



Information Note

The UGL Incident

Research Office
Legislative Council Secretariat

IN03/16-17

1. Introduction

1.1 In October 2014, it was reported that Mr LEUNG Chun-ying, the Chief Executive ("CE"), had signed an agreement in 2011 with UGL Limited ("UGL")¹, in relation to its takeover of DTZ Holdings plc ("DTZ"), a real estate services company listed in the United Kingdom in which Mr LEUNG had a direct stake. In the agreement, UGL undertook to pay Mr LEUNG £4 million (HK\$50 million)² in two instalments at end-2012 and end-2013 respectively, subject to specific conditions. As these payments concurred with the term of office of Mr LEUNG as the fourth CE between 2012 and 2017, it has aroused concerns of the public and Members in respect of the nature of payment, potential conflict of interests, relevant systems of declaration of interests and taxation implications.

1.2 At the Council meeting of 2 November 2016, the petition presented by Hon Kenneth LEUNG co-signed by himself and Hon Andrew WAN was referred to a select committee to inquire into the aforementioned incident ("UGL Incident").³

1.3 The Research Office is requested to prepare an information note for Members' reference. Based on publicly available information, this note summarizes the background of the UGL Incident and Members' concerns, along with a chronology of key events (**Appendix I**).

¹ UGL is a listed company in Australia, providing engineering, asset management and maintenance services across the sectors of rail, transport and technology systems, power, resources, water and defence.

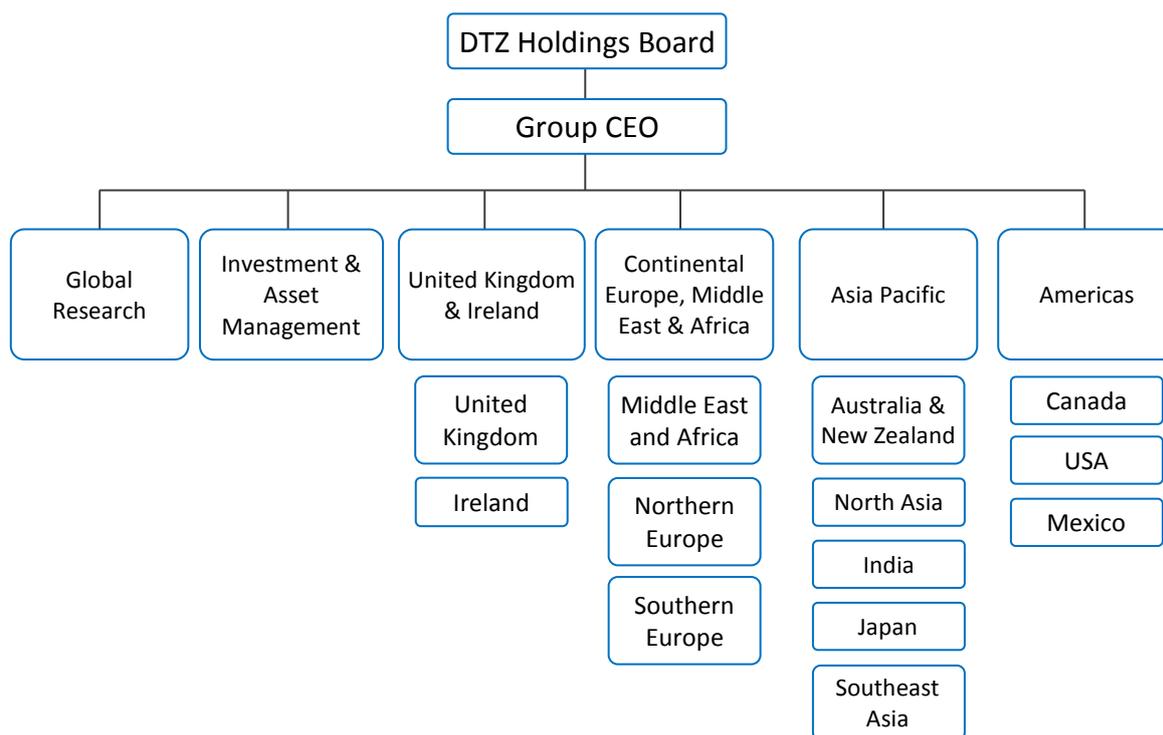
² Throughout this note, market exchange rate at the time of payment or transaction is used in currency conversion.

³ The Select Committee is established pursuant to the referral of the petition by the Council. It is not authorized by the Council to exercise the powers under section 9(1) of the Legislative Council (Powers and Privileges) Ordinance (Cap. 382).

2. Background of the UGL Incident in 2011-2012

2.1 DTZ was a real estate services company listed in the United Kingdom ("UK"), with a history of more than 200 years before its closure. It had ventured into Asia since 1999, partnering with Asian firms including CY Leung & Co, a surveying company set up by Mr LEUNG in Hong Kong.⁴ Mr LEUNG had been appointed as a board member of DTZ since December 2006 and the chairman of DTZ Asia Pacific since February 2007.⁵ More specifically on the business of DTZ Asia Pacific, it covered five regions/countries, including (a) Australia and New Zealand; (b) North Asia; (c) India; (d) Japan; and (e) Southeast Asia. As to North Asia, DTZ had offices in the Mainland, Hong Kong, Taiwan, Japan and South Korea (Figure 1).⁶

Figure 1 – Organizational structure of DTZ Holdings plc as at April 2011



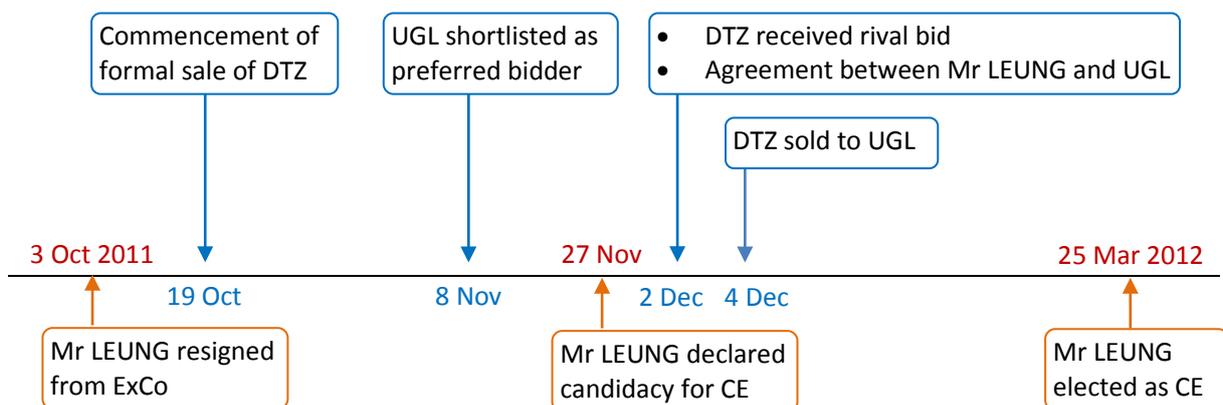
⁴ See Cushman & Wakefield (2016b).

⁵ See DTZ Holdings plc (2007).

⁶ See Cushman & Wakefield (2016a).

2.2 The business of DTZ was severely hit by the global financial crisis in 2008, resulting in a cumulative loss of £106.7 million (HK\$1.3 billion) before tax during 2009-2011. As its majority shareholder, Saint George Participations ("SGP")⁷, was reluctant to inject more liquidity into the company, DTZ found it difficult to service the total secured debt of £110 million (HK\$1.4 billion) owed to the Royal Bank of Scotland ("RBS"), its lead creditor, in 2011. On 17 October 2011, RBS engaged Ernst and Young ("EY") to provide strategic advice on the options available to RBS in regard to the debt owed by DTZ, resulting in commencement of fast-track sale of DTZ two days later to minimize its debt loss.⁸ The key timeline in the UGL Incident in 2011-2012 is summarized in **Figure 2**.

Figure 2 – Key timeline in the UGL Incident in 2011-2012



2.3 On 8 November 2011, UGL was chosen as the "preferred bidder" in the rescue takeover of DTZ as voted by the DTZ directors.⁹ Mr LEUNG then stepped down from the board of DTZ on 24 November,¹⁰ before declaring his candidacy for the CE Election for Hong Kong on 27 November.

