

The 2nd Asia-Pacific Corporate Governance Conference

Speech by Mr. Peter T.C. Lee

Family Ownership, Professional Management: The Hysan Way

Distinguished guests, ladies and gentlemen,

Hysan's Governance Model: Family Ownership, Professional Management



Thank you for giving me the opportunity to speak on a topic that is very dear to me: namely the effective governance of a public company that has a founding family as a major shareholder. When the issue of “family business” is brought up in everyday conversations, I am sure people can think of good things like “identity and values”, “commitment” and “long term vision”, while others may see the possible not-so-positives like “slow development”, “family disagreement” or even “abuses by the majority shareholder”. So how should a family business stress the positives and eliminate the negatives?

Hysan's Governance Model

Effective combination of the commitment and support of a family ownership and the best of professional management



In Hysan's case, the essence of our governance model is nothing more or less than an effective combination of the commitment and support of a family ownership and the best of professional management. Ultimately, this is what we believe will create and maintain a long-term successful business.

A View from the Hill: Hysan's Evolution in More than Eight Decades

A View from the Hill: Hysan's Evolution in More than Eight Decades


1923

- > Lee Hysan established the Lee Hysan Estate Company, one of the first Chinese-owned incorporated companies
- > Purchased East Point Hill from Jardine Group



I am a 3rd generation member of my family involved in running a property business from Causeway Bay's Lee Gardens Hill in Hong Kong. In 1923, my late grandfather, Lee Hysan, established the Lee Hysan Estate Company to purchase what was then known as East Point Hill, from the Jardine Group. Over the past 80 years, the Hysan companies helped transform the area from a hill with some warehouses into one of the best known commercial addresses in Hong Kong. Significantly, while my grandfather's business was essentially a classic Chinese one, he firmly believed in having a legitimate and structured organisation for his company. Lee Hysan Estate was one of the first Chinese-owned incorporated companies.

When the Second World War came, Hong Kong suffered severe economic hardship, a serious decline in population, and all necessities were in short supply. Various Hysan properties were taken over by the occupation forces. Despite these difficult conditions, members of the Lee family were extremely committed to carry on and remained in Hong Kong to manage the business. Their passion to continue the business ensured Hysan's survival.

 **Hysan** 希慎

**A View from the Hill:
Hysan's Evolution in More than Eight Decades**

1950'S-1970'S

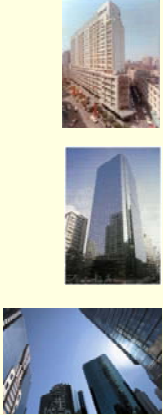
- Transformed area into major commercial hub

1981

- Hysan Development Company Limited was formed as a public company

Present

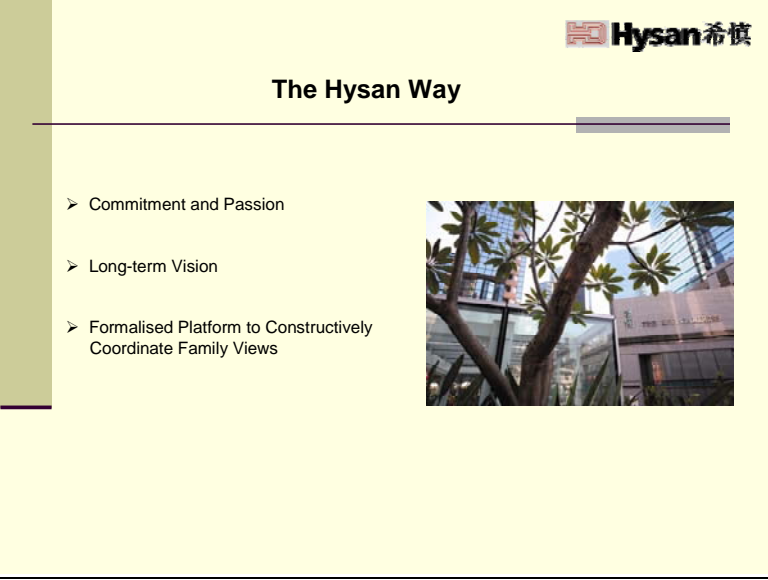
- Hysan is a leading property investment company and the largest commercial landlord in Causeway Bay



The decades after this traumatic period proved to be the golden age of economic development for Hong Kong. Our Group's own growth mirrored that of the territory's with expansion into different businesses. Some of Causeway Bay's well-known landmarks, office buildings and retail complexes, were built or redeveloped by Hysan during this period of rapid social-economic changes. By 1981, the property division of the Lee Hysan Group was formed into a public company with the name Hysan Development Company Limited. The company began with four of the original business' major properties as its assets. It now owns 11 commercial and residential buildings, mainly in Causeway Bay, together with property investment interests in Mainland China.

