

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and management of the Company are committed to maintaining high standards of corporate governance. The Board had 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. In addition to complying with applicable statutory requirements, we aim to continually review and enhance our corporate governance practices in light of local and international best practices. We are honoured to have received recognitions from professional and industry bodies during 2004: Best Practice Awards 2004 – Corporate Governance, organised by Best Practice Management Limited; Directors of The Year Awards 2004, organised by The Hong Kong Institute of Directors; and 2004 Best Corporate Governance Disclosure Awards, organised by the Hong Kong Institute of Certified Public Accountants.

The Company has complied throughout the review year with 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”). We have also implemented early adoption of the Stock Exchange’s proposed Code (the “New Corporate Governance Code”) on Corporate Governance Practices.

The Company has introduced corporate governance best practices in certain key areas above and beyond the Stock Exchange’s current and proposed requirements. These are more particularly set out in this report. They include:

1. introducing a formal process for board evaluation;
2. establishing the office of an Independent non-executive Deputy Chairman acting as a “senior” Independent non-executive Director;
3. enhancing shareholder communications generally, including institutional shareholder communications;
4. emphasising business ethics and integrity; and
5. providing enhanced disclosure on shareholdings information.

We aim to provide greater transparency of our corporate governance practices beyond the requirements of the Stock Exchange’s proposed corporate governance report. To us, maintaining high standards of corporate governance practices is more than a mechanical compliance exercise. We have therefore set out in this report our guiding principles as well as detailed procedures in application. Additional information on certain corporate governance areas is set out in the following separate reports:

- Audit Committee Report;
- Directors’ Remuneration and Interests Report; and
- “Financial Prudence and Managing Risks” – report on Internal Controls and Risk Management.

STATEMENT OF COMPLIANCE

A. Directors

A1. The Board

Code Principle

The board should assume responsibility for leadership and control of the issuer; and be responsible for directing and supervising the issuer's affairs.

Hysan's Corporate Governance Best Practice

To Hysan, board mission is central to any discussions on directors and board practices. Hysan recognises that non-executive directors have two important roles. Firstly, strategic planning and, secondly, monitoring. This is clearly stated in Hysan's Corporate Governance Guidelines: Mission of the Board of Directors:

"The Board of Directors represents the shareholders' interest in maintaining and growing a successful business including optimising consistent long-term financial returns. The Board is accountable for determining that the Company and its subsidiaries are managed in such a way as to achieve this objective. The Board's responsibility is, firstly, to formulate strategy and, secondly, to monitor and control operating and financial performance in pursuit of Group strategic objectives."

Procedures – Code provisions and recommended best practice

Hysan's Corporate Governance Best Practice

Hysan has in place established Board process. Hysan's practices are more stringent than Code provisions in various areas, including notice of Board meetings and keeping of meeting records.

Code provisions	Alignment?	Governance procedures for Hysan																														
<ul style="list-style-type: none"> At least four board meetings a year. 	✓	<ul style="list-style-type: none"> The Board meets at least quarterly. Details of Directors' attendance records in 2004: <table style="width: 100%; margin-left: 20px;"> <thead> <tr> <th></th> <th style="text-align: right;">Attendance (%)</th> </tr> </thead> <tbody> <tr> <td colspan="2">Executive Directors</td> </tr> <tr> <td>Peter T.C. Lee</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Michael T.H. Lee</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Pauline W.L. Yu Wong</td> <td style="text-align: right;">100</td> </tr> <tr> <td colspan="2">Independent non-executive Directors</td> </tr> <tr> <td>Sir David Akers-Jones</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Per Jorgensen</td> <td style="text-align: right;">75 (25 by alternate)</td> </tr> <tr> <td>Dr. Geoffrey M.T. Yeh</td> <td style="text-align: right;">75 (25 by alternate)</td> </tr> <tr> <td colspan="2">Non-executive Directors</td> </tr> <tr> <td>Fa-kuang Hu</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Hans Michael Jebesen</td> <td style="text-align: right;">50</td> </tr> <tr> <td>Anthony H.P. Lee</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Chien Lee</td> <td style="text-align: right;">75</td> </tr> <tr> <td>Dr. Deanna R.T.Y. Rudgard</td> <td style="text-align: right;">75 (25 by alternate)</td> </tr> </tbody> </table> 		Attendance (%)	Executive Directors		Peter T.C. Lee	100	Michael T.H. Lee	100	Pauline W.L. Yu Wong	100	Independent non-executive Directors		Sir David Akers-Jones	100	Per Jorgensen	75 (25 by alternate)	Dr. Geoffrey M.T. Yeh	75 (25 by alternate)	Non-executive Directors		Fa-kuang Hu	100	Hans Michael Jebesen	50	Anthony H.P. Lee	100	Chien Lee	75	Dr. Deanna R.T.Y. Rudgard	75 (25 by alternate)
	Attendance (%)																															
Executive Directors																																
Peter T.C. Lee	100																															
Michael T.H. Lee	100																															
Pauline W.L. Yu Wong	100																															
Independent non-executive Directors																																
Sir David Akers-Jones	100																															
Per Jorgensen	75 (25 by alternate)																															
Dr. Geoffrey M.T. Yeh	75 (25 by alternate)																															
Non-executive Directors																																
Fa-kuang Hu	100																															
Hans Michael Jebesen	50																															
Anthony H.P. Lee	100																															
Chien Lee	75																															
Dr. Deanna R.T.Y. Rudgard	75 (25 by alternate)																															
<ul style="list-style-type: none"> All directors be given an opportunity to include matters in the agenda for regular board meetings. 	✓	<ul style="list-style-type: none"> Directors are consulted to include any matter in the agenda for regular Board meetings. 																														
<ul style="list-style-type: none"> Notice of at least 14 days be given of a regular board meeting. 	✓	<ul style="list-style-type: none"> The Company generally gives notice and draft agenda of regular Board meetings at least 21 days in advance. The Company aims at giving reasonable notice generally for all other Board meetings. 																														
<ul style="list-style-type: none"> Access to advice and services of the company secretary. 	✓	<ul style="list-style-type: none"> 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. 																														