2.4 On 2 December 2011, UGL issued an agreement letter to Mr LEUNG, setting out the following terms of agreement in relation to UGL's takeover of DTZ (**Appendix II**):

⁷ SGP was a French firm which held 53.4% stake of DTZ in 2011. SGP made a proposal in May 2011 to take DTZ private. Yet the bid by SGP collapsed in mid-October 2011.

⁸ In the acquisition of DTZ by UGL, EY was appointed by the High Court in England as the administrator to handle the sale. In its administrator's report, EY sets out the background information of the sale of DTZ to UGL. See Ernst and Young (2011).

⁹ See Ernst and Young (2011).

¹⁰ See DTZ Holdings plc (2011).

- (a) **Cash bonus earlier committed by DTZ:** UGL undertook to pay Mr LEUNG the outstanding bonus of £1.5 million (HK\$18.7 million) which DTZ agreed to pay for the period from 1 May 2010 through to the completion of the sale of DTZ;
- (b) **Formal terms of payment of £4 million:** UGL would pay Mr LEUNG a total of £4 million (HK\$50 million)¹¹ over a two-year period in 2012 and 2013, provided that Mr LEUNG (i) provides assistance in promoting UGL and DTZ as reasonably required by UGL, including but not limited to acting as a referee and adviser from time to time; (ii) supports the acquisition of DTZ by UGL; (iii) retains the senior management team of DTZ until end-2013; (iv) does not make any statements criticizing the takeover; and (v) undertakes non-compete, non-poach arrangements in the following 24 months after the acquisition of DTZ by UGL;¹² and
- (c) **Sale options of DTZ Japan Ltd:** For the stake of DTZ Japan Ltd still held by Mr LEUNG, UGL offered an immediate sale option to buy his shares at £200,000 (HK\$2.5 million) plus 30% of the net profit of DTZ Japan Ltd after taxation for the three financial years during 2012-2014.¹³ If Mr LEUNG chose to sell at a later date, UGL offered a put option to buy his stake within seven years from the completion of UGL's acquisition of DTZ, at a price equivalent to 30% times seven of the earnings before interest, taxes, depreciation and amortization ("EBITDA") of DTZ Japan Ltd, where EBITDA is the average of three financial years before he activates the put option, subject to a minimum payment of £200,000 (HK\$2.5 million).¹⁴

¹¹ In 2014, Mr LEUNG disclosed further details of the calculation of the £4 million payment to some Council Members. It consisted of departure gratuity (£2 million) and compensation for the non-compete, non-poach requirement (another £2 million). See Official Records of Proceedings of the Legislative Council (2014a) 5 November.

¹² In particular, Mr LEUNG was required not to solicit or entice away from any members of DTZ or UGL to its clients, not to have any business dealings with the clients of DTZ or UGL, and not to carry on, set up or be engaged in business to compete with DTZ or UGL.

¹³ According to the Annual Report in 2010, DTZ Holding plc held 70% stake of DTZ Japan Ltd. It is widely reported that the rest of 30% stake was held by Mr LEUNG. See DTZ Holdings plc (2010).

¹⁴ For details, see pages 3-4 of Appendix II.

2.5 Also on 2 December 2011, Mr LEUNG signed the agreement, but inserted a handwritten note "provided that such assistance does not create any conflict of interest" next to the clause (b)(i) in paragraph 2.4 above. On a separate front, DTZ received a rival bid from another company on the same day.¹⁵ However, this rival bid was not chosen after a discussion among DTZ directors, EY and RBS, partly because the execution time was considered to be too long to address the imminent liquidity crisis.¹⁶ RBS was prepared to use pre-pack sale mechanism to sell DTZ to UGL because "it provided the most likely opportunity of delivering the best outcome for creditors".¹⁷

2.6 On 4 December 2011, UGL completed its acquisition of DTZ through the pre-pack sale mechanism, at a cost of £77.5 million (HK\$967.2 million). EY was appointed by the High Court in England as the administrator to handle the sale. The proceeds from this sale were then used to repay about 70% of the debt DTZ owed to RBS. As net equity of this sale was lower than the debt level, the value of ordinary shares was reduced to nothing. DTZ was delisted from the London Stock Exchange on the next day.

2.7 On 25 March 2012, Mr LEUNG was elected as the CE of Hong Kong. On 1 July 2012, he was sworn in as the fourth CE of Hong Kong for a five-year period up to 30 June 2017. According to the terms of the above agreement, Mr LEUNG should have received £2 million (HK\$25 million) each in 2012 and 2013 respectively from UGL, but there has not been any publicly available information on the details of these payments to date.

¹⁵ According to EY, the bidder proposed (a) to make a £48.8 million equity injection to DTZ in exchange for 50.1% stake; (b) to subsequently re-finance the existing debt; and (c) to maintain the listing status of DTZ. As this rival bid needed the consent of shareholders, it might take eight weeks to complete the transaction. See Ernst and Young (2011).

¹⁶ According to EY, the rival bid was rejected because there was "insufficient time" to implement the proposal amidst the severe cashflow problem faced by DTZ. Moreover, RBS as the secured creditor did not support the proposal. See Ernst and Young (2011).

¹⁷ Pre-pack sale is a mechanism of corporate rescue when a company is insolvent but its underlying business is still viable. Under the mechanism, the insolvent company's management works with major creditors to rescue the underlying business by selling it to a third party in an attempt to realize the maximum value of the business for repaying the creditors. A pre-pack sale has to be effected by an "administrator" of the company appointed by the court. A pre-pack sale usually yields higher return to the creditors than a liquidation process or a scheme of arrangement. While the sale proceeds would be used to repay the creditors, the holding company will usually be wound up and the shareholders will get nothing.

3. Immediate response of relevant parties to media reports in 2014

3.1 On 8 October 2014, Fairfax Media, an Australian media agency, published for the first time a detailed report on the above agreement between Mr LEUNG and UGL on The Sydney Morning Herald and The Age. This had aroused not only intense public discussion in Hong Kong, but also responses from key and relevant parties in the UGL deal, as summarized below.

3.2 In Hong Kong, **Mr LEUNG** issued a statement on the same day, highlighting that the £4 million (HK\$50 million) payments arose from his "resignation from DTZ, not any future service to be provided by him". Moreover, as he had already resigned from the Executive Council ("ExCo") well before his conclusion of agreement with UGL on the one hand, and the agreement took place before his election as the CE on the other, "there is no requirement under our current systems of declaration" to declare the payments. While the Neo Democrats lodged a complaint about the issue with the Independent Commission Against Corruption ("ICAC") on 9 October 2014, the Secretary for Justice had delegated responsibility to Director of Public Prosecutions to handle the case.¹⁸

3.3 Both **EY** and the Chairman of the then **DTZ** were reportedly not aware of the agreement between Mr LEUNG and UGL in 2011.¹⁹ In reply to a press enquiry, EY commented that "it was natural" for UGL to enter into a non-poaching arrangement to secure key personnel, and added that "any such arrangements made were between UGL and the employees".²⁰ Likewise, **RBS** was reportedly unaware of the agreement.²¹ That said, there was a conflicting press report claiming the otherwise afterwards.²²

3.4 **UGL** issued a press release on 9 October 2014 to counter the allegation of "secret payment" to Mr LEUNG. It said that the agreements were "common confidential commercial arrangements when a business is

¹⁸ See Department of Justice (2014).

¹⁹ In responding to press enquiries, both EY and the then chairman of DTZ, Tim Melville-Ross, said "they were not aware of the Hong Kong politician's agreement with the Australian company." See SCMP (2014) and Sydney Morning Herald (2014a).

²⁰ See SCMP (2014).

²¹ A spokesman for RBS said, "I can confirm that RBS was not party to these negotiations nor were we aware of the amount or terms of the agreements". See Sydney Morning Herald (2014b).

