

CORPORATE GOVERNANCE BEST PRACTICES

Hysan's Statement of Adherence

The Board is 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 (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). 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.

The following sets out the Company's compliance with corporate governance best practices, including taking into consideration the Draft Code On Corporate Governance Practices proposed by Stock Exchange in January 2004.

Guidelines for Corporate Governance	Does the Company Align?	Governance Procedures for the Company
Directors		
(i) The Board: responsibility for leadership and control of the Company	✓	<ul style="list-style-type: none"> The Board is responsible to the shareholders for leadership and supervision of Group management and represents their interests in maintaining and growing a successful business. 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.
(ii) Chairman & CEO: clear division of responsibilities	✓	<ul style="list-style-type: none"> Peter T.C. Lee served as the Chairman. The Chairman 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 split. Chairman focuses on Group strategic and Board issues. Managing Director has overall chief executive responsibility for Group operations and development generally.
(iii) Board Composition: balance and independence	✓	<ul style="list-style-type: none"> The Board currently comprises three executive Directors (Chairman, Managing Director and Director, Property) and eight non-executive Directors (including three Independent non-executive Directors comprising not less than one-third of the full Board). The Board considers that the three Independent non-executive Directors (Sir David Akers-Jones, Per Jorgensen and Dr. Geoffrey M.T. Yeh) are free from any business or other relationship which might interfere with the exercise of their independent judgment. The presence of an Independent non-executive Deputy Chairman is designed to ensure that the Board functions effectively and independent of management where appropriate. Sir David Akers-Jones, as the Independent non-executive Deputy Chairman, is also chairing the two corporate governance committees, namely the Audit Committee and Emoluments Review Committee. Both committees have a majority of Independent non-executive Directors. The biographies of the Directors appear on pages 36 and 37. These demonstrate a range of experience and calibre to bring judgment on issues of strategy, performance, and resources.
(iv) Appointments, Re-election and Removal: formal, considered and transparent procedures	✓	<ul style="list-style-type: none"> 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. 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. New Directors are required to submit themselves to shareholders for re-election to the Board at the first annual general meeting following their appointment. Currently, it takes each Director not exceeding four years to rotate which the Board considers satisfactory.