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Minutes of meetings kept by company secretary and open for inspection. Draft and final minutes sent to all Directors for comments within a reasonable time. 	✓	<ul style="list-style-type: none"> The Company Secretary is responsible for taking minutes of Board and Board Committee meetings, which would be sent to Directors within a reasonable time (generally within 14 days) after each meeting and generally be made available for inspection by Directors/committee members.
<ul style="list-style-type: none"> Agreed procedure for Directors to seek independent professional advice at the company's expense. 	✓	<ul style="list-style-type: none"> Hysan's corporate governance guidelines provide for Directors taking independent professional advice at the Company's expense.
<ul style="list-style-type: none"> If a substantial shareholder/director has a conflict of interest in a material matter, board meeting should be held. Such director must abstain from voting and not be counted in quorum. 	✓	<ul style="list-style-type: none"> There is a prescribed list of matters reserved for full Board decision which includes material transactions with connected persons. For this category, full Board meetings will be held instead of by way of circulation. The Company's articles provide for voting and quorum requirements conforming with Code requirements.
Recommended Best Practice		
<ul style="list-style-type: none"> Insurance cover in respect of legal action against directors. 	✓	<ul style="list-style-type: none"> There is in place a Directors' & Officers' Liabilities Insurance cover.
<ul style="list-style-type: none"> Board committees should adopt broadly the same principles and procedures. 	✓	<ul style="list-style-type: none"> Board committees adopt broadly the same principles and procedures as stated above.

A2. Chairman and Chief Executive Officer

Code Principle

Clear division of responsibilities – separate offices of chairman and chief executive officer to ensure a balance of power and authority.

Hysan's Corporate Governance Best Practice

Hysan generally support the principles of (i) splitting the roles of Chairman and Managing Director; and (ii) board independence. This is provided in Hysan Corporate Governance Guidelines: Principle 4 – Chairman and Managing Director:

"a) The roles of Chairman and Managing Director are currently separate.

b) The Board supports the principle of Board independence and continually reviews the implementation of this principle. Currently, a "senior" Independent non-executive Director has been identified and acts as the Independent Deputy Chairman of the Board. The "senior" non-executive Director may also assume such responsibilities as might be designated by the Board."

Procedures – Code provisions and recommended best practice

Hysan's Corporate Governance Best Practice

Hysan's practices go beyond Code provisions in a number of areas:

