

# Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2006, which were approved by the Board of Directors on 6 March 2007.

## PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2006 to be property investment, management and development. Details of the Group's associates and principal subsidiaries at 31 December 2006 are set out in notes 18 and 38 respectively to the financial statements.

An analysis of Group's turnover is set out in note 6 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 2006 are set out in the consolidated income statement on page 74.

An interim dividend of HK10 cents per share amounting to HK\$105,460,624 was paid to shareholders during the year.

The Board of Directors recommends the payment of a final dividend of HK40 cents per share with a scrip alternative to the shareholders on the register of members on 8 May 2007, absorbing HK\$422,054,964. The ordinary dividends proposed and paid in respect of the full year 2006 will absorb HK\$527,515,588, 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 78 and 79 and note 30 to the financial statements respectively.

## INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer at 31 December 2006. The revaluation resulted in a surplus as compared to carrying amount of HK\$2,575,610,978 and is recognised in the consolidated income statement.

Details of movements during the year in the investment properties of the Group and the Company are set out in note 14 to the financial statements.

Details of the major investment properties of the Group at 31 December 2006 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 1,876,568 ordinary shares. Details of movements in the share capital of the Company are set out in note 29 to the financial statements.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and, save as otherwise stated and explained in the Corporate Governance Report, has complied throughout the year with the code provisions of 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 44) – it gives detailed information on the Company's compliance with the Code, and adoption of local and international best practices;
- (b) "Directors' Remuneration and Interests Report" (page 63) – 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);

**CORPORATE GOVERNANCE *continued***

- (c) "Audit Committee Report" (page 70) – it sets out terms of reference, work performed and findings of the Audit Committee for the review year;
- (d) "Report on Internal Control and Risk Management" (page 36) – it sets out the Company's framework on internal control and risks assessment including methodology, control activities, work done during the year and further steps to be done;
- (e) "Corporate Responsibility Report" – it sets out the Company's corporate values and Corporate Responsibility Policy underlying its commitment to maintaining a high standard of corporate governance.

**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 41 and 42.

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. Details on Board changes effective as from the conclusion of the forthcoming Annual General Meeting ("AGM") including particulars of Directors seeking re-election at the AGM are set out in the accompanying circular to shareholders.

On 12 April 2006, Timothy John Smith was appointed as alternate Director for Per Jorgensen in place of Charles Gary Wellins. Save as the aforesaid, Raymond Liang-ming Hu, Li Kam Wing and V-nee Yeh served as alternate Directors throughout the year.

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 pages 63 to 69.

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

As at 31 December 2006, 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 ordinary shares held	% of the issued share capital*
Lee Hysan Estate Company, Limited	Beneficial owner and interests of controlled corporations	433,130,735 (Note 1)	41.05
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 (Note 1)	41.05

\* The percentages have been compiled based on the total number of shares of the Company in issue as at 31 December 2006 (i.e. 1,055,137,409 ordinary shares).

Note: (1) These interests represent the same block of shares of the Company. 270,118,724 shares were held by Lee Hysan Estate Company, Limited ("LHE") and 163,012,011 shares were held by certain subsidiaries of LHE. LHE is a wholly-owned subsidiary of Lee Hysan Company Limited.

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 2006.

## 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 36 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, a 65.36% subsidiary of the Company and property owner of Lee Gardens Two, as landlord with the following connected persons:

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note 1)
(i) Jebsen and Company Limited (Note 2)	10 September 2003	4 years commencing from 1 September 2003	Office units at 28th to 31st Floors	2006: HK\$14,138,718 2007: HK\$ 9,572,328 (on pro rata basis)
(ii) Hang Seng Bank Limited (Note 2)	3 September 2004	2 years and 16 days commencing from 15 September 2004	Shop units at Ground Floor and Basement	2006: HK\$ 7,377,192 (on pro rata basis)
(iii) Hang Seng Bank Limited	7 June 2006 (Note 3)	3 years commencing from 1 October 2006	Shop units at Ground Floor and Lower Ground Floor	2006: HK\$ 3,296,994 (on pro rata basis) 2007: HK\$13,267,560 2008: HK\$13,267,560 2009: HK\$ 9,950,670 (on pro rata basis)
(iv) MF Jebsen International Limited (Note 4)	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	2006: HK\$ 6,286,699 2007: HK\$ 6,596,532 2008: HK\$ 549,711 (on pro rata basis)
(v) Chickeeduck Retail (Hong Kong) Limited (Note 5)	18 December 2003	3 years commencing from 7 November 2003	Shop units on the Second Floor	2006: HK\$ 1,115,900 (on pro rata basis)

