

ADDITIONAL INFORMATION

STATEMENT OF CORPORATE GOVERNANCE POLICY

The Board of Directors is committed to maintaining a high standard of corporate governance. None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2004, in compliance with 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 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 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 (Chairman, Managing Director and Director, Property) and eight other 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 split. 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.

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.

Board Process

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.

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.

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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. A 100% of non-executive membership of the principal corporate governance committees (Audit and Emoluments Review), with a majority of independent non-executive Directors, is retained. During the 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, its other members are Per Jorgensen (Independent non-executive Director) and Chien Lee. It meets not less than twice per annum. All members have experience in reviewing or analyzing audited financial statements of public companies or major organization.

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.

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 2004 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 and Geoffrey M. T. Yeh (Independent non-executive Director).

The function of the Committee is to review and determine the remuneration of the executive Directors. 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. On matters other than those concerning him, the Chairman may be invited to Committee meetings. No Director is involved in deciding his own remuneration.

A separate "Directors' Remuneration and Interests Report" in 2003 Annual Report sets out details of the level of the Directors' remuneration including remuneration breakdown of each individual executive Directors on "named" basis.

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 Company's annual and interim reports, announcement and press releases; and holding regular briefings and meetings for analysts and the media, as appropriate. The Group will continue to enhance the communication programme.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2004, the interests and short positions of the Directors and alternate Directors in the shares, 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 of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

Interests in 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	0.581
Michael Tze Hau Lee	1,023,233	—	—	—	1,023,233	0.098
Fa-kuang Hu	—	—	255,012 (Note 2)	—	255,012	0.024
Hans Michael Jebsen	60,000	—	2,432,914 (Note 1)	—	2,492,914	0.238
Per Jorgensen	6,678	—	—	—	6,678	0.001
Chien Lee	970,000	—	4,083,823 (Note 1)	3,650,000 (Note 3)	8,703,823	0.831
Deanna Ruth Tak Yung Rudgard	1,871,600	—	—	—	1,871,600	0.179
Pauline Wah Ling Yu Wong	104,000	—	—	—	104,000	0.010
Geoffrey Meou-tsen Yeh	252,332	—	1,000 (Note 1)	—	253,332	0.024
V-nee Yeh (alternate to Geoffrey Meou-tsen Yeh)	43,259	—	84,575 (Note 1)	—	127,834	0.012

All interests stated above represent long positions.

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

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 a beneficiary.
- * This percentage has been compiled based on the total number of shares of the Company in issue as at 30 June 2004 (i.e. 1,047,930,618 ordinary shares)

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 3% of the issued share capital of the Company (excluding shares issued pursuant to the Scheme) from time to time.

As at 30 June 2004, Scheme participants were executive Directors of the Company with shares issuable under options granted representing less than 0.3% of the issued share capital of the Company. Options expiring, granted and outstanding to them during the period are as follows:

Name	Balance as at 1.1.2004	Date of grant	Changes During the Period			Balance as at 30.06.2004	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

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 period, options to subscribe for 300,000 shares at an exercise price of HK\$7.54 per share were exercised (closing market price per share immediately before the date of exercise: HK\$15). Options for 900,00 shares of the Company lapsed upon the resignation of a grantee.

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.

Apart from the Scheme, at no time during the review period 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.

Interests in Shares of Associated Corporations

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

Name	No. of shares held	% of the issued share capital
Fa-kuang Hu	5,000 (Note 4)	50
Raymond Liang-ming Hu (alternate to Fa-kuang Hu)	5,000 (Note 4)	50

Notes:

- (4) 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 2004 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

As at 30 June 2004, the interests or short positions of every person, other than Directors or the chief executive 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:-

Name	Capacity	No. of shares	% of the issued share capital*
Lee Hysan Estate Company, Limited	Interests of controlled corporations	429,046,912 (Note 1)	40.94
Lee Hysan Company Limited	Interests of controlled corporations	429,046,912 (Note 1)	40.94
J.P. Morgan Chase & Co.	(Note 2)	52,227,868	4.98

All interests stated above represent long positions.

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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 investment manager (holding 17,812,500 shares) and custodian/approved lending agent (holding 34,415,368 shares).
- * The percentage has been compiled based on the total number of shares of the Company in issue as at 30 June 2004 (i.e. 1,047,930,618 ordinary 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 2004.

COMPLIANCE OF THE MODEL CODE FOR DIRECTORS' SHARE DEALING

The Board has adopted in March 2004 a new code of Directors' share dealings in line with the changes in the Listing Rules effective 31 March 2004. All Directors have confirmed, following specific enquiry by the Company, that they complied with the required standard 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 maximize 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 maximizing our efficiency to deliver shareholder value.

As at 30 June 2004, the total number of employees was 534, and there have been no material changes in respect of employee remuneration, remuneration policies and staff development as disclosed in Annual Report 2003.