- Establishment of the office of a "senior" Independent non-executive Director – Sir David Akers-Jones acts as the Independent non-executive Deputy Chairman of the Board, who also chairs the Hysan corporate governance related committees, namely the Audit Committee and the Emoluments Review Committee. The presence of an Independent non-executive Deputy Chairman is designed to ensure the Board functions effectively and independent of management where appropriate.
- Introduction of a formal board evaluation process.
- Active role played by the Chairman in driving corporate governance developments in the Company.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Roles of chairman and chief executive officer should be separate; clearly established and set out in writing. 	✓	<ul style="list-style-type: none"> Peter T.C. Lee serves as the Chairman and Michael T.H. Lee serves as the Managing Director. The Chairman focuses on Group strategic and Board issues. The Managing Director has overall chief executive responsibility for Group operations and development generally.
<ul style="list-style-type: none"> The Chairman should ensure all directors be briefed on issues arising at the board meeting. 	✓	<ul style="list-style-type: none"> The Chairman has a clear responsibility to provide the whole Board with all the information that is relevant to the discharge of the Board's responsibilities. The Company aims to continually improve on the quality and timeliness of the dissemination of information to Directors. (See Section A6 – "Supply of and access to information" for further details)
<ul style="list-style-type: none"> The Chairman should ensure directors to receive adequate information. 		
Recommended Best Practice		
Various recommended roles for Chairman including: <ul style="list-style-type: none"> Drawing up and approving board agenda. 	✓	<ul style="list-style-type: none"> The agenda of Board meetings is finalised by the Chairman in consultation with executive Directors and Company Secretary after taking into consideration any matters proposed by the non-executive Directors.
<ul style="list-style-type: none"> Establishment of ensuring good corporate governance practices and procedures. 	✓	<ul style="list-style-type: none"> The Chairman plays a key role in driving corporate governance development in the Company. New initiatives introduced in 2005: <ul style="list-style-type: none"> introducing a formal process for Board evaluation; enhanced shareholder communications generally including institutional shareholder communications; enhanced business ethics practices.
<ul style="list-style-type: none"> Encourage directors to make a full and active contribution to board affairs. 	✓	<ul style="list-style-type: none"> Hysan goes beyond recommended best practices and now has in place a formal process of Board evaluation. Under the direction of the Chairman, the Board considers its performance as a group. As part of the evaluation process, the non-executive Directors met with the Chairman and feedback was provided on various areas including Board process, and the relationship between Board and management.
<ul style="list-style-type: none"> At least annually hold meetings with non-executive directors without executive directors present. 		
<ul style="list-style-type: none"> Facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and non-executive directors. 		

A3. Board composition

Code Principle

The board should have a balance of skills and experience appropriate to the requirements of the business of the issuer, which also consists of a balanced composition of executive and non-executive directors (including independent non-executive directors) so that independent judgment can effectively be exercised.

Hysan's Corporate Governance Best Practice

Diversity

Hysan's Board members bring an appropriate diverse set of experience, competencies, skills and judgment to the Board. From our experience, diversity of background and experience lead to more effective Board deliberations.

Skill/experience

Executive Directors

- Top management (overall strategic direction and daily operations of Hysan) – Peter T.C. Lee (Chairman) and Michael T.H. Lee (Managing Director)
- Business line – Pauline W.L. Yu Wong (Director, Property)

Independent non-executive Directors

- Civil service – Sir David Akers-Jones (Independent non-executive Deputy Chairman)
- Multi-national corporations/global exposure – Per Jorgensen
- Related business (construction) – Dr. Geoffrey M.T. Yeh

Non-executive Directors

- Related business (real estate and investment) – F.K. Hu
- Trading companies/global exposure – Hans Michael Jebsen
- Finance and investment – Chien Lee and Anthony H.P. Lee
- Professional – Dr. Deanna R.T.Y. Rudgard

Independence

Hysan supports the principle of Board independence. This is stated in our Corporate Governance Guidelines: Principle 6 – What constitutes independence for outside directors:

“The Board believes that independence is a matter of judgment and conscience but that, in order to be independent, non-executive Directors should be free from any business or other relationship that might interfere with the exercise of their independent judgment. Directors considered to be independent will be identified in the Annual Report and other communications with shareholders.”

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

The current Hysan Board structure, including the presence of the Independent non-executive Deputy Chairman (who also chairs two corporate governance related Board committees), is designed to ensure that our Board functions effectively and independent of management where appropriate.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • Identify the independent non-executive directors in all corporate communications. 	✓	<ul style="list-style-type: none"> • Composition of the Board, by category of Directors, including names of Chairman, executive Directors, Independent non-executive Directors and non-executive Directors is disclosed in all corporate communications.
Recommended Best Practice		
<ul style="list-style-type: none"> • Independent non-executive directors should represent at least one-third of the board. 	✓	<ul style="list-style-type: none"> • Hysan Board comprises three Independent non-executive Directors representing one-third of the full Board.
<ul style="list-style-type: none"> • Maintain on the website an updated list of its directors identifying their role, function and (where applicable) independence. 	✓	<ul style="list-style-type: none"> • Biographies of Directors, including clear designation of their roles and responsibilities, are maintained on the website.

A4. Appointments, re-election and removal

Code Principle

Formal, considered and transparent procedures should be established for the appointment of new directors. Significant emphasis should also be placed on issue of succession planning.

Hysan’s Corporate Governance Best Practice

The Board as a whole is responsible for the procedure of agreeing to the appointment of its own members and for nominating them for election by the shareholders on first appointment and thereafter at regular intervals by rotation.

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.

