

# DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 December 2009, which were approved by the Board of Directors (the "Board") on 10 March 2010.

## Principal Activities

The principal activities of the Group continued throughout 2009 to be property investment, management and development. Details of the Group's principal subsidiaries and associates as at 31 December 2009 are set out in notes 19 and 20 respectively to the financial statements.

The turnover and results of the Group are principally derived from leasing of investment properties located in Hong Kong. The Group's turnover and results by reportable segment are set out in note 5. 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 this Annual Report.

## Results and Appropriations

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 84.

An interim dividend of HK14 cents per share, amounting to approximately HK\$147 million, was paid to shareholders during the year.

The Board recommends the payment of a final dividend of HK54 cents per share with a scrip alternative to the shareholders on the register of members on 11 May 2010, absorbing approximately HK\$567 million. The dividends proposed and paid for ordinary shares in respect of the full year 2009 will absorb approximately HK\$714 million, 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 and 89 and note 33 to the financial statements respectively.

## Investment Properties

All of the Group's investment properties were revalued by an independent professional valuer as at 31 December 2009 using the fair value model. Details of movements during the year in the investment properties of the Group are set out in note 16 to the financial statements.

Details of the major investment properties of the Group as at 31 December 2009 are set out in the section under Schedule of Principal Properties of this 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 17 to the financial statements.

## Share Capital

Details of movements in the share capital of the Company during the year are set out in note 32 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, meets the requirements of the code provisions of the Code on Corporate Governance Practice (the "Corporate Governance 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" (pages 50 to 64) – it gives detailed information on the Company's compliance with the Corporate Governance Code, and adoption of local and international best practices;
- (b) "Directors' Remuneration and Interests Report" (pages 71 to 78) – 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" (pages 79 and 80) – it sets out the terms of reference, work performed and findings of the Audit Committee for the year;
- (d) "Internal Controls and Risk Management Report" (pages 39 to 41) – it sets out the Company's framework on internal controls and risks assessment including control environment, control activities, work done during the year and further steps to be done; and
- (e) "Corporate Responsibility Report" – it sets out the Company's corporate responsibility policies and practices reflecting its commitment to maintaining a high standard of corporate governance.

## The Board

The Board is currently chaired by Sir David AKERS-JONES, Independent non-executive Chairman and has 2 executive Directors, Gerry Lui Fai YIM (Executive Director and appointed Chief Executive Officer effective 10 March 2010) and Wendy Wen Yee YUNG (Executive Director and Company Secretary) and 10 other Non-executive Directors.

Peter Ting Chang LEE was Chairman during the year until 17 October 2009. Sir David AKERS-JONES acted as Acting Chairman from 18 October 2009, and was appointed as Independent non-executive Chairman effective 11 January 2010.

Nicholas Charles ALLEN was appointed Independent non-executive Director and chairman of Audit Committee effective 17 November 2009 and Gerry Lui Fai YIM was appointed Executive Director effective 1 December 2009.

Philip Yan Hok FAN and Joseph Chung Yin POON were appointed Independent non-executive Directors and Michael Tze Hau LEE was appointed as Non-executive Director, all effective 11 January 2010.

Tom BEHRENS-SORENSEN resigned as Independent non-executive Director and a member of Audit Committee effective May 2009 and Dr. Geoffrey Meou-tsen YEH was appointed a member of Audit Committee in his stead. Ricky Tin For TSANG resigned as Executive Director, Finance effective 29 September 2009.

Save as otherwise mentioned, other Directors whose names and biographies appear on pages 46 to 48 have been Directors of the Company during the year.

Raymond Liang-ming HU and Kam Wing LI served as alternate Directors throughout the year. V-nee YEH resigned as alternate Director to Dr. Geoffrey Meou-tsen YEH effective 20 January 2009 and Timothy John SMITH ceased to be an alternate Director upon resignation of Tom BEHRENS-SORENSEN in accordance with Article 98(a) of the Company's Articles of Association.

According to Article 97 of the Company's current Articles of Association, a Director appointed either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting.

Under Article 114 of 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. A retiring Director is eligible for re-election.

Particulars of Directors seeking for re-election at the forthcoming annual general meeting are set out in the accompanying circular to shareholders.

The Company has received from each Independent non-executive Director an annual confirmation of his independence as regard each of the factors referred to in Rule 3.13 (1) to (8) of the Listing Rules and the Company considered all of them to be independent.

## Directors' Interests in Shares

Details of the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations are set out in Directors' Remuneration and Interests Report on pages 71 to 78.

## Substantial Shareholders' and Other Persons' Interests in Shares

As at 31 December 2009, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying 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	Number of ordinary shares held	% of the issued share capital (Note a)
Lee Hysan Estate Company, Limited	Beneficial owner and interests of controlled corporations	433,130,735 (Note b)	41.23
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 (Note b)	41.23
Silchester International Investors Limited	Investment manager	105,230,000	10.02
Silchester International Investors International Value Equity Trust	Beneficial owner	53,187,000 (Note c)	5.06

#### Notes:

- The percentage has been compiled based on the total number of shares of the Company in issue as at 31 December 2009 (i.e. 1,050,608,090 ordinary shares).
- 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.
- According to notification received by the Company, this shareholding interest is part of the block of shareholding held by Silchester International Investors Limited.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company was recorded in the register required to be kept under section 336 of the SFO as at 31 December 2009.