At this point, I would like to bring up a family belief that would underpin a lot of our subsequent actions. It is the idea of fair play, which applies to the distinct separation of the private and public entities, as well as the relationship between majority and minority shareholders. The sense of fair play would become the cornerstone of what is now better known as "corporate governance". When the public company was formed, clear efforts were made to have separate offices for the public and private companies. Outside professionals were hired for the new public entity, and in fact, at no time have there been more than two members of the family involved in the management of the public company. Today, out of a staff of 500, I am the only member of the family holding an executive position in the public company.

The Hysan Way



The Hysan Way

- Commitment and Passion
- Long-term Vision
- Formalised Platform to Constructively Coordinate Family Views

Now that you know a bit more about the business' background, let me share with you my views on what makes Hysan work as a public company with the founding family as the largest shareholder.

Commitment and Passion

The commitment to make the business successful is arguably the most important factor. One must have a strong passion to drive the company forward. There is no room for complacency. In my case, even though my formal education and earlier careers were in engineering and the law, it has always been a natural passion for me to see the Company, with its strong family identity, grow and prosper.

Long-Term Vision

Many companies have the drive and commitment and would often achieve various degrees of success. Businesses with major family shareholders, though, are well known to have another inherent advantage, which is long-term vision. Sir Adrian Cadbury, former Chairman of the famous British confectionary group, once said that a strong “family interest is the best guarantee to those who work in them that the future will not be mortgaged for the present”. To that, I add that it is the best guarantee not only to the

employees, but also to our public shareholders and to all other stakeholders. A recent report on family business in the McKinsey Quarterly also observed that family businesses can allow managers to take a long-term view and face less pressure to produce quarterly results for investors or to achieve immediate earning targets.

By way of example, Hysan Development began with properties that were commercial buildings, the types of which, at that time, were not in existence in Causeway Bay. In fact, among them was an office commercial building designed by the world renowned architect, I.M. Pei. Our present “asset enhancement programme”, with projects from refurbishment all the way to redevelopments, again shows our commitment towards building a long-term sustainable business, while maximising shareholders’ value. The aim was, and still is, to continue to develop the area into one of the most dynamic, attractive and distinctive commercial hubs in Hong Kong. I strongly believe that those with long term goals to build sustainable businesses, that are profitable and create benefits to society, will be rewarded by the market.

Formalised Platform to Constructively Coordinate Family Views

Another element which I think have contributed to Hysan’s success comes from the “family” end. My family has the advantage of having an established corporate structure for some years. After three generations, there is now a strong tradition of a family platform in the form of our private company. It takes up the role which one may call a “family council”, where the views of the family members can be expressed, discussed and agreed upon. In fact, we have a better setup than a normal family council because our private company has its own formal corporate structure as well. This means for some decades now, there have been formal board proceedings, resolutions and minutes to support whatever we have decided upon. Therefore, the largest shareholder provides clear decisions and support for the public company. Furthermore, by normally exerting their influence through a corporate entity, the family members had long been adapted to doing things “the corporate way”. This mindset helped family members adjust to the changes, and eased any concern of diminishing control, when the Company went public.

The Hysan Way (continued)

- From Family Values to Corporate Values
 - Fair Play for Shareholders
 - Transparency for all
 - Social Responsibility
 - People Management: Balancing Caring Attitude with Individual Accountability



From Family Values to Corporate Values

So commitment, vision and coordinated family views helped pave the way for a family business to thrive. Along this road of progress, Hysan also made much effort in translating what were the beliefs and values of the family into values of the company. Within the ever-changing business environment, these values may be manifested in different ways. The corporate values will, in time, flourish by having lives of their own. However, it is clear that the underlying spirit of the original values remain.

Fair Play for Shareholders

Originating from the family are values of ethics and accountability. These are demonstrated in our daily management practices and operations, especially in our endeavor to ensure fair play for minority shareholders. Let's go back to the prime properties injected into the public company in 1981 as an example. When those and other properties were subsequently sold by the family's private entities to the public company, the deals were all done on an arms-length basis. They were transactions where independent advisors and valuers were used. Minority shareholders were, therefore, reassured they would not be unfairly treated over the transactions. The need for accountability was imprinted onto the public company's culture from day one.