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

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. The full terms of reference are available on the Company’s website: www.hysan.com.hk.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Non-executive directors should be appointed for a specific term, subject to re-election. All directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meeting. Every director should be subject to rotation at least once every three years. 	✓	<ul style="list-style-type: none"> Subject to shareholders' approval at the forthcoming Annual General Meeting ("AGM"), the Company's Articles of Association will be amended so that every Director shall be subject to retirement by rotation at least once every three years. Under the Company's Articles, new Directors are required to submit themselves for re-election at the first AGM following their appointment.
Recommended Best Practice		
<ul style="list-style-type: none"> Election of an independent non-executive director serving more than nine years – explanatory statement to provide information on his independence. 	✓	<ul style="list-style-type: none"> The AGM circular contains detailed information on election of Directors including detailed biographies, interests, and (where appropriate) independence of all Directors standing for re-election.
<ul style="list-style-type: none"> The issuer should establish a nomination committee, comprising a majority of independent non-executive directors. 	✓	<ul style="list-style-type: none"> In March 2005, the Board established a Nomination Committee comprising a majority of Independent non-executive Directors.

A5. Responsibilities of directors

Code Principle

All directors (including non-executive directors) are required to keep abreast of their responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer.

Hysan's Corporate Governance Best Practice

The roles of Hysan's Directors are clearly stated in Hysan's Corporate Governance Guidelines – The mission of the Board of Directors.

Procedures – Code provisions and recommended best practice

Hysan's Corporate Governance Best Practice

Hysan has in place clear corporate governance policy and process to ensure that all Directors fully appreciate their roles and responsibilities.

The Company Secretary is responsible for keeping Directors updated on all regulatory changes, including organising appropriate continuing development programmes for Directors. Comprehensive orientation package will be given to all Directors on appointment.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Every newly appointed director should receive a comprehensive, formal induction to ensure that he has a proper understanding of the business; his responsibilities under the Listing Rules, applicable regulatory requirements, business and governance policies of the issuer. 	✓	<ul style="list-style-type: none"> 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. Non-executive Directors are regularly provided with comprehensive reports on the management's strategic plans, updates on lines of business, financial objectives, plans and actions. The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other statutory requirements.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Functions of non-executive directors include: <ul style="list-style-type: none"> - bring an independent judgment at the board meeting - take the lead where potential conflicts of interests arise - serve on committees if invited - scrutinise the issuer's performance. 	✓	<ul style="list-style-type: none"> Strategic planning and monitoring are two distinct but intertwined roles of Hysan Directors. Strategic planning should be based on an identification of the opportunities and the full ranges of risks that will determine which of these opportunities are worth pursuing. On an on-going basis, the Board will review with management how the strategic environment is changing, what major risks and opportunities have emerged, how they are being managed and what, if any, adjustments in strategic direction would be required. There is satisfactory attendance for Board and Board Committee meetings in 2004.
<ul style="list-style-type: none"> Directors should ensure that they can give sufficient time and attention to the affairs of the issuer. 		
<ul style="list-style-type: none"> Directors must comply with their obligations under the Model Code set out in Appendix 10. 	✓	<ul style="list-style-type: none"> Throughout the year, Directors complied with the required standards of the Model Code set out in Appendix 10 to the Listing Rules regarding Directors' securities.
Recommended Best Practice		
<ul style="list-style-type: none"> Directors should participate in a programme of continuous professional development. 	✓	<ul style="list-style-type: none"> Hysan supports the principle of continuing professional development for Directors. In 2004, a special seminar on new Listing Rules was organised in-house for Directors, with emphasis on Directors' responsibilities and interests.
<ul style="list-style-type: none"> Directors should disclose at the time of his appointment (and at subsequent times) and offices held in other organisations and other significant commitments. 	✓	<ul style="list-style-type: none"> Directors disclose their other directorships to the Company twice a year.
<ul style="list-style-type: none"> Directors should ensure regular attendance and active participation of board, board committee and general meetings. 	✓	<ul style="list-style-type: none"> In 2004, 100% of executive Directors, 100% of Independent non-executive Directors and a majority of non-executive Directors attended the AGM.
<ul style="list-style-type: none"> Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments. 	✓	<ul style="list-style-type: none"> Details on roles and functioning of non-executive Directors are set out above.

A6. Supply of and access to information

Code Principle

Directors should be provided in a timely manner with appropriate information so as to enable them to make an informed decision and to discharge their duties and responsibilities.

Hysan's Corporate Governance Best Practice

An important element of the Hysan corporate programme is the continuous improvement in the quality and timeliness of the dissemination of information to our Directors.

This principle is clearly stated in Hysan's Corporate Governance Guidelines:

- Principle 10 – Board access to senior management
“Senior management are from time to time brought into formal and informal contact with the Board at Board meetings and other events.”
- Principle 12 – Availability of Information
“The Chairman has a clear responsibility to provide the whole Board with all the information that is relevant to the discharge of the Board's responsibilities. The Board therefore expects to receive timely advice on all material information about the Company, its subsidiaries, its activities, performance and its projects, particularly including any significant variances from a planned course of action.”

