

DIRECTORS' REPORT
AND ACCOUNTS 2001

CORPORATE GOVERNANCE

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

STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

BOARD EFFECTIVENESS

The Board

The Board currently comprises Peter T. C. Lee, Chairman and Managing Director, Pauline W. L. Yu Wong, Director, Property and Michael C. K. Moy, Chief Financial Officer and Director, and ten other non-executive Directors. Sir David Akers-Jones acts as the Independent non-executive Deputy Chairman, also chairing the two corporate governance committees, namely the Audit Committee and Emoluments Review Committee. The biographies of the Directors appear on pages 28 and 29. These demonstrate a range of experience and calibre to bring valuable judgment on issues of strategy, performance, and resources which are vital to the success of the Group. The four independent non-executive Directors also sit on the corporate governance committees of the Board.

Under the Company's articles of association, all Directors are subject to retirement by rotation. The three Directors who have been longest in office as at each Annual General Meeting will retire from office and be subject to re-election.

Chairman and Deputy Chairman

The Board structure, including the presence of an independent non-executive Deputy Chairman on the Board, is designed to ensure that the Board functions effectively and independent of management where appropriate. At the same time, the fact that the Chairman is also Managing Director means that the Chairman has a more detailed knowledge of the business and activities of the Company than would be possible for a Chairman who was not a member of management.

Responsibilities, Functioning, and Supply of Information

The Board meets at least quarterly. Its principal task is to formulate strategy and to monitor and control operating and financial performance in pursuit of the Group's strategic objectives. Certain significant transactions, including material bank facilities, material acquisitions and disposals, and material transactions with connected parties are reserved for Board decision.

An important element of the Board's corporate governance programme is the continuous improvement in the quality and timeliness of the dissemination of information to Directors. Where appropriate, communications are sent electronically. At least quarterly, Directors are provided with comprehensive reports on the management's strategic plans, updates by business unit heads on their lines of business, financial objectives, plans and actions. During the year, following every committee meeting, committee chairs report to the Board on the activities of their respective committees.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters.

BOARD COMMITTEES

The Board currently has three Board committees, namely the Audit Committee, Emoluments Review Committee and Investment Committee. The Audit and Emoluments Review Committees, being corporate governance committees, have 100% non-executive membership with a majority of independent Directors. These three committees deal with specific aspects of the Group's affairs, as detailed below:

Audit Committee

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

The Audit Committee receives reports from and consults with external auditors. It reviews the interim and annual results, considers any matters raised by the external auditors, and reports thereon to the Board. It also monitors the controls which are in force to ensure the integrity of information reported to the shareholders, and oversee compliance generally.

Emoluments Review Committee

The Group's Emoluments Review Committee is also chaired by Sir David Akers-Jones. Other members are Mr. F. K. Hu and Dr. Geoffrey M. T. Yeh.

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

Details of each Director's emoluments and options are shown in section headed "Directors' remuneration and interests".

Investment Committee

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

DIRECTORS' REMUNERATION AND INTERESTS

Executive Director Emoluments

Details on Directors' emoluments are set out in note 6 to the financial statements. As detailed above, the Emoluments Review Committee reviews and determines the remuneration of the executive Directors.

Non-Executive Director Emoluments

The annual remuneration of the non-executive Directors for year 2001 was HK\$592,534 per annum.

The independent non-executive Deputy Chairman receives an annual fee of HK\$65,000, with the other non-executive Directors being entitled to an annual fee of HK\$50,000. Members of the Audit Committee receive an annual fee of HK\$20,000. None of the non-executive Directors receive any pension benefits from the Company, nor do they participate in any bonus or incentive schemes.

Service Contracts

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

Directors' Interests in Shares

As at 31 December 2001, the interests of the Directors and Alternate Directors in the ordinary shares of the Company, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name	Personal Interests	No. of shares held			Total
		Family Interests	Corporate Interests	Other Interests	
Peter Ting Chang Lee	2,000,000	–	4,020,014 (Note 1)	–	6,020,014
Fa-kuang Hu	–	–	255,012 (Note 2)	–	255,012
Hans Michael Jebsen	60,000	–	2,432,914 (Note 1)	–	2,492,914
Per Jorgensen	6,678	–	–	–	6,678
Chien Lee	970,000	–	4,020,014 (Note 1)	3,750,000 (Note 3)	8,740,014
Michael Tze Hau Lee	1,023,233	–	–	–	1,023,233
Deanna Ruth Tak Yung Rudgard	1,871,600	–	–	–	1,871,600
Pauline Wah Ling Yu Wong	254,000	–	–	–	254,000
Michael Chi Kung Moy	–	131,565 (Note 4)	–	–	131,565
Geoffrey Meou-tsen Yeh	109,619	–	1,000 (Note 1)	–	110,619
V-nee Yeh (Alternate to Geoffrey Meou-tsen Yeh)	43,259	–	84,575 (Note 1)	–	127,834

Notes:

- (1) Such shares were held through corporations in which the respective Directors were members entitled to exercise one-third or more of the voting power at general meetings.
- (2) Such shares were held by a company which was wholly-owned by Fa-kuang Hu and he was deemed to have beneficial interests in all these shares.
- (3) Such shares were held through a discretionary trust of which Chien Lee was a beneficiary.
- (4) These shares were held by the wife of Michael Chi Kung Moy who was therefore deemed to have interest in them.

As at 31 December 2001, certain Directors had personal interests in options to subscribe for ordinary shares in the Company granted under the Company's Executive Share Option Scheme, details of which are set out below under "Executive Share Options" (also see note 28 to the financial statements).

Apart from the above, as at 31 December 2001, there was no other interest or right recorded in the register required to be kept under Section 29 of the SDI Ordinance.