Transparency for All

Investors of public companies, are, quite naturally, keen to gather information about what is happening behind the corporate curtains. The need for transparency has become more acute than ever since recent high profile lapses in corporate governance practices overseas.

As a public company, and especially since I joined the Company in 1999 as an executive, a lot of efforts have been directed to develop and maintain good communication channels with stakeholders to show them how we deliver our results. An example is the recent adoption of new accounting standards, where the term “profit” took on a new meaning, as revaluation gains are reflected in the income statement. For the sake of clarity, Hysan decided to put in additional indicators, including one which gives a clearer picture of profit earned from our property investment business. We appreciate the significance of clear stakeholders communications.

Social Responsibility

As I touched upon earlier, sometimes corporate value does take on a life of its own. In our case, my family believes in giving back to the community. Our private charitable foundation is known for its contributions to various aspects of Hong Kong’s educational, social and cultural development.

However, I also realize that the public company has its own set of responsibilities towards our community, which may be different from those of the foundation’s. In recent years, Hysan has created active partnerships with the government and non-governmental organizations to focus on environmental improvement and youth development, among other concerns.

The contribution focuses between the private foundation and the public company may not be the same, but again, the underlying spirit permeate and the work of each side can complement that of the other’s.

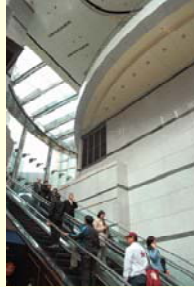
People Management: Balancing Caring Attitude with Individual Accountability

Another illustration of how we transform family values into corporate ones is over people management. In a private family business setting, the focus for staff management is likely to be “loyalty”, “trust” or “kinship”. However, as the company evolves, and especially when it becomes public, there is a need to adjust.

Hysan maintains a working environment of courtesy and respect towards our staff. The underlying value of “caring” is still in evidence. However, it is balanced with a system using objective criteria to measure performance. All staff decisions, including disciplinary ones, are handled with impartiality and fairness. We also ensure such decisions and explanations are clearly communicated to those involved. Hysan strives to incorporate the best features of a system built on compassion, into one that emphasises professionalism and quality.

The Hysan Way (continued)

- Formalised Organisational Structure: Respect for the “Rule of Law”
- Attracting the Best and Brightest: Hysan's Recruitment



Formalised Organisational Structure: Respect for the “Rule of Law”

From my description so far, I believe you can see that ever since Hysan was established, there had always been a priority to create a formalized organizational structure. This can be attributed to the family’s respect for the “rule of law”, as oppose to the more traditional thinking of “rule of man”. It started with the incorporation of the private company in 1923, expanded with the development of specialized departments within the company in the 1950’s and 60’s. From the beginning, the public company has a strong panel of non-executive board directors and the recruitment of outside professional staff to fill objectively-defined roles. The Company again took the family’s belief and turned it into a main corporate value.

Let me say a little bit more about outside directors. Hysan has always believed in the need to have outside directors. They can bring in advice and knowledge beyond the confines of the company. A majority of the public company’s first board of directors were from outside the Lee family. Most of them were already very well-established in their respective fields or industries. Like many other things within the Company and within the field of corporate governance, there has been significant evolution in the role of the outside directors as well. Now, they still bring their world of experience into our board room and these are especially invaluable during discussions on strategies and plans for the

future. They are also watchdogs to ensure the strict requirements of the law and regulatory controls are observed. They make our management team much more aware of corporate governance requirements and are more alert to our responsibilities.

Within our formalised structure are the board committees. Twenty years ago, the Emoluments Review Committee was setup. It was in recognition for the need to have independent review and assessment when it comes to determine executive directors' pay. It is still chaired by the Senior Independent non-executive Director and a majority of the members are also Independent non-executive Directors.

Earlier this year, our Board established a formal Board of Directors Mandate which set out its key responsibilities in fulfilling the leading roles of formulating strategies, as well as monitoring and controlling the Company's performance. In the context of a family-controlled company, especially one with an Executive Chairman, it is easy for stakeholders to be confused by who does what. The clear message for all is that the Board's role, the Chairman's role and the majority family's role are all different. Again, fairness to everyone, especially the minority shareholders, is the underlying objective.