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

Hysan aims to continually improve on the quality and timeliness of the dissemination of information to Directors.

At least quarterly, Hysan 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.

Business unit heads are invited to attend meetings from time to time to update Directors on their lines of business.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Board papers should be sent to all directors at least three days before the date of board/committee meeting. 	✓	<ul style="list-style-type: none"> Board papers are sent to all Directors at least five days before the date of board/committee meeting.
<ul style="list-style-type: none"> Each director should have separate and independent access to senior management. 	✓	<ul style="list-style-type: none"> Senior management are from time to time brought into formal and informal contact with the Board at board meetings and other events.
<ul style="list-style-type: none"> Directors are entitled to have access to board papers; steps must be taken to respond properly and fully to director queries. 	✓	<ul style="list-style-type: none"> Board papers and minutes are made available for inspection by Directors and Committee Members.

B. Remuneration of Directors and Senior Management

B1. The level and make-up of remuneration and disclosure

Code Principle

A formal and transparent procedure should be established for setting policy on executive director remuneration and for fixing the remuneration packages for all directors. No director should be involved in deciding his own remuneration.

Hysan’s Corporate Governance Best Practice

This is clearly stated in Hysan’s Corporate Governance Guidelines: Principle 8 – Board compensation review:

“The pay and benefits for executive Directors, including the Chairman, are determined by the Emoluments Review Committee. For non-executive Directors, their fees and remuneration are determined by the general meeting. The remuneration of executive Directors and non-executive Directors will be the subject of continual monitoring of comparable companies. The assistance of independent external advisers will be sought from time to time.”

The Company set up an Emoluments Review Committee in 1987 to review executive Director compensation. The Committee is chaired by Sir David Akers-Jones, Independent non-executive Deputy Chairman, with a majority of Independent non-executive Directors. Its current members are F.K. Hu, non-executive Director and Dr. Geoffrey M.T. Yeh, Independent non-executive Director. Full terms of reference are available on the Company’s website: www.hysan.com.hk.

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

Management makes recommendations to the Committee on Hysan’s framework for, and cost of, executive Director remuneration and the Committee then reviews these recommendations. No Director or any of his associates is involved in deciding his own remuneration. The Committee generally meets at least once every year. There was 100% attendance for the last meeting.

Hysan provided for clear disclosure of individual Director remuneration on a named basis. There is a separate “Directors’ Remuneration and Interests Report”.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • Issuers should establish a remuneration committee with specific written terms of reference (containing the minimum prescribed duties) which information is available on request or on the website. 	✓	<ul style="list-style-type: none"> • Hysan set up an Emoluments Review Committee in 1987. Full terms of reference are available on the Company's website: www.hysan.com.hk.
<ul style="list-style-type: none"> • The committee should consult the chairman and/or chief executive officer regarding proposed remuneration of other executive directors and have access to professional advice where necessary. 	✓	<ul style="list-style-type: none"> • A detailed review of the compensation of Chairman and Managing Director was carried out in November 2003. See "Directors' Remuneration and Interests Report" for further details on process and findings.
<ul style="list-style-type: none"> • The remuneration committee should be provided with sufficient resources to discharge its duties. 	✓	<ul style="list-style-type: none"> • Independent professional advice will be sought to supplement internal resources where appropriate.
Recommended Best Practice		
<ul style="list-style-type: none"> • A significant proportion of executive directors' remuneration should be linked to corporate and individual performance. 	✓	<ul style="list-style-type: none"> • Details of remuneration of executive Directors are disclosed on an individual basis. A performance-based element has been built into top management compensation.

C. Accountability and Audit

C1. Financial reporting

Code Principle

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Hysan's Corporate Governance Best Practice

The Board aims to present a comprehensive, balanced and understandable assessment of the Group position and prospects in all shareholder communications.

Procedures – Code provisions and recommended best practice

Hysan's Corporate Governance Best Practice

The 2004 Annual Report provides enhanced disclosure by way of:

- general discussion on various attributes that make Hysan an attractive investment for shareholders;
- Management Overview - a full Management's Discussion and Analysis covering:
 - operations review with key performance drivers
 - enhanced financial disclosures with analysis and details given, including analysis of comparative and movement of key cost and revenue drivers for income statement, balance sheet and cash flow
- separate sections on financing policy and risk management
- enhanced corporate governance reports

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • Management to provide explanation and information to enable board to make informed assessment of relevant matters. 	✓	<ul style="list-style-type: none"> • Directors are regularly provided with comprehensive reports on the management's strategic plans, updates on lines of business, financial objectives, plans and actions.
<ul style="list-style-type: none"> • Acknowledgement of director responsibility for preparing the accounts; a statement by the auditors regarding reporting responsibilities in auditors' report. 	✓	<ul style="list-style-type: none"> • A Statement of Director Responsibilities for Financial Statements is set out in this Annual Report. • The Auditors' Report states auditors' reporting responsibilities.
<ul style="list-style-type: none"> • Board responsibility to present a balanced, clear and understandable assessment in annual/interim reports, price-sensitive announcements; other financial disclosures/reports under the Listing Rules and statutory requirements. 	✓	<ul style="list-style-type: none"> • The Board aims to present a comprehensive, balanced and understandable assessment of the Group position and prospects in all shareholder communications.