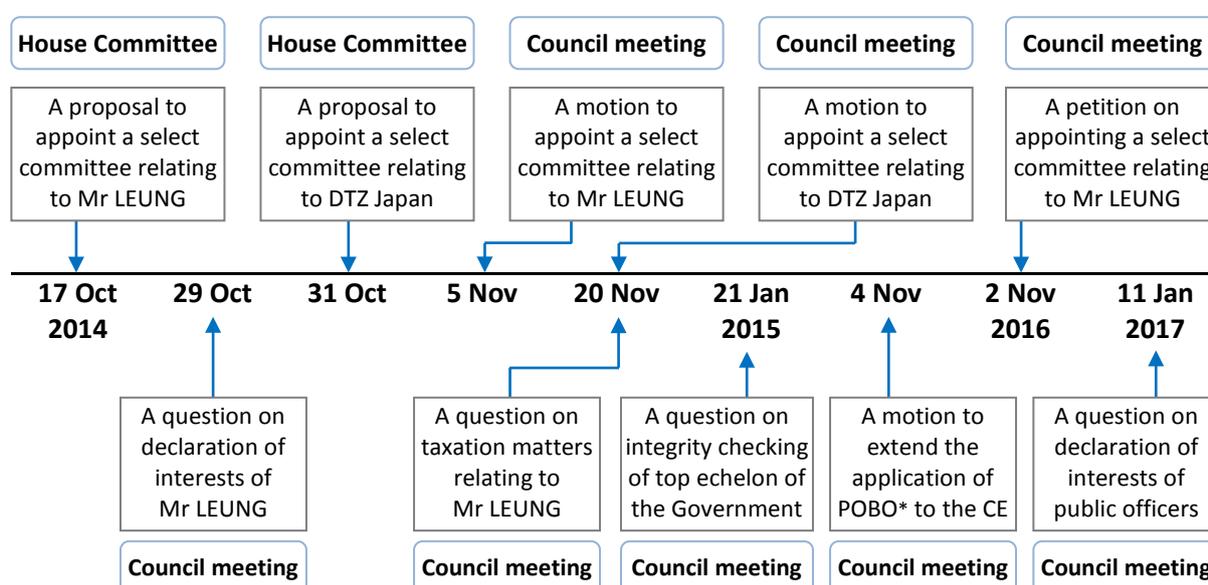
²² It was subsequently reported that "the emails [in the weeks before] appear to show Mr Melville-Ross was leading negotiations with Mr Leung". The emails also "appear to contradict" the earlier statements of RBS and EY that "they had been left in the dark". See Sydney Morning Herald (2014b).

being acquired" and they were "standard businesses practice for non-compete and non-poach agreements".²³

4. Deliberations in the Legislative Council in 2014-2016

4.1 In the Legislative Council, the UGL Incident has been discussed as a key subject at least 10 times at the Council meetings or House Committee meetings between October 2014 and January 2017 (**Figure 3**).²⁴

Figure 3 – Deliberation of the UGL Incident in the Legislative Council



Note: (*) Prevention of Bribery Ordinance (Cap. 201).

4.2 In a nutshell, there are four major concerns amongst Members over the UGL Incident, namely (a) nature of payment; (b) potential conflict of interests; (c) relevant systems of declaration of interests; and (d) taxation implications.

²³ At the press conference on the same day, UGL elaborated further that "[t]he vendor, the Royal Bank of Scotland, and their advisors were fully aware of UGL's intention to enter into an arrangement with Mr LEUNG and DTZ Holdings plc played a significant role in initiating and negotiating those terms with Mr LEUNG". See UGL (2014a).

²⁴ On top of these 10 occasions, the UGL Incident was also mentioned in the Chief Executive's Question and Answer Sessions on 15 January 2015 and 22 October 2015.

Nature of payment

4.3 At the House Committee meeting on 17 October 2014, some Members considered that the UGL payments to Mr LEUNG were "illicit kickbacks", in return for his support of UGL's acquisition of DTZ. UGL's payment to Mr LEUNG was alleged to have negative implications on the purchase price of DTZ, which were "grossly unfair to the small shareholders of DTZ". As Mr LEUNG had agreed to provide such assistance as UGL might reasonably require, this also prompted a concern whether he had engaged in a "part-time job" during his office as the CE. However, some other Members considered that the agreement between Mr LEUNG and UGL was just a "common commercial arrangement" for protecting the acquirer's interests in mergers and acquisitions. Some Members were of the view that the UGL payment was a "golden handshake" package for "non-compete, non-poach" requirements.

4.4 At the Council meeting of 5 November 2014, a Member pointed out that payments under non-compete, non-poach arrangements were usually stated in the main merger and acquisition contract for endorsement by the board of directors of both buyer and seller sides, rather than in a private agreement.²⁵

Potential implications for conflict of interests

4.5 At the Council meeting of 29 October 2014, a Member commented that the UGL payments were made after Mr LEUNG had taken office of the CE, leading to conflict of interests of the CE. However, some Members noted that UGL had not requested Mr LEUNG to undertake any task whatsoever on its behalf after the agreement, nor had Mr LEUNG offered to perform any such task. However, at the subsequent Council meeting, some Members argued that refraining from taking any actions could also constitute a form of assistance to UGL. By making reference to the Prevention of Bribery Ordinance (Cap. 201), forbearing to do an act after accepting advantages is itself a kind of service.²⁶

²⁵ In the case of UGL and Mr LEUNG, it was only signed by the UGL's Chief Executive Officer and Mr LEUNG himself. So far there was no direct and publicly available evidence showing that the deal had been endorsed by the board of directors of both parties. See Official Records of Proceedings of the Legislative Council (2014a) 5 November.

²⁶ For instance, "protection money" and "hush money" are intended to solicit advantages in return for refraining from doing something, or for turning a blind eye to something. See Official Records of Proceedings of the Legislative Council (2014b) 6 November.

4.6 According to the Government, Mr LEUNG had set up an offshore company Wintrack Worldwide (BVI) and its subsidiaries ("Wintrack") to hold the shares of a foreign branch of DTZ, and then transferred all his shares to a trust where the trustee is a professional accountant.²⁷ Mr LEUNG stated that the business operation of the foreign branch of DTZ did not "touch upon Hong Kong and the Mainland". Nevertheless, some Members had suspicions that Mr LEUNG had not exercised the sale option with regard to his stake in DTZ Japan Ltd. Given that one of the important clients of DTZ Japan Ltd was also the major shareholder of a television company in Hong Kong, this might lead to concerns over conflict of interests when the CE made decision on applications for domestic free television programme service licences.²⁸

4.7 It was subsequently revealed from a media report in January 2017 that ownership of DTZ Japan Ltd had changed by end-2015, after UGL sold the entire business of DTZ to a consortium in November 2014.²⁹ According to the report, DTZ UK Bidco Limited, a subsidiary of the consortium, held 100% stake of DTZ Japan Ltd as at 31 December 2015, although the exact date of stake transaction was not known.³⁰ This suggested that Mr LEUNG might have exercised the put option in the sale of his stake in DTZ Japan Ltd during the period 2012-2015, in accordance with clause (c) of paragraph 2.4 discussed above. At this juncture, there are no official statements from Mr LEUNG, the consortium and UGL to respond to the above media report.

Declaration of interests in the office of CE and President of ExCo

4.8 In relation to a question raised by a Member at the Council meeting of 29 October 2014 and the reply of the Chief Secretary for Administration, the following points can be made:

- (a) **Requirements of declaration by CE:** Pursuant to Article 47(2) of the Basic Law, "[t]he Chief Executive, on assuming office, shall declare his or her assets to the Chief Justice of the Court of Final

²⁷ On 11 August 2012, the Chief Executive's Office issued a statement in response to media enquiries, which pointed out that Mr Leung held 99.9% shareholding of Wintrack while it was solely for holding the shares of a foreign branch of DTZ. See GovHK (2012a).

²⁸ See Official Records of Proceedings of the Legislative Council (2014a) 5 November.

²⁹ On 6 November 2014, UGL sold the entire business of DTZ to a private equity consortium, comprising TPG Capital, PAG Asia Capital and Ontario Teachers' Pension Plan at a price of A\$1.215 billion (HK\$8.5 billion). See UGL (2014b) and DTZ UK Bidco Limited (2015).

³⁰ See 眾新聞 (2017).

Appeal of the Hong Kong Special Administrative Region. This declaration shall be put on record".

The Chief Secretary for Administration confirmed that Mr LEUNG had made such declaration to the Chief Justice of the Court of Final Appeal on assuming office. She elaborated that the term "assets" was not specifically defined under the Basic Law and the contents of relevant declaration were confidential.³¹

Despite the explanation of the Government, there was a view that the UGL payments were a sort of "accounts receivable" (i.e. money owed for products and services provided on credit) under the general accounting principle and should be counted as "money assets".³²

- (b) **Requirements of declaration by ExCo Members:** As President of ExCo, the CE has to observe the relevant provisions set out in "System of Declaration of Interests by Members of the Executive Council". In particular, the CE has to make regular declarations of registrable and confidential interests as well as ad hoc declarations of interests in individual items discussed by ExCo (**Appendix III**).³³

The Chief Secretary for Administration said that the CE had declared his registrable interests annually for public inspection. He had also made declarations on his financial interests annually on a confidential basis deposited with the Clerk to ExCo.

