

ADDITIONAL INFORMATION

Statement of corporate governance policy

The Board of Directors is committed to maintaining high standards of corporate governance and has adopted a Statement of Corporate Governance Policy (available on website: www.hysan.com.hk) which gives guidance on how corporate governance principles are applied to the Company. The Board aims to continually review and enhance corporate governance practices in the light of local and international best practices, in addition to complying with applicable statutory requirements.

The Company has implemented early adoption of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Hysan set up an Emoluments Review Committee in 1987 to review executive Director compensation. Such terms of reference are considered appropriate in the light of the current organisation structure of the Group. Save for this, the Company meets all code provisions of the Code throughout the review period.

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 three executive Directors, four Independent non-executive Directors (including the appointment of David M. Turnbull as Independent non-executive Director effective 11 May 2005) and five non-executive Directors. There is a majority of non-executive Directors on the Board, with a wide range of experience and calibre who bring valuable judgment on issues of strategy, performance and resources.

Peter T.C. Lee serves as the Chairman who is supported by an Independent non-executive Deputy Chairman, Sir David Akers-Jones and Managing Director, Michael T.H. Lee. The roles of Chairman and Managing Director are separate. The Chairman focuses on Group strategic and Board issues and Managing Director will have the overall chief executive responsibility for Group operations and developments generally.

Board effectiveness – continued

Board process

The Board meets at least quarterly. There is a defined schedule of matters reserved for full Board decision, including long-term objectives and strategies; extension of group activities into new business areas; annual budgets; announcements of interim and final results; dividend; material bank facilities, material acquisitions and disposals; material connected transactions; annual internal controls assessments; and new appointments to the Board following recommendations by the Nomination Committee.

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. 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. 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. There is an agreed procedure for Directors to take independent professional advice at Company's expenses.

Internal control

The Managing Director and Chief Financial Officer report to the Audit Committee at least twice a year on key issues in relation to internal controls, audit findings and risk management.

The Board has adopted a Financial Risk Management Policy which identifies and lays down the guiding principles on the management of major financial risks. Management regularly reviews the on-going process for identifying, evaluating and managing significant operating risks faced by the Group.

Board committees

The Board has delegated certain responsibilities to Board committees, which operate within defined terms of reference. The Board has established four Board committees including three corporate governance-related committees (being the Audit, Emoluments Review and the new Nomination Committee) and the Investment Committee. The corporate governance-related committees have a majority of Independent non-executive Directors. All Board committees have clear written terms of reference. During the review period, following every committee meeting, committee chairs report to the Board on the activities of their respective committees.

- ***Audit Committee***

The Audit Committee is chaired by Independent non-executive Deputy Chairman, Sir David Akers-Jones and has a majority of Independent non-executive Directors. Its other members are Per Jorgensen, Independent non-executive Director, and Chien Lee, non-executive Director. It meets not less than twice per annum. All members have experience in reviewing or analysing audited financial statements of public companies or major organisation.

The Committee provides a forum of reporting by the Group's external auditors. Meetings are also attended, by invitation, by the Managing Director and the Chief Financial Officer.

Board effectiveness – continued

The Committee oversees the financial reporting process. In this process, management is primarily responsible for the preparation of Group financial statements including the selection of suitable accounting policies. External auditors are responsible for auditing and attesting to Group financial statements and evaluating Group system of internal controls. The Committee oversees the respective work of management and external auditors to endorse the processes and safeguards employed by them. The Committee presents a report to the Board after each meeting, which addresses its work and findings.

The Committee has reviewed and discussed with management and external auditors the (unaudited) condensed consolidated financial statements for the first six months of 2005 included in this Report.

- ***Emoluments Review Committee***

The Group's Emoluments Review Committee is also chaired by the Independent non-executive Deputy Chairman, Sir David Akers-Jones, with a majority of Independent non-executive Directors. Other members are F.K. Hu, non-executive Director and Dr. Geoffrey M.T. Yeh, Independent non-executive Director.

The function of the Committee is to review and determine the remuneration of the executive Directors. Management 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 the Chairman, he may be invited to Committee meetings. No Director is involved in deciding his own remuneration.

A separate "Directors' Remuneration and Interests Report" in Annual Report 2004 sets out details of the level of the Directors' remuneration including remuneration breakdown of each individual executive Directors on "named" basis.

- ***Nomination Committee***

In March 2005, the Board established a Nomination Committee which is chaired by Peter T.C. Lee, Chairman of the Board, and its other members are Sir David Akers-Jones, Independent non-executive Deputy Chairman, and Dr. Geoffrey M.T. Yeh, Independent non-executive Director.

Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board from time to time and recommends to the Board on appointments of Directors.

Communication with shareholder

The Group is committed to maintaining a policy of open and timely disclosure of relevant information on its activities to shareholders and other stakeholders, subject to applicable legal requirements. A communication programme is in place to maintain an on-going dialogue with our stakeholders, including communication with our shareholders in a regular and timely manner, through the Group's annual and interim reports, announcements and press releases; and holding regular briefings and meetings for analysts and the media, as appropriate. The Board welcomes moves towards a more constructive use of Annual General Meeting ("AGM") and regards the AGM as the principal opportunity to meet private shareholders. In addition to enhancing processes for the statutory part of the AGM, a "general business overview" session led by the Chairman and Managing Director has been introduced since 2004. In the 2005 AGM, topics addressed include overview of the 2004 business environment, 2005 outlook, operating highlights, corporate governance and social responsibility efforts.

Directors' interests in shares

As at 30 June 2005, the interests and short positions of the Directors and Alternate Director in the shares and underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

Aggregate long positions in shares and underlying shares of the Company

Name	No. of shares held				Total	% of the issued share capital*
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Peter Ting Chang Lee	2,000,000	–	4,083,823 (Note 1)	–	6,083,823	0.578
Michael Tze Hau Lee	1,023,233	–	–	–	1,023,233	0.097
Fa-kuang Hu	–	–	255,012 (Note 2)	–	255,012	0.024
Hans Michael Jebsen	60,000	–	2,432,914 (Note 1)	–	2,492,914	0.237
Per Jorgensen	6,726	–	–	–	6,726	0.001
Chien Lee	900,000	–	4,083,823 (Note 1)	3,150,000 (Note 3)	8,133,823	0.773
Deanna Ruth Tak Yung Rudgard	1,871,600	–	–	–	1,871,600	0.178
Pauline Wah Ling Yu Wong	274,000	–	–	–	274,000	0.026
Geoffrey Meou-tsen Yeh	254,148	–	1,000 (Note 1)	–	255,148	0.024
V-nee Yeh (alternate to Geoffrey Meou-tsen Yeh)	43,259	–	84,575 (Note 1)	–	127,834	0.012

* This percentage has been compiled based on the total number of shares (i.e. 1,052,239,774 ordinary shares) of the Company in issue as at 30 June 2005.

Directors' interests in shares – continued

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 Ting Chang 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 one of the beneficiaries.

Certain executive Directors of the Company have been granted share options under the Company's Executive Share Option Scheme (details are set out under "Long-term incentives: Executive Share Options" below). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Long-term incentives: Executive Share Options

Old scheme

The Company operates an Executive Share Option Scheme (the "Old 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 Old Scheme had a term of 10 years and expired on 28 April 2005. The maximum number of shares in respect of which options may be granted under the Old Scheme (together with shares issued and issuable under the Old Scheme) is 3% of the issued share capital of the Company (excluding shares issued pursuant to the Old Scheme) from time to time.

New scheme and grant structure

The Company adopted a new share option scheme (the "New Scheme") at the AGM held on 10 May 2005. Terms of the New Scheme are substantially the same as those under the Old Scheme, save for incorporating current Listing Rules requirements.

In March 2005, the Board approved a new grant and vesting structure. Grants will be made on a periodic basis. Vesting period is three years in equal portion. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

Directors' interests in shares – continued

Options granted

During the review period, a total of 915,000 shares options were granted under the Old and New Schemes (“the Schemes”). All outstanding options granted under the Old Scheme will continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

As at 30 June 2005, an aggregate of 2,265,000 shares options granted under the Schemes remained outstanding, representing approximately 0.22 per cent of the issued share capital of the Company.

Details of options granted and outstanding under the Schemes during the review period are as follows:

Name	Balance as at 1.1.2005	Changes during the period				Balance as at 30.6.2005	Exercise price HK\$	Exercisable period (Note 1)
		Date of grant	Cancelled/ Lapsed	Granted	Exercised			
Peter Ting Chang Lee	1,350,000	7.1.1999	NIL	NIL	NIL	1,350,000	9.22	7.1.2001 – 6.1.2009
Eligible employees (Note 2)	NIL	30.3.2005	NIL	675,000	NIL	675,000	15.85 (Note 3)	30.3.2005 – 29.3.2015
Michael Tze Hau Lee	NIL	10.5.2005	NIL	240,000	NIL	240,000	16.60 (Note 4)	10.5.2005 – 9.5.2015

Notes:

- The options granted to Peter T.C. Lee are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue. The vesting period of options granted to eligible employees and Michael T.H. Lee is three years in equal portion.
- Eligible employees of the Company are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- The exercise price of share options granted to eligible employees was fixed at the average of the closing prices of the shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant. The closing price of the shares of the Company immediately before the date on which the options were granted (as of 29 March 2005) was HK\$15.35.
- The exercise price of share options granted to Michael T.H. Lee was fixed at the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant. The closing price of the shares of the Company immediately before the date on which the options were granted (as of 9 May 2005) was HK\$16.40.

