

Corporate Governance Statement

STATEMENT OF CORPORATE GOVERNANCE POLICY

The Board of Directors are committed to maintaining a high standard of corporate governance. The Company has complied throughout the review period 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"). The Board aims to continually review and enhance corporate governance practices in the light of international best practices, in addition to complying with applicable statutory requirements. Board efforts in this area are being recognized. The Board was awarded "Directors of the Year" by the Hong Kong Institute of Directors.

BOARD EFFECTIVENESS

Board Responsibilities and Board/Management Relationship

The principal task of the Board is, firstly, to formulate strategy and, secondly, to monitor and control operating and financial performance in pursuit of Group strategic objectives.

The Board's role is not to manage the business which responsibility remains vested with management. The Board is responsible for overseeing the processes that management has in place to identify business opportunities and risks. The Hysan Board and management fully appreciate their respective roles and are supportive of building a healthy corporate governance culture.

Board Composition

The Board currently comprises Peter T. C. Lee, Chairman and Managing Director, Michael T. H. Lee, Chief Operating Officer and Director, Pauline W. L. Yu Wong, Director, Property and Michael C. K. Moy, Chief Financial Officer and Director, and nine 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 24 and 25. These demonstrate a range of experience and calibre to bring judgment on issues of strategy, performance, and resources. Independent non-executive Directors also sit on the corporate governance committees of the Board.

The Board as a whole is responsible for the selection and approval of candidates for appointment to the Board, and has not therefore established a Nomination Committee. On appointment, new Directors will be given a comprehensive introduction to Group activities and induction into the responsibilities of non-executive Directors.

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.

Independent Non-executive 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.

The executive Board was further strengthened by the appointment of Michael T. H. Lee as Chief Operating Officer effective 10 June 2002, responsible for the day-to-day management and co-ordination of the overall development of the Company. The Chairman and Managing Director will continue to have overall responsibility for strategic planning of the Group and developments generally.

Board Process

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 with a 100% attendance recorded in 2002. The Committee provides a forum of reporting by the Group's external auditors. Meetings are also attended by invitation by the Chief Operating Officer and the Chief Financial Officer. The Committee presents a report to the Board after each meeting, which addresses its work and findings.

Details on the mandate and work performed by the Audit Committee during the review year are set out in the Audit Committee Report on page 38.

Emoluments Review Committee

The Group's Emoluments Review Committee is also chaired by Sir David Akers-Jones. Other members are F. K. Hu and 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, the Chief Operating Officer and Director, Victor K. K. Fung, Hans Michael Jebsen, with Anthony H. P. Lee as the Chairman. The five Directors, demonstrating a range of experience and background, meet as necessary to advise and make recommendations on the investment strategies of the Group within agreed terms of reference.

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DIRECTORS' REMUNERATION AND INTERESTS

Director Compensation

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 2002 was HK\$546,918 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 additional 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

Directors' Interests in Shares

As at 31 December 2002, 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	No. of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Peter Ting Chang Lee	2,000,000	—	4,083,823 <i>(Note 1)</i>	—	6,083,823
Fa-kuang Hu	—	—	255,012 <i>(Note 2)</i>	—	255,012
Hans Michael Jebsen	60,000	—	2,432,914 <i>(Note 1)</i>	—	2,492,914
Per Jorgensen	6,678	—	—	—	6,678
Chien Lee	970,000	—	4,083,823 <i>(Note 1)</i>	3,750,000 <i>(Note 3)</i>	8,803,823
Michael Tze Hau Lee	1,023,233	—	—	—	1,023,233
Michael Chi Kung Moy	—	131,565 <i>(Note 4)</i>	—	—	131,565
Deanna Ruth Tak Yung Rudgard	1,871,600	—	—	—	1,871,600
Pauline Wah Ling Yu Wong	254,000	—	—	—	254,000
Geoffrey Meou-tsen Yeh	249,619	—	1,000 <i>(Note 1)</i>	—	250,619
V-nee Yeh (Alternate to Geoffrey Meou-tsen Yeh)	43,259	—	84,575 <i>(Note 1)</i>	—	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. Corporate interests of Peter T. C. Lee and Chien Lee relate to the same corporation.
- (2) Such shares were held by a company which was wholly-owned by Fa-kuang Hu and he was deemed to have beneficial interests in all these shares.
- (3) Such shares were held through a discretionary trust of which Chien Lee was 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 2002, 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 31 to the financial statements).

Apart from the above, as at 31 December 2002, 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 per cent of the issued share capital of the Company (excluding shares issued pursuant to the Scheme) from time to time. The maximum entitlement of each participant under the Scheme is 25 per cent of the maximum number of shares in respect of which options may at any time be granted under the Scheme. 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 2002, 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:

	Balance as at 1.1.2002	Date of grant	Changes During the Year			Balance as at 31.12.2002	Exercise price (HK\$)	Exercisable period
			Cancelled/ Lapsed	Granted	Exercised			
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.

No options have been granted since the coming into force of certain new Listing Rules requirements. Future grants will only be made under the existing Scheme where new Listing Rules requirements are complied with.