C2. Internal controls

Code Principle

The board should maintain a sound and effective internal controls system to safeguard the shareholders' investment and the issuer's assets.

Hysan's Corporate Governance Best Practice

The Group is committed to implementing effective risk management policies and internal controls procedures to identify and manage the risks that the Group may be exposed to.

Procedures – Code provisions and recommended best practice

Hysan's Corporate Governance Best Practice

- 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.
- Detailed disclosure is set out in a separate report headed "Financial Prudence and Managing Risks" – report on Internal Controls and Risk Management.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • The directors should at least annually conduct a review of the effectiveness of the system of internal controls. 	✓	<ul style="list-style-type: none"> • The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. • Management regularly reviews the effectiveness of the risk management and system of internal controls and compliance with best practices. The Managing Director and Chief Financial Officer also report to the Audit Committee twice a year on key findings regarding internal controls. The Audit Committee, in turn, communicates any material issues to the full Board.
Recommended Best Practice		
<ul style="list-style-type: none"> • The board's annual review should consider various prescribed areas. • Disclosure in annual report to provide meaningful information. 	✓	<ul style="list-style-type: none"> • Details of internal controls structure, monitor and review are set out in "Financial Prudence and Managing Risks" section in the Annual Report.
<ul style="list-style-type: none"> • Review the need for an internal audit function on an annual basis. 	✓	<ul style="list-style-type: none"> • Management currently takes the view that there is no immediate need to set up an Internal Audit function in light of the fact that current systems of internal controls and risk management are being regularly reviewed by the management and directly by the Audit Committee. The need for an internal audit function will be reviewed from time to time.

C3. Audit Committee

Code Principle

The audit committee should have clear terms of reference, including arrangements for considering how it applies the financial reporting and internal controls principles. The committee should maintain an appropriate relationship with the company's auditors.

Hysan's Corporate Governance Best Practice

Hysan believes that crucial to the effective functioning of an audit committee is a clear appreciation of the separate roles of management, the external auditors and Audit Committee members.

Hysan management is responsible for selecting company accounting policies and the preparation of the financial statements. The external auditors are responsible for auditing and attesting to the Company's financial statements and evaluating Group system of internal controls. The Audit Committee, as the delegate of the full Board, is responsible for overseeing the entire process. This is clearly stated in Hysan's Audit Committee Report.

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

Hysan’s Audit Committee is chaired by Sir David Akers-Jones, Independent non-executive Deputy Chairman 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. All members have experience in reviewing or analysing audited financial statements of public companies or major organisations. Full terms of reference are available on the Company’s website: www.hysan.com.hk. The Audit Committee meets not less than twice a year. Meetings are also attended by invitation by the Managing Director and Chief Financial Officer. The Committee held two meetings in 2004 with 100% attendance.

Hysan goes beyond Code procedures and has published a separate Audit Committee Report since 2002. It sets out in detail the roles of the Committee including its relationship with management and the external auditors, work performed during the review year, and report procedures.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Minutes be kept by a duly appointed secretary; and should be sent to all committee members within a reasonable time. 	✓	<ul style="list-style-type: none"> Draft minutes prepared by the Company Secretary are sent to members within 14 days of each meeting.
<ul style="list-style-type: none"> A former partner of the existing auditors should not sit on the Audit Committee. 	✓	<ul style="list-style-type: none"> None of the three Audit Committee members are former partners of the external auditors.
<ul style="list-style-type: none"> The terms of reference of audit committee (containing the minimum prescribed duties) be made available on request and on the website. 	✓	<ul style="list-style-type: none"> Full terms of reference are available on website: www.hysan.com.hk.
<ul style="list-style-type: none"> Disclosure – statement from the audit committee explaining its recommendation on the appointment, resignation or dismissal of external auditors; express disclosure where the board disagrees with the committee’s view. 	✓	<ul style="list-style-type: none"> Audit Committee recommended to the Board (which in turn endorsed the view) that, subject to shareholders’ approval at the forthcoming AGM, Deloitte Touche Tohmatsu be re-appointed as the external auditors for 2005. During the year, the fees paid to the Company’s external Hong Kong auditors for non-audit or review related activities amounted to HK\$228,300 (2003: HK\$99,400), comprising tax services fees of HK\$153,000 and training workshops for International Accounting Standards of HK\$75,300.
<ul style="list-style-type: none"> The audit committee should be provided with sufficient resources to discharge its duties. 	✓	<ul style="list-style-type: none"> There is an agreed procedure for Audit Committee members to take independent professional advice at Company’s expense.
Recommended Best Practice		
<ul style="list-style-type: none"> Terms of reference include: <ul style="list-style-type: none"> “whistle-blowing” procedures by which employees of the issuer may, in confidence, raise concerns about possible improprieties. oversee the issuer’s relation with the external auditor. 	✓	<ul style="list-style-type: none"> “Whistling-blowing” procedures are included in Hysan’s “Code of Ethics”. (See section headed “Business Ethics and Integrity” below) The Audit Committee oversees the relationship of management with the external auditors.