CORPORATE GOVERNANCE BEST PRACTICES *continued*

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(v) Responsibilities of Directors: general duties, share dealings and continual development	✓	<ul style="list-style-type: none"> • The Directors fully appreciate their role and duties as directors and are supportive of building a healthy corporate governance culture. • On appointment, new Directors will be given a comprehensive orientation package, including introduction to Group activities, induction into their responsibilities and duties, and other regulatory requirements. • The Company Secretary is responsible for keeping all Directors updated on Listing Rules, regulatory requirements, as well as internal codes of conduct of the Company. (Also see section Board Process – “Supply of Information” below). • Throughout the year, Directors complied with the required standard set out in the Model Code set out in Appendix 10 to the Listing Rules regarding directors' securities. The Board has adopted in March 2004 a new code of Directors' share dealings in line with changes to be introduced to the Model Code effective 31 March 2004. 																																
Board Process																																		
(i) Meetings: matters reserved for full Board decision and general proceedings	✓	<ul style="list-style-type: none"> • The Board meets at least quarterly. • There is a defined schedule of matters reserved for full Board decision, including material bank facilities, material acquisitions and disposals, and material transactions with connected parties. • 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. The Company Secretary is responsible for taking minutes of Board and Board Committee meetings, which should be sent to Directors within a reasonable time (generally within 14 days) after each meeting and generally be made available for inspection by Directors. • There is an agreed procedure for Directors to take independent professional advice at Company's expense. • There is in place a directors' and officers' liabilities insurance cover. • Details of Directors' 2003 meetings attendance (excluding the board meeting held in May 2003 as certain oversea Directors were precluded from attending the meeting owing to SARS outbreak in Hong Kong) are set out below: <p style="text-align: right;">Attendance (%)</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" data-bbox="783 1585 975 1610">Executive Directors</td> </tr> <tr> <td data-bbox="783 1612 1134 1637">Peter T.C. Lee</td> <td data-bbox="1134 1612 1203 1637" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 1639 938 1664">Michael T.H. Lee</td> <td data-bbox="1134 1639 1203 1664" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 1666 986 1691">Pauline W.L. Yu Wong</td> <td data-bbox="1134 1666 1203 1691" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 1693 948 1718">Michael C.K. Moy</td> <td data-bbox="1134 1693 1203 1718" style="text-align: right;">100%</td> </tr> <tr> <td colspan="2" data-bbox="783 1742 1145 1767">Independent non-executive Directors</td> </tr> <tr> <td data-bbox="783 1769 986 1794">Sir David Akers-Jones</td> <td data-bbox="1134 1769 1203 1794" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 1796 1086 1850">Dr. Victor K.K. Fung (stepped down on 13 May 2003)</td> <td data-bbox="1134 1796 1362 1850" style="text-align: right;">50% (out of 2 meetings during his term)</td> </tr> <tr> <td data-bbox="783 1852 916 1877">Per Jorgensen</td> <td data-bbox="1134 1852 1203 1877" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 1879 975 1904">Dr. Geoffrey M.T. Yeh</td> <td data-bbox="1134 1879 1203 1904" style="text-align: right;">100%</td> </tr> <tr> <td colspan="2" data-bbox="783 1928 1023 1953">Non-executive Directors</td> </tr> <tr> <td data-bbox="783 1955 903 1980">Fa-kuang Hu</td> <td data-bbox="1134 1955 1390 1980" style="text-align: right;">75% (25% by his alternate)</td> </tr> <tr> <td data-bbox="783 1982 979 2007">Hans Michael Jebsen</td> <td data-bbox="1134 1982 1187 2007" style="text-align: right;">75%</td> </tr> <tr> <td data-bbox="783 2009 943 2033">Anthony H.P. Lee</td> <td data-bbox="1134 2009 1203 2033" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 2036 879 2060">Chien Lee</td> <td data-bbox="1134 2036 1203 2060" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 2063 1027 2087">Dr. Deanna R.T.Y. Rudgard</td> <td data-bbox="1134 2063 1398 2087" style="text-align: right;">66% (33% by her alternate)</td> </tr> </table>	Executive Directors		Peter T.C. Lee	100%	Michael T.H. Lee	100%	Pauline W.L. Yu Wong	100%	Michael C.K. Moy	100%	Independent non-executive Directors		Sir David Akers-Jones	100%	Dr. Victor K.K. Fung (stepped down on 13 May 2003)	50% (out of 2 meetings during his term)	Per Jorgensen	100%	Dr. Geoffrey M.T. Yeh	100%	Non-executive Directors		Fa-kuang Hu	75% (25% by his alternate)	Hans Michael Jebsen	75%	Anthony H.P. Lee	100%	Chien Lee	100%	Dr. Deanna R.T.Y. Rudgard	66% (33% by her alternate)
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Guidelines for Corporate Governance	Does the Company Align?	Governance Procedures for the Company
(ii) Supply of Information: quality and timeliness	✓	<ul style="list-style-type: none"> • The Company aims to continually improve on the quality and timeliness of the dissemination of information to Directors. The Chairman is responsible for ensuring adequate supply of information to Directors. • The Company aims to give notice of Board meetings at least 21 days in advance. The agenda and accompanying board papers will be sent in full to all Directors in a timely manner (currently at least five clear days in advance of meeting). Where appropriate, communications are sent electronically. • Directors are regularly provided with comprehensive reports on the management's strategic plans, updates on lines of business, financial objectives, plans and actions. • Business unit heads are also invited to attend meetings from time to time to update Directors on their lines of business.
Remuneration of Directors		
Formal and transparent procedures for Emoluments Review Committee to set executive Director remuneration policy	✓	<ul style="list-style-type: none"> • The Company set up an Emoluments Review Committee in 1987. Its terms of reference are to review and determine the remuneration packages for all executive Directors. • The Emoluments Review Committee is chaired by the Independent non-executive Deputy Chairman, Sir David Akers-Jones, with a majority of Independent non-executive Directors. Its other current members are F. K. Hu and Dr. Geoffrey M. T. Yeh (Independent non-executive Director). • The Chairman makes recommendations to the Committee on the Company's framework for, and cost of, executive Director remuneration and the Committee then reviews these recommendations. • No Director is involved in deciding his own remuneration. On matters other than those concerning him, the Chairman or Managing Director may be invited to Committee meetings. • There is an agreed procedure for Committee members to take independent professional advice at Company's expense. • The Committee met once in 2003, with a 100% attendance. No executive Director attended the Emoluments Review Committee meeting. • The Committee presents a report to the Board after each meeting, which addresses its work and findings. • Details of the level of the Directors' remuneration (including a recent review conducted by the Committee in November 2003), service contracts, compensation and interests in shares are set out in the Directors' Remuneration and Interests Report on page 53.
Accountability and Audit		
(i) Financial Reporting: balanced, clear and comprehensive assessment of Company's performance, position of prospects	✓	<ul style="list-style-type: none"> • The Board believes that it presents a comprehensive, balanced and understandable assessment of the Group position and prospects in all shareholder communications. • The Board fully appreciates its responsibilities regarding the preparation of financial statements. A Statement of Directors' Responsibilities for the Financial Statements is set out on page 58.