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The Chairman and Managing Director has been delegated by the Board the authority to make grants to other management staff, with the view to further strengthening the links between staff and shareholder objectives and to balance the interests of shareholders generally. The exercise price will be set at 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.

The Group has in place appropriate Code of Practice and procedures regulating dealings in Company shares by Directors and employees.

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.

Related Party and Connected Transactions

The Group has provided shareholder loans to a non-wholly owned subsidiary in proportion to its shareholding. The quasi-equity loans were provided in the ordinary course of the Group's business. These activities constitute financial assistance and "Connected Transactions" under the Listing Rules.

The Group 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 37 to the financial statements.

Directors' Interests in Contracts of Significance

Except as disclosed above, 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.

INTERNAL CONTROL AND RISK MANAGEMENT

The Group regularly reviews its internal control system. The key features of our system of internal control include:

- (a) systems of delegated authorities: there are in place defined organizational responsibilities and limits of authority. Details on capital projects appraisal process are set out in "Capital Expenditure - Investment Appraisal" under "Operating and Financial Review - Financial Review";
- (b) financial monitoring: annual and long-term revenue, cashflow, and capital forecasts, updated regularly during the year; monthly monitoring of revenue, cashflow, and capital expenditure and reporting to top management, quarterly reporting of key financial information to Board;
- (c) risk management: details on financial risk management are set out in the relevant section in "Operating and Financial Review - Financial Review".

FINANCIAL TRANSPARENCY AND DISCLOSURE

The Group is committed to open and timely disclosure of relevant information on its activities to stakeholders, subject to applicable legal requirements. We aim to continually improve on the quality of our reporting. The Group had in operation during 2002 a communication programme, and will continue to enhance the same.

Communication is made through:

- the Company's annual and interim reports, which has been enhanced to present a comprehensive, balanced and understandable assessment of Group position and prospects
- notices of and explanatory memoranda for annual and other general meetings, which have been enhanced to provide shareholders with additional information in an understandable manner
- regular analyst briefings
- press briefings for Group annual results and other briefings, as appropriate
- press releases on major developments of the Group
- disclosures to the Stock Exchange of Hong Kong Limited and relevant regulatory bodies
- inquiries from investors, media or the public are responded to by Chief Financial Officer, Company Secretary or the appropriate members of senior management
- Company's web-site at <http://www.hysan.com.hk> from which shareholders can access information on the Group. The web-site provides, inter alia, corporate announcements, press releases, annual reports, and corporate information of the Group

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SHAREHOLDINGS INFORMATION AND SHAREHOLDER RIGHTS

Shareholdings Information

As at 31 December 2002:

Authorised share capital: HK\$7,250,000,000, comprising of 1,450,000,000 ordinary shares of HK\$5.00 each.

Issued and fully paid-up capital: HK\$5,173,084,625, comprising of 1,034,616,925 ordinary shares of HK\$5.00 each.

Class of shares: one class of ordinary shares of HK\$5.00 each with equal voting rights.

Top 10 Largest Shareholders

(as at 31 December 2002, as per register of members of the Company)

	Number of Shares	%
1. HKSCC Nominees Limited	376,077,646	36.35
2. HSBC Nominees (Hong Kong) Limited	126,597,346	12.24
3. Hang Seng (Nominee) Limited	125,602,454	12.14
4. Lee Hysan Estate Co, Ltd*	90,118,724	8.71
5. Kenwin Assets Limited*	43,902,720	4.24
6. Overton Holdings Limited*	43,902,720	4.24
7. Atlas Corporate Management Ltd*	39,809,001	3.85
8. Shanghai Commercial Bank (Nominees) Ltd	32,510,110	3.14
9. Liu Chong Hing (Nominees) Ltd	20,248,255	1.96
10. Clipperton Company Limited*	17,019,739	1.64
Total	915,788,715	88.51

Note: * denotes entities whose interests are attributable to the substantial shareholder: Lee Hysan Estate Company, Limited (see "Substantial Shareholders" under Directors' Report)

Location of Shareholders

(as at 31 December 2002, as per register of members of the Company)

Location of shareholders	Number of shares	%
Hong Kong	1,024,743,032	99.04
U.K.	4,379,714	0.42
US and Canada	5,125,512	0.50
Singapore	88,766	0.01
Others	279,901	0.03
Total	1,034,616,925	100.00

Shareholder Rights

All ordinary shares of the Company have equal voting rights. The Board 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.

Annual General Meeting proceedings are continually reviewed in the light of corporate governance best practices. Separate resolutions are proposed at the Annual General Meeting on each substantially separate issue, including the election of individual directors. Comprehensive information on businesses to be transacted at the forthcoming Annual General Meeting, together with frequently asked questions regarding the voting procedures, has been included in the circular accompanying the Annual Report.

The Company arranges for the Annual Report and Financial Statements and related papers to be posted to shareholders so as to allow at least 35 days for consideration prior to the Annual General Meeting. Financial and other information on the Group is also made available at the Group's website at www.hysan.com.hk.

By order of the Board

Wendy W. Y. Yung

Company Secretary

Hong Kong, 11 March 2003