D. Delegation by the Board

D1. Management functions

Code Principle

An issuer should have a formal schedule of matters reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

Hysan’s Corporate Governance Best Practice

This is clearly stated in the Hysan’s Corporate Governance Guidelines: Principle 14 – Board authorities, delegations and discretions:

“The Board has determined those matters that are to be retained for full Board sanction and those matters that are to be delegated to the executive management of the business. All Board Committees have clear written terms of reference. Board Committees report regularly to the full Board on their work and findings.”

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

The Board and management fully appreciate their respective roles and are supportive of the development of a healthy corporate governance culture.

The Board’s role is not to manage the business, which responsibility remains vested with management. Board responsibility is to test and question management, and to monitor progress.

There is a formal list of corporate matters reserved for full Board decision. Where applicable, thresholds are defined by reference to “materiality” and are reviewed by the Board from time to time and at least on an annual basis.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the board. 	✓	<ul style="list-style-type: none"> There is a defined schedule of matters reserved for full Board decision, including: <ul style="list-style-type: none"> - Long-term objectives and strategies; - Extension of group activities into new business areas; - Annual budgets; - Preliminary announcements of interim and final results; - Dividend; - Material banking facilities; - Material acquisitions and disposals; - Material connected transactions; - Annual internal controls assessment; and - Appointments to the Board following recommendations by the Nomination Committee.
<ul style="list-style-type: none"> Formalise the functions reserved to the board and those delegated to management. 	✓	
Recommended Best Practice		
<ul style="list-style-type: none"> Issuers should have formal letters of appointment for directors setting out the key terms and conditions relative to their appointment. 	✓	<ul style="list-style-type: none"> A formal appointment letter, setting out the key terms and conditions relative to their appointment, will be prepared for each newly appointed Director.

D2. Board Committees

Code Principle

Board committees should be formed with specific written terms of reference that deal clearly with the committees’ authority and duties.

Hysan’s Corporate Governance Best Practice

Hysan currently has four Board Committees, including three corporate governance related committees (being the Audit, Emoluments Review, the new Nomination Committees) and the Investment Committee. All Board Committees have clear written terms of reference. Board Committees report regularly to the Board on their work and findings.

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

Work performed during the review year by the corporate governance related committees are set out in separate reports:

- Audit Committee Report; and
- Directors’ Remuneration and Interests Report.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • Clear terms of reference to enable proper discharge of committee functions. 	✓	<ul style="list-style-type: none"> • The Board has established four Board Committees with specific terms of reference.
<ul style="list-style-type: none"> • The terms of reference should require committees to report their decisions to the board. 	✓	<ul style="list-style-type: none"> • Board Committees present their respective reports to the Board after each meeting, which reports address their work and findings.

E. Communication with Shareholders

E1. Effective communication

Code Principle

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Hysan’s Corporate Governance Best Practice

Hysan is committed to maintaining a policy of open and timely disclosure of relevant information on its attributes to shareholders and other stakeholders, subject to applicable legal requirements.

The Board welcomes moves towards a more constructive use of AGM and regards the AGM as the principal opportunity to meet private shareholders. A new approach to AGM was adopted in 2004 (see section headed “Additional Corporate Governance Areas – shareholder communications” below).

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

Hysan exceeded Code procedures in conducting the statutory business of the 2004 AGM in the following ways:

- Despatch of Annual Report and financial statements and related papers to shareholders at least 35 days prior to AGM, as compared with statutory requirement of 21 days
- Preparation of a comprehensive yet user-friendly AGM circular containing:
 - 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
- Chairman demanded poll on all resolutions proposed.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • A separate resolution be proposed by the chairman for each substantially separate issue. 	✓	<ul style="list-style-type: none"> • Separate resolutions are proposed at the meeting on each substantially separate issue, including the election of individual directors.
<ul style="list-style-type: none"> • The chairman of the board should attend the general meeting and arrange for the chairmen of the audit, remuneration and nomination committees to be present. 	✓	<ul style="list-style-type: none"> • In 2004, there was 100% attendance of all executive Directors, Independent non-executive Directors, and Chairman of Audit and Emoluments Review Committees.