CORPORATE GOVERNANCE BEST PRACTICES *continued*

Hysan's Statement of Adherence

Guidelines for Corporate Governance	Does the Company Align?	Governance Procedures for the Company
(ii) Audit Committee and Auditors: terms of reference and relationship with management and external auditors	✓	<ul style="list-style-type: none"> • The Audit Committee is chaired by the 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. All members have experience in reviewing or analyzing audited financial statements of public companies or major organisations. • The Committee meets not less than twice per annum. Meetings are also attended by invitation by the Managing Director and the Chief Financial Officer. • It has a 100% meetings attendance in 2003. • Under its terms of reference, the Committee is required, amongst other things, to oversee the relationship with external auditors, to review the Company's interim and annual financial statements, and to evaluate Group system of internal controls. • There is an agreed procedure for Audit Committee members to take independent professional advice at Company's expense. • Relationship with management and external auditors: <ul style="list-style-type: none"> - the Committee oversees the financial reporting 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. • 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 59.
(iii) Auditor Independence	✓	<ul style="list-style-type: none"> • During the year, the fees paid to the Company's external Hong Kong auditors for non-audit or review related activities amounted to HK\$99,400, comprising tax representative services fees of HK\$97,400 and miscellaneous services fees of HK\$2,000.
(iv) Internal Control: sound and effective system to safeguard shareholder interests and Company assets	✓	<ul style="list-style-type: none"> • Risk management is a crucial part of the Group's strategic management. The Group is committed to implementing effective risk management policies and internal control procedures to identify and manage the risks that the Group may be exposed to. These policies and procedures are reviewed regularly by management to ensure their effectiveness and compliance with best practices. • 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 finding and risk management. In 2003, management engaged an external consultant to carry out a review on the internal controls of the treasury and payment process. The result of the review is found to be satisfactory.