- (c) **Need for declaration of UGL payments:** More specifically on the UGL payments, the Chief Secretary for Administration pointed out that "the agreed payment arose from Mr LEUNG's resignation from DTZ, not any future service to be provided by him". Thus Mr LEUNG was not required to declare the resignation agreement. In terms of timing, both his resignation from DTZ and conclusion of the agreement with UGL took place

³¹ See GovHK (2014a).

³² See Official Records of Proceedings of the Legislative Council (2014a) 5 November.

³³ Broadly speaking, the registrable interests comprise: (a) remunerated directorships of public or private companies; (b) remunerated employments, offices, trades, profession, etc.; (c) land and property owned (self-owned or held in the name of the ExCo member's family members or companies); (d) companies (both listed and unlisted ones) which the ExCo member holds more than 1% of shares; (e) membership of boards, committees and other organisations; (f) financial sponsorships and overseas sponsored visits; and (g) gifts worth over HK\$2,000 received.

before he was elected as the CE, and at the material time, he had already resigned from ExCo. Coupled with the fact that he had not provided any service to UGL after signing the resignation agreement, Mr LEUNG was not required to make declaration of the UGL payments.³⁴

Taxation implications

4.9 As to whether the UGL payments are subject to tax payments in Hong Kong, according to the Government, Mr LEUNG had made the tax payment for the cash bonus of £1.5 million (HK\$18.7 million), but not the formal terms of payment of £4 million (HK\$50 million).³⁵ At the Council meeting of 20 November 2014, a Member raised a question that the UGL payments involved services to be provided in Hong Kong and thus should have taxation implications. In reply to this question, the Secretary for Financial Services and Treasury made the following points:

- (a) **Salaries tax:** According to section 8 of the Inland Revenue Ordinance (Cap. 112) ("IRO"), salaries tax is chargeable if the income of an individual from any office or employment or any pension arising in or derived from Hong Kong. In assessing whether an income is chargeable to tax, the assessor has to consider "all details of each individual case", including territorial source of the employment and the nature of the income concerned.³⁶
- (b) **Profits tax:** According to section 14 of IRO, profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of the assessable profits arising in or derived from Hong Kong from the aforesaid trade, profession or business. However, profits arising from the sale of capital assets are excluded. In considering the tax implications of profits earned from the sale of the shares of an overseas company, the assessor has to consider the locality and

³⁴ See GovHK (2014a).

³⁵ See Official Records of Proceedings of the Legislative Council (2014b) 6 November.

³⁶ Generally speaking, salaries, wages and director's fees, commissions, bonuses and leave pay are chargeable income. As regards other types of income, their chargeability to tax can only be assessed on the basis of the facts involved. The assessor has to examine all details of the case before making the assessment. See GovHK (2014b).

nature of profits concerned. They are chargeable to tax if they are sourced from Hong Kong and are of revenue nature. However, if the profits are of capital nature, they are not subject to tax as Hong Kong does not charge capital gains tax.³⁷

- (c) **Taxation implications of UGL payments:** The Inland Revenue Department cannot comment or disclose further information on individual cases nor details of its assessment in any cases under the official secrecy provision under section 4 of IRO.

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³⁷ See GovHK (2014b).

Chronology of events

Date	Key developments
4 Jul 2011	<ul style="list-style-type: none"> • UGL, an Australian engineering company, was reported as one of the rival bidders of DTZ Holdings plc ("DTZ"). An earlier privatization bid by Saint George Participants ("SGP"), which owned 53.4% stake of DTZ, did not materialize. • DTZ was a property agency company listed in London, with a history of 227 years. It had been under financial stress after suffering cumulative loss of £106.7 million (HK\$1.3 billion) before tax during 2009-2011. Reportedly, its market value fell to £120 million (HK\$1.5 billion), from £500 million (HK\$7.2 billion) in 2006. • Mr LEUNG was the Chief Executive Officer of DTZ North Asia. He had a stake of about 3% in DTZ at end-2010.
3 Oct 2011	<ul style="list-style-type: none"> • Mr LEUNG resigned from the Executive Council.
17 Oct 2011	<ul style="list-style-type: none"> • Royal Bank of Scotland ("RBS"), the lead creditor of DTZ, engaged Ernst and Young ("EY") to provide strategic advice on the options with regard to the debt of £86.5 million (HK\$1.1 billion) owed by DTZ. DTZ would face a string of debt repayments of £110 million (HK\$1.4 billion) in 2012-2013.
19 Oct 2011	<ul style="list-style-type: none"> • DTZ announced the commencement of a formal sale process with deadline for receipt of non-binding bids set at 4 November 2011.
4 Nov 2011	<ul style="list-style-type: none"> • DTZ received two offers relating to its sale, one from UGL and another from an unnamed party.
7 Nov 2011	<ul style="list-style-type: none"> • DTZ made an announcement to the stock market that there was minimal value, if any, that could be attributed to the ordinary shares of DTZ.
8 Nov 2011	<ul style="list-style-type: none"> • UGL was formally named as the "preferred bidder" in the rescue takeover of DTZ as voted by DTZ directors. RBS was prepared to use pre-pack administration because "it provided the most likely opportunity of delivering the best outcome for creditors".
24 Nov 2011	<ul style="list-style-type: none"> • DTZ announced that Mr LEUNG "will step down from the DTZ Board with immediate effect".
27 Nov 2011	<ul style="list-style-type: none"> • Mr LEUNG declared his candidacy for election for the CE of Hong Kong scheduled for March 2012.

Chronology of events

Date	Key developments
2 Dec 2011	<ul style="list-style-type: none"> • UGL entered into an agreement with Mr LEUNG, promising to (a) pay him a cash bonus of £1.5 million (HK\$18.7 million) previously promised by DTZ upon completion of sale of DTZ; (b) pay him the payment of £4 million (HK\$50 million) in two tranches upon completion of the transaction, subject to certain conditions such as Mr LEUNG's retention of the senior management team and "non-compete and non-solicit" arrangements in the following 24 months after the takeover; and (c) offer him an immediate sale option of DTZ Japan Ltd at a payment of £200,000 (HK\$2.5 million) plus 30% of post-tax net profits of DTZ Japan Ltd for three financial years during 2012-2014; or a put option to sell his share within seven years from the completion of UGL's acquisition of DTZ at a price equivalent to 30% times seven of the earnings before interest, taxes, depreciation and amortization ("EBITDA") of DTZ Japan Ltd, where EBITDA is the average of three in seven financial years before he activates the put option, subject to a minimum payment of £200,000 (HK\$2.5 million). • In the agreement, there was a commitment clause requiring Mr LEUNG's assistance in "promotion of the UGL Group and the DTZ Group ... from time to time". Mr LEUNG added a handwritten note "provided that such assistance does not create any conflict of interest" next to the clause. • Reportedly, Tianjin Innovative Financial Investment Company ("TIFI") emerged as a rival bidder for DTZ. TIFI was reported to have submitted a better offer which valued DTZ at about £100 million (HK\$1.25 billion) more than UGL. According to EY, this rival bid was rejected by DTZ because there was "insufficient time" to implement the proposal. Also, it posed "too great a risk" amidst liquidity crisis as UGL could walk away from the deal. In addition, it did not have the support of RBS, the lead creditor of DTZ.
4 Dec 2011	<ul style="list-style-type: none"> • DTZ was formally sold to UGL through the pre-pack sale mechanism for £77.5 million (HK\$967.2 million), which was used to repay the debt owed to RBS, although the proceedings could meet only 70% of the total debt owed to the Bank. As the value of ordinary shares reduced to zero under the pre-pack sale mechanism, shareholders of DTZ got nothing from the deal. • Mr LEUNG should have received from UGL the cash bonus of £1.5 million (HK\$18.7 million) promised earlier by DTZ. Mr LEUNG's resignation from DTZ's board formally took effect according to the Government's statement.
5 Dec 2011	<ul style="list-style-type: none"> • DTZ was also delisted from the London Stock Exchange in the morning.
25 Mar 2012	<ul style="list-style-type: none"> • Mr LEUNG was elected as the fourth CE of Hong Kong.