Apart from the above, the Company had not granted any share option under the Schemes to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

The power of grant to executive Directors is vested in the Emoluments Review Committee and otherwise pursuant to Listing Rules requirements. The Chairman and Managing Director have been delegated the authority to make grants to management staff below executive Director level.

Directors' interests in shares – continued

Value of share options

Pursuant to Rule 17.08 of the Listing Rules, the value of the share options granted during the period is as follows:

The Company has used the Black-Scholes option pricing model (the "Model") to value the share options granted during the review period. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

In the current period, share options were granted on 30 March 2005 and 10 May 2005 to the eligible employees and the Managing Director respectively. The fair value of the options determined at the dates of grant using the Model were HK\$3,659,000 and HK\$1,286,000 respectively. Such value will be expensed through the Group's income statement over the three-year vesting period of the options. In the current period, an amount of share option expense of HK\$690,000 has been recognised, with a corresponding adjustment recognised in the Group's employee share-based compensation reserve.

Details of calculation of the fair value of share options with significant variables and assumptions are as follows:

	Date of grant	
	30.3.2005	10.5.2005
Closing share price at the date of grant	HK\$15.55	HK\$16.60
Risk free rate (Note 1)	4.428%	3.817%
Expected life of options (Note 2)	10 years	10 years
Expected volatility (Note 3)	31.50%	29.81%
Expected dividend per annum (Note 4)	HK\$0.39	HK\$0.39

Notes:

1. Risk free rate: being the approximate yields of 10-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
2. Expected life of options: being the period of 10 years commencing on the date of grant.
3. Expected volatility: being the approximate volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.
4. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

Directors' interests in shares – continued

Aggregate long positions of Associated Corporations

Listed below are certain Directors' interests in the shares of Barrowgate Limited ("Barrowgate"), a 65.36% subsidiary of the Company, and Parallel Asia Engineering Company Limited ("PAECL"), a 25% associate of the Company:

Name	No. of shares held	% of the issued share capital
Hans Michael Jebsen	1,000	10 (Note 1)
Fa-kuang Hu	5,000	50 (Note 2)
Raymond Liang-ming Hu (alternate to Fa-kuang Hu)	5,000	50 (Note 2)

Notes:

1. Jebsen and Company Limited ("Jebsen and Company") has a 10% interest in the issued share capital in Barrowgate through a wholly-owned subsidiary. Hans Michael Jebsen is deemed to be interested in Barrowgate by being the controlling shareholder and Chairman of Jebsen and Company.
2. Ryoden Development Limited ("Ryoden Development") has a 50% interest in the issued share capital in PAECL through a wholly-owned subsidiary. Fa-kuang Hu and Raymond Liang-ming Hu are deemed to be interested in PAECL by virtue of their interests as beneficiaries of a discretionary trust which has an indirect controlling interest in Ryoden Development.

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 30 June 2005 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial shareholders' and other persons' interests in shares

As at 30 June 2005, the interests or short positions of Substantial Shareholders and Other Persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company were as follows:

Aggregate long positions in shares and underlying shares of the Company

Name	Capacity	No. of shares held	% of the issued share capital*
Lee Hysan Estate Company, Limited	Interests of controlled corporations	429,046,912 (Note 1)	40.77
Lee Hysan Company Limited	Interests of controlled corporations	429,046,912 (Note 1)	40.77
J.P. Morgan Chase & Co.	(Note 2)	82,642,504	7.85
Marathon Asset Management Ltd.	Investment Manager	52,597,064	5.00

* The percentage has been compiled based on the total number of shares (i.e. 1,052,239,774 ordinary shares) of the Company in issue as at 30 June 2005.

Notes:

- (1) These interests represent the same block of shares. Lee Hysan Estate Company, Limited is a wholly-owned subsidiary of Lee Hysan Company Limited.
- (2) As notified by J.P. Morgan Chase & Co., these shares were held in their respective capacities as beneficial owner (holding 731,000 shares), investment manager (holding 49,934,168 shares) and custodian (holding 31,977,336 shares).

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 30 June 2005.