Executive Share Options

The Company operates an Executive Share Option Scheme (the "Scheme") under which options may be granted to employees of the Company or any of its wholly-owned subsidiaries to subscribe for ordinary shares of the Company, thereby strengthening the links between individual staff and shareholder interests. Approved by shareholders on 28 April 1995, the Scheme has a term of ten years. The maximum number of shares in respect of which options may be granted under the Scheme (together with shares issued and issuable under the Scheme) is three percent (3%) of the issued share capital of the Company (excluding shares issued pursuant to the Scheme) from time to time. The exercise price was fixed at 80 per cent of the average of the closing prices of the shares on the Hong Kong Stock Exchange for the twenty trading days immediately preceding the date of grant. Consideration to be paid on each grant of option is HK\$1.00, with full payment for exercise price to be made on exercise of the relevant option.

As at 31 December 2001, Scheme participants were executive Directors of the Company with shares issuable under options granted representing less than 0.4% of the then issued share capital of the Company. Options expiring, granted and outstanding to them are as follows:

	Opening Balance as at 1/1/01	Date of Grant	Changes During Year			Options as at 31/12/01		Exercisable period
			Lapsed	Granted	Exercised	Closing Balance	Exercise price (HK\$)	
Peter Ting Chang Lee	1,350,000	7/1/99	NIL	NIL	NIL	1,350,000	9.22	7/1/01-6/1/09
Pauline Wah Ling Yu Wong	900,000	3/5/95	NIL	NIL	NIL	900,000	13.46	3/5/97-2/5/05
Michael Chi Kung Moy	1,200,000	23/12/99	NIL	NIL	NIL	1,200,000	7.54	23/12/01-22/12/09

All options referred to above are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue.

During the review period, no options were granted to or were exercised by Directors. Certain options granted to Hon Chiu Lee, former Chairman of the Company who retired on 8 May 2001, to subscribe for 1,125,000 shares of the Company, had lapsed on his retirement.

Apart from the Scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

The power of grant to executive Directors is vested in the Emoluments Review Committee and otherwise pursuant to Listing Rules requirements.

The Managing Director has been delegated by the Board the authority to make grants to other management staff. In this light, the Company has undertaken a review of the Scheme to seek to further strengthen the links between staff and shareholder objectives, also with the view to balance the interests of shareholders generally. The exercise price will be at least the higher of (i) the closing price of the Company's ordinary shares on the date of grant; and (ii) the average closing price of such shares for the five days immediately before the grant. Interests of shareholders will be balanced by having appropriate aggregate and individual grant limits, also being in line with new Listing Rules requirements. A clear performance criterion will be the main driver.

Directors' Interests in Contracts of Significance

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

Disclosure of Directors' Interests in Competing Business under the Listing Rules

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

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

- (i) Peter T. C. Lee, Anthony H. P. Lee, Chien Lee, Michael T. H. Lee and Deanna R. T. Y. Rudgard are members of the founding family whose range of general investment activities include property investments in Hong Kong and overseas. In the light of the size and dominance of the portfolio of the Group, such disclosed Deemed Competing Business is considered immaterial.
- (ii) F. K. Hu (and his alternate, Raymond L. M. Hu) are substantial shareholders and directors of Ryoden (Holdings) Limited, Ryoden Development Limited, Designcase Limited and their respective subsidiaries and associates, which are engaged in investment holding, property investment and development, property agency and management, project management in both the People's Republic of China and Hong Kong.

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

Connected and Related Party Transactions

The Company acquired during the review period from members of the Sincere Group the remaining 30% minority interests in its subsidiary, Lee Theatre Realty Limited ("LTRL"). The principal business of LTRL is that of holding the property "Lee Theatre Plaza". As the Sincere Group was a substantial shareholder of LTRL, the transactions constituted a connected transaction for the Company under the Listing Rules. Details of the transaction is set out in note 36(B) to the financial statements. In the opinion of the Directors, the terms of such transaction were fair and reasonable and in the interests of the Company and all the shareholders as a whole.

Save as disclosed therein, there were no other transactions which needed to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The Company also entered into certain transactions with parties regarded as “Related Parties” under applicable accounting principles. These mainly relate to contracts entered into by the Company 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(A) to the financial statements.

RELATIONS WITH SHAREHOLDERS

The Company values dialogue with shareholders. Further details on Group efforts in this regard are set out in the section “Shareholder Focus, Financial Prudence and Transparency” in the Chairman’s Statement.

The Company arranges for the Annual Report and Financial Statements and related papers to be posted to shareholders so as to allow at least 25 working days for consideration prior to the Annual General Meeting. The Board also welcomes moves towards a more constructive use of Annual General Meetings and regards the Annual General Meeting as the principal opportunity to meet private shareholders. Accompanying this Annual Report is the Notice of Annual General Meeting setting out the full texts of the resolutions for the meeting and explanatory notes thereon.

Financial and other information on the Group is also made available at the Group’s website at www.hysan.com.hk.

HUMAN RESOURCES PRACTICES

The Group aims to attract, retain and motivate high calibre individuals committed to attaining our objectives. The total number of employees as at 31 December 2001 was 516. The Group’s human resources practices are aligned with our corporate objective so as to maximize shareholder value and achieve growth. Details on our human resources policy, including performance measurement and reward, training and development are set out in the section “Our People” in the Annual Report.

SOCIAL RESPONSIBILITY AND THE COMMUNITY

Further information on the Group’s community efforts is set out in “Hysan and the Community” in the Chairman’s Statement.

By order of the Board

Wendy W. Y. Yung

Company Secretary

Hong Kong, 12 March 2002