Chronology of events

Date	Key developments
1 Jul 2012	<ul style="list-style-type: none"> Mr LEUNG was sworn in as the CE of Hong Kong.
11 Aug 2012	<ul style="list-style-type: none"> In response to a press report that Mr LEUNG held 30% stake in DTZ Japan Ltd, the CE Office stated that Mr LEUNG held 99.9% stake of Wintrack Worldwide Ltd (BVI) and its subsidiaries ("Wintrack"), which did not carry out any business operation.
13 Aug 2012	<ul style="list-style-type: none"> The CE Office further elaborated that Wintrack held the shares of a foreign branch of DTZ but "the business operation of that foreign branch does not touch upon Hong Kong and the Mainland". Yet, the details of the "foreign branch of DTZ" were not provided by the CE Office.
Dec 2012	<ul style="list-style-type: none"> Mr LEUNG should have received the first tranche of payment valued at £2 million (HK\$25 million) from UGL. Actual payment mechanism was not reported in the media.
Dec 2013	<ul style="list-style-type: none"> Mr LEUNG should have received the second tranche of payment valued at £2 million (HK\$25 million) from UGL. Actual payment mechanism was not reported in the media.
6 Oct 2014	<ul style="list-style-type: none"> An Australian media agency, Fairfax Media, wrote to the CE Office to lodge an enquiry about the agreement between Mr LEUNG and UGL. Mr LEUNG responded by issuing a legal letter to the Fairfax Media, reserving his rights to take legal action against Fairfax Media if the media report was published.
8 Oct 2014	<ul style="list-style-type: none"> For the first time, details of the agreement were made known to the public. Fairfax Media published an exclusive investigation report entitled "Hong Kong chief executive CY Leung faces questions over secret \$7 m payout from Australian firm" in The Sydney Morning Herald and The Age. It was followed closely by the media in Hong Kong. The CE Office issued a statement to claim that the payments arose from Mr LEUNG's resignation from DTZ, not for future services to be provided by him.

Chronology of events

Date	Key developments
9 Oct 2014	<ul style="list-style-type: none"> • UGL issued a press release and claimed that the payment to Mr LEUNG was in relation to "non-compete and non-poach and DTZ senior management retention". It was "common confidential commercial agreements when a business is being acquired". UGL also stated that it had not requested Mr LEUNG to provide any service between 2011 and 2013. • In response to Fairfax Media's enquiries, UGL stated that "RBS and their advisers [EY] were aware of the arrangements". EY supplemented one day later that "it was natural for UGL to enter into a non-poaching arrangement to secure key personnel". • The Neo Democrats lodged a complaint about the UGL incident with the Independent Commission Against Corruption ("ICAC"). The Secretary for Justice said he had delegated full responsibility to Director of Public Prosecutions to avoid any perception of bias.
14 Oct 2014	<ul style="list-style-type: none"> • Fairfax Media made a follow-up report that, on the same day when Mr LEUNG signed the agreement with UGL (i.e. 2 December 2011), another bidder offered £100 million (HK\$1.25 billion) more to acquire DTZ. However, that higher bid was rejected. • Mr LEUNG responded to media that the ultimate sale of DTZ to UGL was a collective decision made by the board.
17 Oct 2014	<ul style="list-style-type: none"> • At the House Committee meeting, three Members put forward a proposal for the House Committee Chairman to move a motion under the Legislative Council (Powers and Privileges) Ordinance (Cap. 382) in Council to seek the Council's authorization for the appointment of a select committee to inquire into the alleged receipt of secret payments by Mr LEUNG from an Australian firm and related issues. After deliberations, 22 Members voted for and 38 Members voted against the proposal. The proposal was not supported.
29 Oct 2014	<ul style="list-style-type: none"> • In reply to a question raised by a Member at the Council meeting, the Chief Secretary for Administration said that Mr LEUNG had already declared his assets to the Chief Justice when he took office, in accordance with the Basic Law. She added that "under the current system of declaration of interests by members of the Executive Council, there is no requirement for Mr LEUNG to declare the said resignation agreement", as both his resignation from DTZ and the conclusion of the agreement took place before he was elected as the CE, and at the material time, he had already resigned from ExCo.

Chronology of events

Date	Key developments
31 Oct 2014	<ul style="list-style-type: none"> At the House Committee meeting, two Members put forward a proposal for the House Committee Chairman to move a motion under the Legislative Council (Powers and Privileges) Ordinance (Cap. 382) in Council to seek the Council's authorization for the appointment of a select committee to inquire into whether Mr LEUNG, the Chief Executive, had contravened Article 47 of the Basic Law and issues relating to possible conflict of interests arising from Mr LEUNG's alleged holding of shares in DTZ Japan Ltd. After deliberations, 20 Members voted for and 31 Members voted against the proposal. The proposal was not supported.
5 Nov 2014	<ul style="list-style-type: none"> At the Council meeting, a Member moved a motion under the Legislative Council (Powers and Privileges) Ordinance (Cap. 382) to appoint a select committee to inquire into the allegation of Mr LEUNG, as the CE, receiving the benefits of UGL. After deliberations, six Members voted for, 21 Members voted against and three Members abstained in the functional constituencies, while there was a tie vote of 15 to 15 in the geographical constituencies. The motion was negated.
6 Nov 2014	<ul style="list-style-type: none"> According to the Chief Secretary for Administration, Mr LEUNG had sought professional advice from a practising accountant and noted that he was not required to pay salaries tax for the £4 million (HK\$50 million) payments received from UGL under the Inland Revenue Ordinance (Cap. 112). UGL completed the sale of the entire business of DTZ for A\$1.215 billion (HK\$8.5 billion) to a private equity consortium, comprising TPG Capital, PAG Asia Capital and Ontario Teachers' Pension Plan ("TPG and PAG Consortium").
20 Nov 2014	<ul style="list-style-type: none"> At the Council meeting, a Member raised a question as to whether the payment in the agreement were subject to salaries tax and profits tax in Hong Kong, given that the agreement between Mr LEUNG and UGL and the provision of services were carried out in Hong Kong. In reply, the Secretary for Financial Services and the Treasury said that all details of each individual case would be examined when considering whether the relevant income and profits were chargeable to tax.

Chronology of events

Date	Key developments
20 Nov 2014 (cont'd)	<ul style="list-style-type: none"> At the same Council meeting, a Member moved a motion under the Legislative Council (Powers and Privileges) Ordinance (Cap. 382) to appoint a select committee to inquire into whether Mr LEUNG, the CE, had contravened Article 47 of the Basic Law; whether he had accurately declared his holding of shares in DTZ Japan to the Chief Justice when he assumed office; and whether the gains from his shares had constituted any conflict of interest with his performance of the duties of the CE, including but not limited to not issuing a domestic free television programme service licence to Hong Kong Television Network Limited, and other related issues. After deliberations, four Members voted for and 21 Members voted against the motion in the functional constituencies, while 16 Members were in favour of and 12 against it in the geographical constituencies. The motion was negated.
15 Jan 2015	<ul style="list-style-type: none"> In the Chief Executive's Question and Answer Session, a Member raised a question concerning the provision that Mr LEUNG needed to assist DTZ "as an adviser and referee" after the acquisition. Mr LEUNG reiterated that it was a normal resignation and post-resignation non-compete agreement.
21 Jan 2015	<ul style="list-style-type: none"> At the Council meeting, a Member raised a question, among other things, as to whether the Government would consider establishing a system, in addition to Article 47 of the Basic Law, requiring the CE to declare his or her assets on assuming office and make such declarations open for public monitoring. In reply, the Secretary for Constitutional and Mainland Affairs said that the Government had "no plan to establish a separate system".
22 Oct 2015	<ul style="list-style-type: none"> In the Chief Executive's Question and Answer Session, a Member raised a question as to whether the alleged failure to declare his interests in the receipt of £4 million (HK\$50 million) to the Chief Justice and to the Executive Council would have implications for ICAC. Mr LEUNG replied that he had "explained on various occasions in the past", and thus, "had nothing to add now".

