492,914	0.237	
Per Jorgensen	6,726	–	–	–	6,726	0.001	
Chien Lee	850,000	–	4,083,823 (Note 1)	3,150,000 (Note 3)	8,083,823	0.768	
Deanna Ruth Tak Yung Rudgard	1,871,600	–	–	–	1,871,600	0.178	
Pauline Wah Ling Yu Wong	274,000	–	–	–	274,000	0.026	
Geoffrey Meou-tsen Yeh	255,472	–	–	–	255,472	0.024	
V-nee Yeh (alternate to Geoffrey Meou-tsen Yeh)	43,259	–	84,575 (Note 1)	–	127,834	0.012	

\* This percentage has 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)

**DIRECTORS' INTERESTS IN SHARES** *continued*

Certain executive Directors of the Company have been granted share options under the Company's Share Option Schemes (details are set out under "Long-term incentives: Share Option Schemes" above). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Notes:

- (1) 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. Corporate interests of Peter Ting Chang Lee and Chien Lee relate to the same corporation.
- (2) Such shares were held by a company which was wholly-owned by Fa-kuang Hu and he was deemed to have beneficial interests in all these shares.
- (3) Such shares were held through a discretionary trust of which Chien Lee was one of the beneficiaries.

**Aggregate long positions in shares of associated corporations**

Listed below are certain Directors' interests in the shares of Barrowgate Limited ("Barrowgate"), a 65.36% subsidiary of the Company, and Parallel Asia Engineering Company Limited ("PAECL"), a 25% associate of the Company.

Name	No. of shares held	% of the issued share capital
Hans Michael Jebsen	1,000 (Note 4)	10 (Note 4)
Fa-kuang Hu	5,000 (Note 5)	50 (Note 5)
Raymond Liang-ming Hu (alternate to Fa-kuang Hu)	5,000 (Note 5)	50 (Note 5)

Notes:

- (4) Jebsen and Company Limited ("Jebsen and Company") has a 10% interest in the issued share capital in Barrowgate through a wholly-owned subsidiary. Hans Michael Jebsen is deemed to be interested in Barrowgate by being the controlling shareholder and Chairman of Jebsen and Company.
- (5) Ryoden Development Limited ("Ryoden Development") has a 50% interest in the issued share capital in PAECL through a wholly-owned subsidiary. Fa-kuang Hu and Raymond Liang-ming Hu are deemed to be interested in PAECL by virtue of their interests as beneficiaries of a discretionary trust which has an indirect controlling interest in Ryoden Development.

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 31 December 2005 were recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**Compliance of the Model Code**

All Directors had confirmed, following specific enquiry by the Company, that they complied with the required standards set out in the Model Code as set out in Appendix 10 to the Listing Rules throughout the review year.

**DIRECTORS' INTERESTS IN CONTRACTS**

During the review year, certain Directors are parties to contracts with the Group. These contracts constitute Related Party Transactions, Connected Transactions or Contracts of Significance under applicable accounting or regulatory rules (details are disclosed in the Directors' Report).

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Group is engaged principally in the property investment, development and management of high quality investment properties in Hong Kong. The following Directors (excluding Independent non-executive 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 the 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 on an arm's length from the Deemed Competing Business.

- (i) Peter T. C. Lee, Anthony H. P. Lee, Chien Lee, Michael T. H. Lee and Dr. Deanna R. T. Y. Rudgard are members of the founding Lee family whose range of general investment activities include property investments in Hong Kong and overseas. In light of the size and dominance of the portfolio of the Group, such disclosed Deemed Competing Business is considered immaterial.
- (ii) F. K. Hu (and his alternate, Raymond L. M. Hu) are directors and have an indirect substantial interest in Designcase Limited and its subsidiaries, which are engaged in investment holding, property investment and development, property agency and management, project management in both the People's Republic of China and Hong Kong.
- (iii) Hans Michael Jebsen (and his alternate, Li Kam Wing) hold the offices of directors in each of Jebsen and Company Limited and Jebsen China Services Limited (the "Companies") and some of their subsidiaries, of which their business activities include, inter alia, investment holding and property investment in both the People's Republic of China and Hong Kong. Mr. Jebsen is also a substantial shareholder of the Companies.

Mr. Jebsen is a non-executive director of The Wharf (Holdings) Limited whose business includes, inter alia, property investment, development and management in both the People's Republic of China and Hong Kong.

- (iv) Chien Lee is an independent non-executive director of Swire Pacific Limited whose business includes, inter alia, property investment and trading in Hong Kong, People's Republic of China and USA.

The Company's management team is separate and independent from that of the companies identified in (ii), (iii) and (iv) above. In addition, save and except Peter T.C. Lee and Michael T.H. Lee, the relevant Directors have non-executive roles and are not involved in the Company's day-to-day operations and management.

By order of the Board  
**Wendy W.Y. Yung**  
*Company Secretary*

Hong Kong, 7 March 2006