Attracting the Best and Brightest: Hysan's Recruitment

With good "hardware" built in a formalized organisational structure, we now come to the need for high quality "software", a good professional team. I spoke about staff management earlier, but here I want to elaborate on how we go about getting the best professional managers to work for a business with a family as the largest shareholder. I am sure when you are looking for a job, you may wonder whether working for a company with a family as a major shareholder would constrain your career development:

"Will I be able to get ahead or having to deal with a glass ceiling of family members?"

Will I be getting fair treatment even though I am not a member of the family?"

Will I be treated as a traditional household staff?"

As the employer, I know very well that I have to help our candidates to overcome these hurdles. In this respect, I have had several lengthy discussions on these topics with some senior executives, not necessarily confined to the ones who work for our Company. Among the items discussed were the pros and cons of working for a family-controlled company, as oppose to working for a multi-national corporation. To me it is important to help the potential candidates to overcome their reservations.

As I mentioned earlier, in Hysan, the evolvement is such that the family's active management participation is limited to one person, so a lot of the concerns about fair treatment and glass ceilings can be discarded right away. It is important to have fairness in hiring, so I have not and will not hire outside friends to work in my organisation. If it happens that a friend of mine is possibly a very well qualified candidate for a particular vacancy or position in my company, I shall ask my other directors or colleagues to assess the matter independent of me.

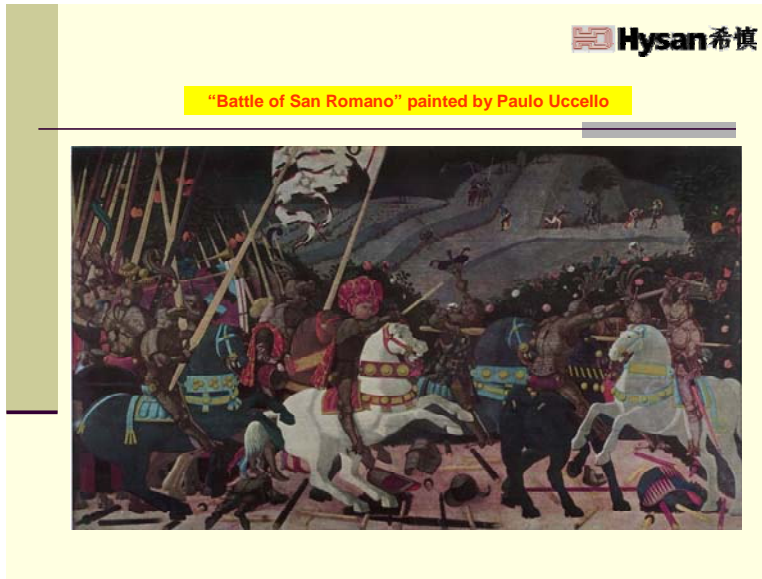
This leads me to talk about our open search for a Chief Executive Officer, which is the next evolutionary step.

We very much value our human resources. In order to maximise the talent pool and to find the best available person to help take Hysan forward, we must cast our nets far and wide. The candidates should not be limited to members of the family, nor only to those from the jurisdiction of Hong Kong. There was never any concern in my mind that an open search should not be done, and it is very supportive of my Board to believe in the same way.

Some reporters were asking me the other day about our CEO search. I told them that we are trying to find someone not just for his or her business achievements, but more importantly, also for a good fit into our corporate values and culture. I firmly believe to guarantee long-term success for the business, the right person for the CEO position must also have a set of values that are similar to those of the Company's.

In fact, the success of a company should be about more than one person. It is more important that our whole professional team work together with me to succeed in our endeavours.

Conclusion



I would like to conclude my speech today with a painting that has captured my attention and imagination since I first saw it as a young boy in a museum overseas. It is called the “Battle of San Romano”, painted by Paolo Uccello, an Italian painter, in the 15th century. The two opposing sides were Florence and Siena, and the Florentines were the victors in this battle. This was one of the many battles fought between small European states in those days. When I first saw it, it was the action, the preparedness of the soldiers and the colours that struck me the most. After I started working, and especially where my jobs require that I take the lead, whenever I see this painting again, another message comes out clearly. In battle, and there are many in the commercial world, I cannot fight the battle alone. The Florentines won because they fought as a disciplined team. Notice the victorious knights all carry their lances at the same angle. They have the same identity and they move in one direction.

Finally, I am also reminded by this painting that the scene depicted here is only one moment in a battle. In order to win the war, clear directions and support for the best selected troops must continue to be given.

This is similarly our belief at Hysan and I am continuing this march with my colleagues.

Thank you.