Chronology of events

Date	Key developments
5 Nov 2015	<ul style="list-style-type: none"> At the Council meeting, a Member moved a motion with no legislative effect on extending the application of sections 3 and 8 of the Prevention of Bribery Ordinance (Cap. 201) to the Chief Executive. The motion was negated.
31 Dec 2015	<ul style="list-style-type: none"> According to its Directors' report and financial statements, DTZ UK Bidco Limited, a subsidiary of the owner of DTZ (i.e. the TPG and PAG Consortium), held 100% stake of DTZ Japan Ltd.
7 Jul 2016	<ul style="list-style-type: none"> Ms Rebecca LI Bo-lan, the acting head of the Operations Department of ICAC since 18 July 2015, resigned after the cessation of the acting appointment. It was speculated in some media reports that cessation of acting appointment might be related to the controversy surrounding the UGL Incident, as Ms LI was reportedly the principal investigator over the UGL case in ICAC.
2 Nov 2016	<ul style="list-style-type: none"> At the Council meeting, two Members jointly presented a petition in connection with Mr LEUNG receiving the benefits of UGL. The petition was supported by 28 Members.
11 Jan 2017	<ul style="list-style-type: none"> At the Council meeting, a Member raised a question as to whether public officers might continue to implement agreements for provision of services to commercial organizations which they entered into before taking office, using the UGL Incident as an illustration. In reply, the Secretary for Constitutional and Mainland Affairs said that public officers were governed by their respective systems for declaration of interests. They were all required to abide by the relevant requirements.
22 Feb 2017	<ul style="list-style-type: none"> In response to a media report, the CE Office issued a public statement claiming that, among other things, (a) Mr LEUNG had formally resigned from the position of DTZ director on 24 November 2011, right before signing the agreement with UGL; (b) all parties involved in the acquisition of DTZ, including the then Chairman of DTZ, were aware of the agreement; and (c) Mr LEUNG reserved all rights to take further actions in response to the media report.

Note: Shaded entries refer to those actions of Mr LEUNG in the official capacity of the Government unrelated to the UGL Incident.



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Level 10, 40 Miller Street
North Sydney NSW 2060
Australia
Telephone: +61 2 9492 8888
Facsimile: +61 2 9492 8844

www.ugllimited.com

2 December 2011

Dear CY,

Firstly, thank you for your time and effort to help UGL better understand the business opportunity in DTZ and in China and Hong Kong in particular. It has been a pleasure getting to know you during this time and I look forward to continuing our relationship into the future. Your achievements in Hong Kong and China have been outstanding. We would have been pleased if you could have continued building on those achievements with UGL ownership and should that opportunity arise we would be pleased to discuss that with you.

Further to our various discussions, I am pleased to confirm the details of our offer to you and confirmation of UGL compliance with prior agreements you have with DTZ.

Firstly, we understand that DTZ has agreed to pay you a cash bonus of £1,500,000 for the period from 1 May 2010 through to the completion date closing out the historical issues around bonuses. We understand that this payment should be made to you prior to the completion date and so is not reflected in the attached schedule, however if the mechanics prove to be delayed for any reason and the transaction terms with UGL allows for it, UGL will ensure that payment is made.

The formal terms of our agreement are set out in the attached schedule, however, by way of overview, we will pay you £4,000,000 over a two year period commencing from the completion of the transaction. This amount will be paid in two tranches over the two year period and 50% is subject to the retention of your senior management team (to be nominated by UGL), as well as some other conditions, including a non-compete and non-solicit, which are outlined in the attached and the remaining 50% is subject to the same conditions other than the retention requirement.

With respect to the sale of your shares in DTZ Japan, we would like to make this optional for you as UGL has no particular desire to purchase the balance of this business at this time as it is very difficult to assign value to a loss making business.

We are prepared to offer you either of three options in the interests of getting this matter resolved in the next two days.

Retain your shareholding indefinitely

Should you so wish – you could retain your shareholding indefinitely as we understand your view is that this business has significant future value not yet being realised.

Deferred sale

You could nominate to sell your shares to us at a later time, on an agreed basis based on earnings multiples of audited results. This could be nominated when and if it's profitable and consequently of real value. We understand the investment you've made into Japan but at this point that investment is yet to realise any significant value that makes sense for UGL to acquire. We also note Japan's significant loss making status which would be to our account – while hoping it will improve in the future.

A handwritten signature in black ink, appearing to be 'W'. It is located at the bottom right of the page, above the page number.

Sale sharing upside

If you wish to sell your shares in Japan, and assuming UGL proceeds with the purchase of the assets of DTZ Holdings plc, then UGL will pay you £200,000 on close plus 30% of the net audited profit after taxation of DTZ Japan for the next three years.

Should you prefer this option, we will send you the legal documentation to effect this sale.

I trust that this offer is acceptable (pending your choice on Japan) and would be grateful if you could sign the enclosed schedule and return it to me by no later than our deadline for this transaction close – which is 11PM Sydney time on 2 December 2011. If you wish to pursue the sale share option, please let me know as soon as possible so that this documentation can also be executed within this deadline.

With kind regards,

Richard Leupen
Managing Director & CEO
UGL Limited



SCHEDULE

This schedule sets out the formal terms of the agreement reached between Leung Chun Ying (*you*) and UGL Limited (*UGL*). The terms set out here will only take effect if the acquisition by United Group Europe Limited (a member of the UGL Group of Companies) of various subsidiaries of DTZ Holdings plc, including DDTL (the *DTZ Group*), is completed and will automatically terminate and be of no effect if you are re-employed by a member of the DTZ Group or employed by a member of the UGL Group before 1 August 2012.

Annual payments

Subject to your compliance with the terms of this schedule, UGL will procure the following payments to you in respect of the following periods:

Period	Amount
On first anniversary of Completion	(a) £1,000,000. (b) £1,000,000 (subject to reduction as calculated below).
On second anniversary of Completion	(a) £1,000,000. (b) £1,000,000 (subject to reduction as calculated below).

Each of the above payments referred to in paragraph (b) will be reduced by 5% for each member of your senior management team (to be nominated by UGL) who is no longer employed or engaged by the DTZ Group (and not under notice of termination) on the last day of the relevant period and has been engaged or employed by a competitor of the DTZ Group. Any individuals whose employment has been terminated by the DTZ Group for a reason other than misconduct or poor performance shall be treated as still employed by the DTZ Group.

You will be paid within 15 business days of the end of the period to which the payment relates subject to any required deductions.

Payment for shares in DTZ Japan (sale option)

If you choose to sell all of your shares in the DTZ Japan business then, in return for you executing (or procuring the execution of, if applicable) the documentation to transfer your entire interest in DTZ Japan to United Group Europe Limited or any party nominated by UGL and doing all other things necessary or desirable to complete the transfer of that interest with effect from Completion, UGL will procure payment to you of:

- £200,000 (GBP two hundred thousand) payable within 15 business days of the transfer of the interest; and
- 30% of the net profit after taxation (*NPAT*) of DTZ Japan for each of the financial years ending 30 April 2012, 2013, and 2014. NPAT will be determined by reference to the audited accounts and any amounts payable will be paid within 15 business days of signature of the audited accounts.

Payment for shares in DTZ Japan (Deferred Sale Option)

If you choose to defer the sale of all of your shares in the DTZ Japan business then:

- You will not sell your shares to any party other than a party nominated by UGL;

- we will allow you a put option for the sale of those shares for up to 7 years from Completion;
- we will not require you to make any additional financial contribution to DTZ Japan for 7 years from Completion
- upon activation of the put option and in return for you executing (or procuring the execution of, if applicable) all documentation to transfer your entire interest in DTZ Japan to the party nominated by UGL and doing all other things necessary or desirable to complete the transfer of that interest with effect from the date of sale agreed between UGL and you, UGL will
- procure payment to you of:
 - 30% of 7 x EBITDA of Japan DTZ for the EBITDA averaged over the 3 complete financial years immediately prior to the date you activate the put option with a minimum total payment to you of GBP 200,000 (two hundred thousand pounds);
 - EBITDA will be calculated from the certified audited accounts.

Licences, Approvals etc

You have confirmed that you do not hold (directly or indirectly) any licences, assets, agreements or approvals (**Licences**) which are relied upon by the DTZ Group for the purposes of performing its business in any jurisdiction (whether Japan, AsiaPacific or otherwise). You have also undertaken not to challenge the ownership by DTZ Group of any Licences.

In the event that you do in fact hold a Licence, you agree that you will hold that Licence on trust for the DTZ Group and do all things necessary or desirable to transfer the Licence to UGL or such other person as UGL may specify. You will not be entitled to any additional payment for transferring any Licences.