Guidelines for Corporate Governance	Does the Company Align?	Governance Procedures for the Company
		<ul style="list-style-type: none"> • Financial Risks <ul style="list-style-type: none"> - Financial Risk Management Policy - this policy, approved by the Board, identifies and lays down the guiding principles on the management of major financial risks including liquidity risk, funding risk, currency risk, interest rate risk, and the use of appropriate hedging instruments. - investment appraisal - the spending on capital expenditures is subject to close scrutiny. Detailed analysis on expected risks and returns are submitted to division heads, executive Directors or the Board for consideration and approval, depending on strategic importance, cost / benefit and the size of the projects. The criteria for assessment of financial feasibility is generally on net present value and internal rate of return from projected cash flow. - credit control - with a very tight control on credit risk, the Group has been successful in maintaining a negligible rate of delinquency on revenue, even under the economic downturn in the last few years. • Operating Risks <ul style="list-style-type: none"> - process - the Group has an on-going process for identifying, evaluating and managing significant operating risks faced by the Group. This process is reviewed regularly by management. In the light of SARS outbreak in 2003, property management services business continuity plan was tested and successfully implemented. - insurance cover - the Group has in place insurance cover to transfer certain significant operational risks. The scope and levels of the cover are reviewed by the management on a yearly basis. The Group has appointed an international insurance broker to provide independent professional advice.
Delegation by Board.		
(i) Relationship with management	✓	<ul style="list-style-type: none"> • The Hysan Board and management fully appreciate their respective roles and are supportive of building a healthy corporate governance culture. • The Board is responsible for overseeing the processes that management has in place to identify business opportunities and risks. The Board's role is not to manage the business which responsibility remains vested with management.
(ii) Board Committees: specific terms of reference and report to full Board	✓	<ul style="list-style-type: none"> • The Board currently has three Board Committees, namely the Audit Committee, Emoluments Review Committee and Investment Committee, with specific terms of reference. • The Audit and Emoluments Review Committees, being corporate governance committees, each has a 100% non-executive membership with a majority of Independent non-executive Directors. (Also see sections above). • The Group's Investment Committee comprises the Chairman, Managing Director, Hans Michael Jebesen, with Anthony H. P. Lee as the Chairman. The four 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. • Board Committees present their respective reports to the Board after each meeting, which addresses their work and findings.

CORPORATE GOVERNANCE BEST PRACTICES *continued***Hysan's Statement of Adherence**

Guidelines for Corporate Governance	Does the Company Align?	Governance Procedures for the Company
Communication with Shareholders		
(i) General communication programme with stakeholders	✓	<ul style="list-style-type: none"> • 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. • The Group had in operation during 2003 a communication programme, and will continue to enhance the same. • Communication is made through: <ul style="list-style-type: none"> - the Company's annual and interim reports, which have 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 Stock Exchange 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 website at http://www.hysan.com.hk from which shareholders can access information on the Group. The website provides, inter alia, corporate announcements, press releases, annual reports, and corporate information of the Group
(ii) Shareholder Communications: constructive use of annual general meetings (voting and general proceedings)	✓	<ul style="list-style-type: none"> • The Board welcomes moves towards a more constructive use of Annual General Meetings and regards the Annual General Meetings as the principal opportunity to meet private shareholders. In 2003, all executive Directors and a majority of Independent non-executive Directors (including Sir David Akers-Jones, chairman of Audit Committee and Emoluments Review Committee) attended the Annual General Meeting. • 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. • All ordinary shares of the Company have equal voting rights. Annual General Meeting proceedings are continually reviewed in the light of corporate governance best practices: <ul style="list-style-type: none"> - separate resolutions are proposed at the meeting on each substantially separate issue, including the election of individual Directors. - results of the proxies votes received by the Company are made available on the Company's website at www.hysan.com.hk. - preparation of a comprehensive yet user-friendly Annual General Meeting circular containing: <ul style="list-style-type: none"> • detailed report on voting procedures (including procedures for demanding a poll) presented in a user-friendly "frequently-asked-questions-and-answers" format • comprehensive information on each resolution to be proposed • biographies and interests of Directors standing for re-election inserted for ease of reference
(iii) Shareholder rights and shareholdings information	✓	<ul style="list-style-type: none"> • Information on top 10 largest shareholders and location of shareholders is set out in Directors' Report on page 43.

By order of the Board
Wendy W.Y. Yung
 Company Secretary

Hong Kong, 9 March 2004