Related party transactions

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, in which the contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 19 to the condensed financial statements.

Continuing connected transactions

Certain transactions entered into by the Group constituted “continuing connected transactions” (the “Transactions”) under the Listing Rules. Details of the Transactions are set out as follows:

I. Lease granted by the Group

(a) Lee Gardens Two, 28 Yun Ping Road, Hong Kong (“Lee Gardens Two”)

The following lease arrangements were entered into by Barrowgate Limited (property owner of Lee Gardens Two) with the following connected persons (also substantial shareholders of Barrowgate Limited). Particulars are set out below:

Connected person	Date of Agreement	Terms	Premises	Annual consideration HK\$
Jebsen and Company Limited (10% equity interest in Barrowgate Limited)	10 September 2003	4 years commencing from 1 September 2003	Offices units at 28th to 31st Floors	14,053,410
	Various carpark agreements	On monthly basis with various commencement dates	3 carparking spaces	
	19 April 2005	3 months commencing from 1 May 2005	1 carparking space	
	19 April 2005	On monthly basis commencing from 1 May 2005	1 carparking space	
Hang Seng Bank Limited (24.64 % equity interest in Barrowgate Limited)	3 September 2004	2 years and 16 days commencing from 15 September 2004	Shop units at Ground Floor and Basement	9,836,256

Continuing connected transactions – continued

I. Lease granted by the Group – continued

(b) Bamboo Grove, 74-86 Kennedy Road, Hong Kong (“Bamboo Grove”)

Certain leases were entered into by Kwong Wan Realty Limited, a wholly-owned subsidiary of the Company and property owner of Bamboo Grove, with Lee Hysan Estate Company, Limited, a substantial shareholder of the Company (holding 40.77% interest). Details of the leases are set out below:

Connected person	Date of Agreement	Terms	Premises	Annual consideration HK\$
Lee Hysan Estate Company, Limited	17 October 2003	2 years commencing from 1 November 2003	An apartment and 1 carparking space	1,975,200
Lee Hysan Estate Company, Limited	12 January 2004	2 years commencing from 16 January 2004	An apartment and 2 carparking spaces	1,289,880

(c) Lee Gardens Two, 28 Yun Ping Road, Hong Kong

The following lease arrangements were entered into by Barrowgate Limited with MF Jebsen International Limited, which was a connected person by virtue of the interest of an associate of a non-executive Director:

Connected person	Date of Agreement	Terms	Premises	Annual consideration HK\$
MF Jebsen International Limited	23 April 2004 and a Supplemental Deed of 12 July 2004	4 years commencing from 1 February 2004 and 3 years and 7 months commencing from 1 July 2004	Office units at 24th and 25th Floors	6,376,938
	1 May 2003	On monthly basis commencing from 1 May 2003	1 carparking space	

Continuing connected transactions – continued

II. Leasing and property management services with a non wholly-owned subsidiary at Lee Gardens Two

The following management agreements were entered into by Hysan Leasing Company Limited and Hysan Property Management Limited, both being wholly-owned subsidiaries of the Company, with Barrowgate Limited for the provision of services to Lee Gardens Two, including (i) leasing, marketing and lease administration services; and (ii) property management services:

Connected person	Date of Agreement	Terms	Premises	Consideration HK\$ (Note)
Barrowgate Limited	25 February 2004 and a supplemental Appointment Letter of 19 July 2004	3 years commencing from 1 April 2004	Whole premise of Lee Gardens Two	2,783,931 (i) and 1,203,275 (ii)

Note: These represent the actual considerations for the period from 1 January 2005 to 30 June 2005, calculated on the basis of the fee schedules as prescribed therein.

All the Transactions were entered in the ordinary and usual course of business of the respective companies after due negotiations on an arm's length basis with reference to the prevailing market conditions.

Compliance of the Model Code for Directors' share dealing

All Directors have confirmed, following specific enquiry by the Company, that they complied with the required standards set out in the Model Code for Directors' Share Dealing as set out in Appendix 10 to the Listing Rules throughout the review period.

Purchases, sale or redemption of the Company's listed securities

During the review period, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Human resources practices

The Group aims to attract, retain and motivate high calibre individuals committed to attaining our objectives. The Group's human resources practices are aligned with our corporate objective so as to maximise shareholder value and achieve growth. During the review period, the Group continued to strengthen our performance measurement system and invested in training. All these are towards maximising our efficiency to deliver shareholder value.

As at 30 June 2005, the total number of employees was 542, and there have been no material changes in respect of the employee remuneration, remuneration policies and staff development as disclosed in Annual Report 2004.