Other Shareholdings

In the event that you hold any other shares or interests in any other entity in the DTZ Group including without limitation:

- DTZ Debenham Tie Leung Limited (Hong Kong);
- DTZ Debenham Tie Leung Property Management Limited (Hong Kong);
- Brilliant Time Investment Limited (Hong Kong); and
- DTZ Debenham Tie Leung International Property Advisors (Shanghai) Co., Ltd,

you will immediately transfer and do all things necessary or desirable to transfer those shares and interests to United Group Europe Limited or any other person nominated by UGL. You will not be entitled to any additional payment for transferring these shares or interests.

Directorships

In the event that you hold any 'Office', 'Directorship' or similar position in any DTZ Group company you will immediately do all things necessary to resign those positions if you are requested to by UGL or any party nominated by UGL.

Restrictions on your activities following the Termination Date

You covenant with UGL (for itself and as trustee and agent for each other member of the UGL Group and the DTZ Group) that you shall not, whether directly or indirectly, on your own behalf or on behalf of or in conjunction with any other person, firm, company or other entity: -



- for the period of twenty four months following the Termination Date, solicit or entice away or endeavour to solicit or entice away from any member of the DTZ Group or the UGL Group any person, firm, company or other entity who is, or was, in the twelve months immediately prior to the Termination Date, a client of any member of the DTZ Group or the UGL Group, with whom you had business dealings during the course of your employment with DDTL;
- for the period of twenty four months following the Termination Date, have any business dealings with any person, firm, company or other entity who is, or was, in the twelve months immediately prior to the Termination Date, a client of any member of the DTZ Group or the UGL Group with whom you had business dealings during the course of your employment with DDTL;
- for the period of twenty four months following the Termination Date, solicit or entice away or endeavour to solicit or entice away any individual who is employed or engaged as a senior employee by any member of the DTZ Group or the UGL Group and with whom you had business dealings during the course of your employment with DDTL;
- for the period of twenty four months following the Termination Date, carry on, set up, be employed, engaged or interested in a business anywhere in Hong Kong, China, Japan, Taiwan, Singapore, Indonesia, Malaysia, Vietnam or India which is or is about to be in competition with the business of any member of the DTZ Group or the UGL Group as at the Termination Date with which you were actively involved during the twelve months immediately prior to the Termination Date.

Nothing in this letter is intended to prevent you seeking to do or doing business that is not in direct or indirect competition with the business of any member of the DTZ Group or the UGL Group.

Additional Commitments

In addition to the above, you also agree that you will:

- provide such assistance in the promotion of the UGL Group and the DTZ Group as UGL may reasonably require, including but not limited to acting as a referee and adviser from time to time; and
- support the acquisition of the DTZ Group by UGL and not make any statements (whether public or private) criticising the purchase, disparaging any member of the DTZ Group or the UGL Group or any of their officers or employees;

Miscellaneous

Capitalised terms in this schedule which are otherwise undefined shall have the meaning given to them below:

- **Completion** means the date that the acquisition by UGL of various subsidiaries of DTZ Holdings plc is completed;
- **DDTL** means DTZ Debenham Tie Leung Limited;
- **Termination Date** means the date that your employment with DDTL ends; and
- **UGL Group** means UGL Limited and its subsidiaries, associates and affiliates.

The agreement set out in this letter shall be governed by and construed in accordance with the laws of England and Wales.



EXECUTED by Richard Leupen
on behalf of UGL:

Executed as a deed and delivered by:

Leung Chun Ying:



Date: 2 December 2011 ↖

In the presence of:

Name: MAK PUI-TIN, Ivy

Occupation: SECRETARY

Address:



System of Declaration of Interests by Members of the Executive Council

Purpose

This note outlines the system of declaration of interests by Members of the Executive Council (ExCo).

Declaration Requirements

2. To ensure that ExCo Members offer unbiased and impartial advice to the Chief Executive (CE), ExCo has adopted a rigorous system of declaration of interests. The system mainly comprises two parts.

(A) Regular Declarations

3. On first appointment and annually thereafter, each ExCo Member should declare their personal interests by completing the “Annual Declaration of Registrable Interests of Members of the Executive Council” (“the Register”) (at Annex A). Registrable interests include the following -

- (a) remunerated directorships in any public or private company;
- (b) remunerated employments, offices, trades, profession, etc;
- (c) if the interests at (a) or (b) above include provision to clients of personal services which arise out of or relate in any manner to Members’ position as ExCo Members, the names of clients;
- (d) land and property owned by Members in or outside Hong Kong, including those which are held in the name of Members’ spouses, children or other persons or companies but are actually owned by Members; or those which are not owned by Members but in which Members have a beneficial interest;

- 2 -

- (e) names of companies or bodies in which Members have, either themselves or with or on behalf of their spouses or children, a beneficial interest in shareholdings of a nominal value greater than 1% of the issued share capital; and
- (f) membership of boards, committees or other organizations.

4. Declared interests of each ExCo Member will be uploaded to the ExCo website for public inspection. ExCo Members should notify the Clerk to ExCo of changes to any items of registrable interest within 14 days of their occurrence. For changes to interests in land and property outside Hong Kong, the Clerk to ExCo should be notified within 28 days of their occurrence.

5. In addition, on first appointment and annually thereafter, ExCo Members should declare to CE on a confidential basis and in greater detail their financial interests, including shareholdings (irrespective of the amount) in companies as well as futures and options contracts, held by themselves or jointly with their spouses, children or other close relatives. Any changes to the interests declared as well as any currency transactions involving the Hong Kong Dollar amounting to more than HK\$200,000 should be notified to the Clerk to ExCo within two trading days after their occurrence.

6. ExCo Members should declare within 14 days the acceptance by them (or their spouses) of any financial sponsorship, sponsored overseas visits, or gifts worth HK\$2,000 or more in relation to their ExCo membership, by completing the “Declaration of Acceptance of Sponsorships and Gifts” (at [Annex B](#)). The declarations are also uploaded to the ExCo website for public inspection.

(B) Declarations in respect of Individual Items Discussed by ExCo

7. It is the personal responsibility of ExCo Members to examine whether they have an interest in any item discussed by ExCo, and declare it before the ExCo discussion. Based on the interest declared, CE will assess whether ExCo Members may have a potential or real conflict of interests in the item considered by ExCo. CE will decide whether Members should participate in or withdraw from the discussion of that item.

- 3 -

Nature of Interests Declared

8. Given the wide range of matters submitted to ExCo, ExCo Members may encounter subjects in which they could reasonably be construed to have an interest. What is important is that the interest be recognized, its significance weighed and due account taken of it.

(A) Exclusionary Interests

9. Interests can be divided broadly into two categories - those which are so direct and significant that they require exclusion of an ExCo Member from the deliberations of ExCo, and those which are not.

10. The following, though not exhaustive, illustrate direct and significant interests –

- (a) significant personal pecuniary interests which may be materially affected by the decision of ExCo;
- (b) ExCo Members' directorships, partnerships or advisory positions in companies which may be materially affected by the decision of ExCo;
- (c) that an ExCo Member, in his professional capacity, has advised or represented any person or body in connection with the item to be discussed; and
- (d) other close or substantial interests, which if known publicly will lead reasonable members of the public to think that an ExCo Member's advice may have been motivated by personal interests or involvement rather than by the duty to give impartial advice.

The above are regarded as exclusionary interests and CE will normally ask the ExCo Member concerned to withdraw from discussion of an item in which the Member has such an interest. The relevant ExCo memorandum and the minutes will be withheld from the Member. The Member's declaration and withdrawal from the discussion of the item at ExCo are recorded in the minutes.

- 4 -

(B) Declaratory Interests

11. Interests other than exclusionary interests described above should be declared where they might be thought likely to incline an ExCo Member towards a particular stance on the item under discussion. In these cases, however, the Member concerned will normally still receive the ExCo memorandum and be allowed to take part in the discussion.

(C) Interests to be Noted

12. Membership of boards and committees such as the University Grants Committee, University Councils, or other statutory and non-statutory advisory boards, committees, and tribunals is not strictly speaking a declaratory interest. However, such positions are normally made known and noted.