**CONTINUING CONNECTED TRANSACTIONS** *continued***I. Lease granted by the Group** *continued**(b) Bamboo Grove, 74-86 Kennedy Road, Hong Kong ("Bamboo Grove")*

The following leases were entered into by Kwong Wan Realty Limited, a wholly-owned subsidiary of the Company and property owner of Bamboo Grove as landlord, with Lee Hysan Estate Company, Limited ("Lee Hysan Estate"), a substantial shareholder of the Company (holding 41.05% interest) 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 (Note 1)
(i) Lee Hysan Estate Company, Limited (Note 6)	12 January 2004	2 years commencing from 16 January 2004	An apartment and 2 carparking spaces	2006: HK\$ 52,011 (on pro rata basis)
(ii) Lee Hysan Estate Company, Limited	9 November 2005	2 years commencing from 1 November 2005	An apartment and 1 carparking space	2006: HK\$2,644,800 (Note 7)
(iii) Atlas Corporate Management Limited (Note 8)	14 December 2005 (Formal tenancy agreement executed on 5 January 2006)	2 years commencing from 16 January 2006	An apartment and 2 carparking spaces	2006: HK\$1,706,575 (on pro rata basis) (Note 9)

*(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 (Note 1)
Atlas Corporate Management Limited	9 November 2005	3 years commencing from 1 November 2005	Whole of 21st Floor	2006: HK\$1,378,518 2007: HK\$1,397,664 2008: HK\$1,164,720 (on pro rata basis)

**II. Provision of leasing and property management services to a non-wholly-owned subsidiary regarding 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	Annual consideration
Barrowgate Limited	25 February 2004 and a Supplemental Appointment Letter of 19 July 2004	3 years commencing from 1 April 2004 (renewable for a further 3 years)	Whole premise of Lee Gardens Two	HK\$13,667,068 (i) and HK\$2,224,452 (ii) (Note 10)

## CONTINUING CONNECTED TRANSACTIONS *continued*

Notes:

- (1) The annual consideration are based on current rates of rental and operating charges and (for retail premises) promotional levies for each of the relevant financial years. The rental and operating charges and promotional levies (as the case may be) are payable monthly in advance.
- (2) Jebsen and Company Limited and Hang Seng Bank Limited are beneficial substantial shareholders of Barrowgate Limited having equity interest of 10% and 24.64% respectively in Barrowgate Limited.
- (3) This is a renewal of the lease mentioned under I(a)(ii) above.
- (4) MF Jebsen International Limited is considered a connected person by virtue of its being a company controlled by an associate of a non-executive Director of the Company.
- (5) Chickeeduck Retail (Hong Kong) Limited is considered a connected person by virtue of its being a company controlled by an associate of a non-executive Director of the Company. The lease expired on 6 November 2006 and was not renewed.
- (6) The lease expired on 15 January 2006. A new lease for the same premise was entered by Atlas Corporate Management Limited (see I(b)(iii) for details).
- (7) The monthly management fees were revised with effect from 1 January 2007 while the rental remained unchanged. The annual consideration based on current rates for the rental and management fees for the financial year of 2007 in relation to the remaining term of the lease is HK\$2,221,900.
- (8) This is a new lease of the same premise mentioned in I(b)(i) above.
- (9) The monthly management fees were revised with effect from 1 January 2007 while the rental remained unchanged. The annual consideration based on current rates for the rental and management fees for each of the financial year of 2007 and 2008 in relation to the remaining term of the lease are HK\$1,792,920 and HK\$72,295 respectively.
- (10) These represent the actual considerations for the year ended 31 December 2006, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

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 regarding the Transactions (other than that referred to in section I(a)(v)) in accordance with the Listing Rules. The Stock Exchange has granted a waiver for the Transactions referred to in section I(a)(iv) 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 relevant 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.

#### **CONTINUING CONNECTED TRANSACTIONS** *continued*

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 Jebesen 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 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	16%
Five largest suppliers in aggregate	32%

Save otherwise disclosed, no Director, their associates or shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) were interested, at any time during the year, in the Group's five largest suppliers.

#### **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\$1,693,790 for charitable and non-profit-making organisations.

#### **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, 6 March 2007