E2. Voting by poll

Code Principle

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.


Hysan’s Corporate Governance Best Practice

Hysan supports the principle of voting by poll.

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

- Hysan has adopted poll voting procedures for all resolutions in 2004 AGM.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • Disclosure in general meeting circulars of procedures and rights of shareholders to demand a poll. 		<ul style="list-style-type: none"> • Procedures for demanding a poll were set out in a user-friendly “frequently asked-questions-and-answers” format in the circular accompanying the AGM Notice. These procedures were also explained during the AGM proceedings. • A representative of external auditor was appointed as scrutineer. • Poll results were published in major Hong Kong newspapers on the business day following the meeting and posted on the websites of the Stock Exchange and the Company.
<ul style="list-style-type: none"> • Ensure that votes cast are properly counted and recorded. 		
<ul style="list-style-type: none"> • Chairman of meeting should adequately explain the poll procedures at commencement of meeting. 		

ADDITIONAL CORPORATE GOVERNANCE AREAS

Business Ethics and Integrity

Maintaining the highest professional and ethical standards is central to Hysan’s core operating philosophy.

In 2005, the Group formally adopted a Code of Ethics addressing guiding principles governing conduct of Directors and employees, which include promotion of fair and open competition, and appropriate “whistle-blowing” procedures. Details of the Code are available on our website: www.hysan.com.hk.

General and Institutional Shareholder Communications

Hysan further enhanced its communications programme in the following areas, which exceeded Code requirements.

(1) General shareholder communications

- a new approach for the AGM was introduced. In addition to enhancing processes for the statutory part of the meeting, we introduced a “general business overview” session led by the Chairman and Managing Director in our 2004 AGM. Topics covered include 2003 in review (covering strategic directions; operations; financial position) and 2004 objectives. The move was positively received by shareholders.
- there is currently no requirement in Hong Kong providing for mandatory forwarding of shareholder communication materials by nominee companies to ultimate shareholders. We initiated and funded a new programme with major nominee companies to pro-actively facilitate the onward forwarding of communication materials to shareholders.

(2) Institutional shareholder communications

We regard it important to enter into a dialogue with institutional shareholders based on mutual understanding of objectives. The Managing Director and Chief Financial Officer participated in two road shows during the review year covering Europe and Asia (Japan and Singapore).

Shareholdings Information

As at 31 December 2004:

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

Issued and fully paid-up capital: HK\$5,249,818,295 comprising 1,049,963,659 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 2004, as per register of members of the Company)

No.	Name of Shareholder	Number of shares held	% of the issued share capital#
1.	HKSCC Nominees Limited	417,124,592	39.73
2.	Lee Hysan Estate Company, Limited*	240,118,724	22.87
3.	HSBC Nominees (Hong Kong) Limited	86,965,781	8.28
4.	Kenwin Assets Limited*	43,902,720	4.18
5.	Overton Holdings Limited*	43,902,720	4.18
6.	Atlas Corporate Management Ltd*	39,809,001	3.79
7.	Hang Seng (Nominee) Limited	33,622,680	3.20
8.	Liu Chong Hing (Nominees) Ltd	20,248,255	1.93
9.	Clipperton Company Limited*	17,019,739	1.62
10.	Shanghai Commercial Bank (Nominees) Ltd	12,510,110	1.19
Total		955,224,322	90.97

LOCATION OF SHAREHOLDERS

(as at 31 December 2004, as per register of members of the Company)

Location of Shareholders	Number of shares held	% of the issued share capital#
Hong Kong	1,040,250,739	99.07
United States and Canada	5,122,312	0.49
United Kingdom	4,285,056	0.41
Singapore	64,255	0.01
Others	241,297	0.02
Total	1,049,963,659	100.00

TYPES OF SHAREHOLDERS

Type of Shareholders	Number of shares held	% of the issued share capital#
Lee Hysan Company Limited, Lee Hysan Estate Company, Limited and their subsidiaries	429,046,912	40.86
Other corporate shareholders	557,846,555	53.13
Individual shareholders	63,070,192	6.01
Total	1,049,963,659	100.00

Note:

The percentages have been compiled based on the total number of shares of the Company in issue as at 31 December 2004 (i.e. 1,049,963,659 ordinary shares).

* denotes entities whose interests are attributable to the substantial shareholder: Lee Hysan Estate Company, Limited (see "Substantial Shareholders' and Other Persons' Interests in Shares" section in Directors' Report)