Procedures for Ascertaining and Handling Interests

13. As mentioned in paragraph 7 above, it is the personal responsibility of ExCo Members to identify and declare any interest in the context of a particular item discussed at ExCo. Meanwhile, the Administration has put in place a system to check potential conflict of interests, on the basis of ExCo Members' declared interests and other known information, as below -

- (a) The responsible bureau or department submitting an item to ExCo (which has access to the open declarations) and the Clerk to ExCo (who has access to both the open and confidential declarations) would, in exercising due diligence, examine whether any ExCo Member may have an interest in the subject matter (this is done by reference to the declarations of ExCo Members and any relevant information known to them);
- (b) Where available information shows that any ExCo Member may have an **exclusionary interest** in the matter, the Clerk to ExCo will, prior to the relevant ExCo meeting, seek CE's decision on whether the ExCo Member should be asked to withdraw from the ExCo discussion and whether the ExCo memorandum should be withheld from the ExCo Member. Upon CE's decision that the ExCo Member should so withdraw and the ExCo

- 5 -

memorandum should be so withheld, the Clerk to ExCo will convey to the ExCo Member CE's decision before the relevant ExCo meeting, and will withhold the issue of the ExCo memorandum to the ExCo Member. At the relevant ExCo meeting, the ExCo Member should withdraw from the discussion of the matter after declaring the exclusionary interest; and

- (c) Where available information shows that any ExCo Member may have a **declaratory interest** in the matter, the Clerk to ExCo will draw the ExCo Member's attention to the interest before the relevant ExCo meeting and invite him to consider declaring the interest at the meeting.

Breach of Declaration Requirements and Sanctions

14. ExCo Members are appointed by CE. If any Member contravenes the declaration system, CE will decide how the case should be handled. CE may, depending on the circumstances, take appropriate actions including issuing an advice, a warning, public reprimand, removing the Member from office, or taking legal actions.

15. Where there is an alleged breach of the declaration requirements, the ExCo Secretariat will conduct an initial enquiry to ascertain the facts. Where necessary, CE may direct the Chief Executive's Office and the ExCo Secretariat to conduct a full investigation.

The Chief Executive

16. CE is the President of ExCo. He observes the ExCo declaration system in respect of regular declarations of registrable and confidential interests as well as ad hoc declarations of interests in individual items discussed by ExCo.

17. The Administration has put in place a system to check potential conflict of interests on the part of CE, on the basis of his declared interests and other known information, as below -

- (a) The responsible bureau or department submitting an item to ExCo (which has access to the open declarations) and the Clerk

- 6 -

to ExCo (who has access to both the open and confidential declarations) would, in exercising due diligence, examine whether CE may have an interest in the subject matter to be submitted to ExCo (this is done by reference to CE's declarations and any information known to them); and

- (b) Where available information shows that CE may have an **exclusionary or declaratory interest** in the matter, the Clerk to ExCo will, prior to the relevant ExCo meeting, draw CE's attention to that interest for CE to consider whether the interest should be declared at the meeting and how the ExCo discussion should be handled.

The Chief Executive's Office
June 2012

Annex A

**Annual Declaration of Registrable Interests of
Members of the Executive Council**

Name of Member : _____

Registrable Interests

Contents

1. Remunerated directorships in any public or private company

[Notes:

- (a) “Remunerated directorships” include all directorships for which a fee, honorarium, allowance or other material benefit is payable.
- (b) Please give the name of the company, briefly stating the nature of the business of the company in each case.
- (c) Remunerated directorships of both Hong Kong companies and those outside Hong Kong are registrable.
- (d) Remunerated directorships through corporate directors are also registrable.
- (e) Where you are a remunerated director of a company, all subsidiary or associated directorships which you hold within the same group, whether remunerated or not, should also be registered.]

* Please provide information on separate sheets if necessary. Please sign on every such separate sheet.

Registrable Interests

Contents

2. Remunerated Employments, Offices, Trades, Profession, etc.

[Notes:

- (a) Indicate the name of the employment, office, trade, or profession.
- (b) An employment, office, trade or profession is “remunerated” where a salary, honorarium, allowance or other material benefit is payable.
- (c) “Remunerated offices” should include all “remunerated” public offices.
- (d) Members who have paid posts as consultants or advisers should indicate the nature of the consultancy in the register; for example, “management consultant”, “legal adviser”, etc.
- (e) All remunerated employments in Hong Kong and outside Hong Kong are registrable.]

3. Please indicate the names of clients if any of the above registrable interests includes provision to clients of personal services which arise out of or relate in any manner to your position as a Member of the Executive Council.

Registrable Interests

Contents

4. Land and property owned in Hong Kong or outside Hong Kong, including those for self-occupation. Land or property which are held in the name of Members' spouses, children or other persons or companies, but are actually owned by Members; or land or property which are not owned by Members, but in which Members have a beneficial interest ^[see footnotes (1) to (6)] (e.g. rental income), are all registrable. It is not necessary to provide detailed addresses of the land or property.

5. Name of Companies (both listed and unlisted ones) or other bodies in which the Member has, to his knowledge, either himself or with or on behalf of his spouse or children, a beneficial interest in shareholdings of a nominal value greater than 1% of the issued share capital.

6. Membership of Boards, Committees and other organisations which might be construed by members of the public as a declaratory interest - e.g. Hong Kong General Chamber of Commerce, Real Estate Developers Association, etc.

Date : _____

Signature : _____

Footnotes :

- (1) Interest in land or property held in the name of a company that is used solely for the purpose of holding an interest or interests in land or property (“property holding vehicle”) is registrable where a Member -
 - (a) controls the property holding vehicle (including where he controls the composition of the board of directors); or
 - (b) directly holds shares in the property holding vehicle, or indirectly holds shares in the property holding vehicle through a company or companies (“intermediary company”) all of which are used solely for the purpose of holding shares directly or indirectly in a property holding vehicle and an interest or interests in land or property, if any, irrespective of the percentage of shares held by the Member.
- (2) Interest in land or property held by a company other than a company mentioned in footnote (1) above or any other body including a Real Estate Investment Trust (REIT) or a Business Trust (collectively referred to in this footnote as “body”) is registrable where a Member directly or indirectly –
 - (a) controls such a body (including where he controls the composition of the board of directors or the trustees);
 - (b) is entitled to 33% or more of the voting power of such a body at general meetings; or
 - (c) owns 33% or more of the issued share capital or units of such a body.
- (3) To avoid doubt, where an interest in land or property is held by a property holding vehicle, and where any intermediary company involved is not used solely for the holding of an interest or interests in land or property, a Member still has to register his interest in the land or property if his control or interest in the intermediary company concerned meets the conditions set out in footnote (2) above.
- (4) Where a Member’s interest in land or property is that of a beneficiary under a trust other than a REIT or Business Trust, the interest as well as the land or property held by the trust are registrable where the Member has right or control over the trustee’s decision with regard to the acquisition or disposition of the said land or property or where the Member has the right to be informed of the particulars of land or property owned by the trust. In other cases, a Member is required only to register the existence of the trust.
- (5) Interests in land or property held through companies or trusts other than those specified in footnotes (1) to (4) above are not registrable.
- (6) A Member should consult the Secretariat of the Executive Council if he is in doubt as to whether an interest is registrable.

Annex B

To : Clerk to the Executive Council

Declaration of Acceptance of Sponsorships and Gifts

(A) Financial Sponsorships and Overseas Sponsored Visits

1. Have you or your spouse received any sponsorship, payment, or any material benefit or advantage from any person or organisation which in any way relates to your membership of the Council? If so, please give details such as the name and nature of the organisation.

2. Have you or your spouse made any overseas visits relating to or in any way arising out of your membership of the Council where the cost of the visit was not wholly borne by yourself or by public funds of Hong Kong? If so, please give details such as the purpose of the visit, the name of sponsors and the nature of interest received.

3. Have you or your spouse received any payments, or material benefits or advantages from or on behalf of any government outside Hong Kong, organisation or person which in any way relates to your membership of the Council? If so, please give details.

- 2 -

(B) Gifts (See notes overleaf)

Gifts worth over HK\$2,000 received by you should be declared as follows -

1. Item (Please specify the brand name)

2. Date received

3. Description of occasion
(e.g. an academic seminar, a prize giving ceremony)

4. Capacity
(e.g. officiating guest)

5. Treatment
(e.g. retained as souvenir, donated to a charity)

Signature : _____

Name of Member : _____

Date : _____

- 3 -

Note¹ Gifts received from a relative or received on a special occasion; or advantages which are available on equal terms to persons who are not ExCo Members need not be declared. "Relative" includes the spouse, fiancé or fiancée, parent, step-parent, lawful guardian, in-laws, grandparent, great-grandparent, nephew, niece, uncle, aunt, cousin and spouse's siblings. "Special occasions" include birthday, wedding, anniversary, engagement, baptism or functions hosted by ExCo Members.

----- Note² The source of the gift received by you should be reported on the attached confidential sheet in the interests of privacy.

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