## 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 38 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 Rule 14A.34 of the Listing Rules during the year. Details of the Transactions required to be disclosed 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 ("Barrowgate"), 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 a)
(i) Jebsen and Company Limited (Note b)	29 June 2007	3 years commencing from 1 September 2007	Office units on the 28th, 30th and 31st Floors	2009: HK\$20,692,488 2010: HK\$13,794,992 (on pro-rata basis)
(ii) Hang Seng Bank Limited (Note b)	15 October 2007 (Note c)	72 months commencing from 15 October 2007 (for Shops 2-10 on the Lower Ground Floor) 68 months commencing from 15 February 2008 (for Shop G13A on the Ground Floor and Shops 11-12 on the Lower Ground Floor) (Note d)	Shop G13A on the Ground Floor and Shops 2-10 and 11-12 on the Lower Ground Floor	2009: HK\$12,526,488 2010: HK\$9,994,740 (on pro-rata basis upto 14 October 2010) (Notes e and f)
(iii) Pearl Investments (HK) Limited (Note g)	23 May 2008 (Lease)	3 years commencing from 15 May 2008	Room 1401C on the 14th Floor	2009: HK\$2,049,156 2010: HK\$2,011,356 (on pro-rata basis
	18 May 2007 (Carpark Licence Agreement and a supplemental letter dated 5 June 2007)	3 years commencing from 1 June 2007	1 carparking space	for the Carpark Licence Agreement) 2011: HK\$736,132 (on pro-rata basis for the Lease)

#### (b) One Hysan Avenue, Causeway Bay, Hong Kong ("One Hysan Avenue")

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, a wholly-owned subsidiary of LHE, a substantial shareholder of the Company (holding 41.23% interest). Details of the lease are set out below:

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note a)
Atlas Corporate Management Limited	14 November 2008	3 years commencing from 1 November 2008	Whole of 21st Floor	2009: HK\$2,505,684 2010: HK\$2,505,684 2011: HK\$2,088,070 (on pro-rata basis)

## Continuing Connected Transactions continued

### 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 (“Hysan Leasing”) and Hysan Property Management Limited, both being wholly-owned subsidiaries of the Company, with Barrowgate 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
Barrowgate Limited	25 February 2004 and 2 Supplemental Appointment Letters of 19 July 2004 and 7 February 2007	3 years commencing from 1 April 2004 (renewed for further 3 years)	Whole premises of Lee Gardens Two	HK\$17,659,770 (i) and HK\$2,524,872 (ii) (Note h)

#### Notes:

- The annual considerations are based on current rates of rental, operating charges, (for retail premises) promotional levies and (for carparking spaces) licence fees for each of the relevant financial years. The rental, operating charges, promotional levies and licence fees (as the case may be) are payable monthly in advance.
- Jebsen and Company Limited (“Jebsen and Company”) and Hang Seng Bank Limited (“Hang Seng”) are beneficial substantial shareholders of Barrowgate having equity interest of 10% and 24.64% respectively in Barrowgate.
- Barrowgate and Hang Seng entered into an agreement for lease dated 15 October 2007. A formal lease agreement and a supplemental deed in respect of the premises mentioned under I(a)(ii) above were entered on 15 February 2008 and 13 May 2008 respectively.
- The term of the lease mentioned under I(a)(ii) above exceeds 3 years and, according to Listing Rules requirement, an independent financial adviser to the Board was engaged and it formed the view that the term of this lease with duration longer than 3 years was required and it was normal business practice for leases of this type to be of such duration.
- The monthly promotional levy was revised with effect from 1 January 2010 while the rental and operating charge remained unchanged.
- The rent for the period from 15 October 2010 to 14 October 2013 will be reviewed at the then prevailing market rent and to be agreed by Barrowgate and Hang Seng.
- Pearl Investments (HK) Limited is a connected person by virtue of its being an associate of Chien LEE, Non-executive Director of the Company.
- These represent the actual considerations for the year ended 31 December 2009, 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 in accordance with the Listing Rules. The Stock Exchange has granted a waiver for the Transactions referred to in 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. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in so far as they are applicable.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor 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:

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

### **Continuing Connected Transactions** continued

The auditor has reported the factual findings on these procedures to the Board that the samples the auditor selected for the Transactions were in agreement in respect of items 1, 3 & 4 above and that according to the samples the auditor selected, in respect of item 2, the rent charged to the connected persons were either the same or fell within the range of rentals offered to independent third parties. All Independent non-executive Directors of the Company have reviewed the Transactions and the report of the auditor 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**

Certain Transactions are considered contracts of significance under paragraph 15 of Appendix 16 of the Listing Rules, namely:

- (i) the lease arrangement between Barrowgate and Jebesen and Company, due to the annual consideration of the lease having a percentage ratio of 1.23% from the calculation of the revenue test (the percentage ratios for assets ratio and consideration ratio are 0.05% and 0.09% respectively); and
- (ii) the management agreement between Barrowgate and Hysan Leasing, due to the annual consideration of the management agreement having a percentage ratio of 1.05% from the calculation of the revenue test (the percentage ratios for assets ratio and consideration ratio are 0.04% and 0.08% respectively).

Details of the above Transactions are set out under I(a)(i) and II of "Continuing Connected Transactions".

### **Major Customers and Suppliers**

During the year, both the aggregate amount of purchases attributable to the Group's 5 largest suppliers and the aggregate amount of turnover attributable to the Group's 5 largest customers were less than 30% of total purchases and turnover of the Group respectively.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

During the year, neither the Company nor its subsidiaries 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 of approximately HK\$1 million to charitable and non-profit-making organisations.

### **Auditor**

A resolution for the re-appointment of Messrs. Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the 2010 AGM.

On behalf of the Board

**Sir David AKERS-JONES**

*Independent non-executive Chairman*

Hong Kong, 10 March 2010