

ADDITIONAL INFORMATION

CORPORATE GOVERNANCE

The Board of Directors (the “Board”) and management of the Company are committed to maintaining high standards of corporate governance. Underlying this commitment is the Company’s belief that good corporate governance is a reflection of the integrity, transparency and high ethical standards of a responsible business. The Board has adopted a Statement of Corporate Governance Policy (available on website: www.hysan.com.hk), which gives guidance on how corporate governance principles are applied to the Company. In addition to complying with applicable statutory requirements, the Board aims to continually review and enhance corporate governance practices in the light of local and international best practices.

The Company has complied with all code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the review period, except that its Emoluments Review Committee (established since 1987) has the responsibility to determine executive Director compensation. In the light of the current organisation structure and the relatively simple nature of Hysan’s business activities, the Board regards the current arrangements for Emoluments Review Committee to determine executive Director compensation as appropriate.

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

Board composition

The Board currently comprises three executive Directors, three Independent non-executive Directors and five non-executive Directors. There is a majority of non-executive Directors on the Board, with a wide range of experience and calibre who bring valuable judgment on issues of strategy, performance and resources.

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

Board Effectiveness *continued*

Board process

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

An important element of the Company'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. The forms, contents and delivery of these management reports were fine-tuned to facilitate Board focus and discussions on strategic matters rather than factual reporting.

All Directors have access to the advice and services of 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 seek independent professional advice at the Company's expenses.

Internal control

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, thereby providing reasonable assurance regarding the achievement of corporate objectives.

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. Management is charged with the responsibility to design and implement an appropriate internal control system. As stated in our 2005 Annual Report, the Board is generally satisfied as to the adequacy of the Company's internal controls regarding its core property leasing and management activities. Steps are in place to enhance Group internal controls to support further growth of the Company.

Board committees

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

Board Effectiveness *continued*

- ***Audit Committee***

The 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. It meets not less than twice per year. Full terms of reference are available on the Company's website: www.hysan.com.hk.

Management is responsible for selecting company accounting policies and the preparation of the financial statements. External auditors are responsible for auditing and attesting to the Company's financial statements and evaluating the Group's system of internal controls. The Committee, as the delegate of the full Board, is responsible for overseeing the entire process. 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 2006 included in this Report.

- ***Emoluments Review Committee***

The Group's Emoluments Review Committee is also chaired by Sir David Akers-Jones, Independent non-executive Deputy Chairman, with a majority of Independent non-executive Directors. Other members are F.K. Hu, non-executive Director and Dr. Geoffrey M.T. Yeh, Independent non-executive Director. Full terms of reference are available on the Company's website: www.hysan.com.hk.

The function of the Committee is to review and determine the remuneration of the executive Directors. Management makes recommendations to the Committee on the Company's framework for, and cost of, executive Director remuneration and the Committee then reviews these recommendations. No Director or any of his associates is involved in deciding his own remuneration. The Committee generally meets at least once every year.

A separate "Directors' Remuneration and Interests Report" in 2005 Annual Report sets out details of the level of the Directors' remuneration including remuneration breakdown of each individual executive Directors on "named" basis.

Board Effectiveness *continued*

- ***Nomination Committee***

The Nomination Committee 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.

The Committee has the responsibility to nominate for Board approval candidates to fill Board vacancies as and when they arise and to evaluate the balance of skills, knowledge and experience of the Board. Full terms of reference are available on the Company's website: www.hysan.com.hk.

Communication with shareholders

The Group 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. A communication programme is in place to maintain an on-going dialogue with the Company's stakeholders, including communication with shareholders in a regular and timely manner, through the Group's annual and interim reports, announcements and press releases; and holding regular briefings and meetings for analysts and the media, as appropriate. The Board welcomes moves towards a more constructive use of Annual General Meeting ("AGM") and treats them as one of the principal avenues to enter into a dialogue with shareholders based on mutual understanding of objectives. Since 2004, the Company has introduced a "business review" session in addition to the statutory part of the meeting. In the 2006 AGM, topics addressed include overview of the 2005 business environment, 2006 outlook, responsible business and business activities review.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2006, the interests and short positions of the Directors and Alternate Director 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:

Aggregate long position in shares and underlying shares of the Company

Name	No. of ordinary shares held					Total	% of the issued share capital*
	Personal interests	Family interests	Corporate interests	Other interests			
Peter Ting Chang Lee	2,000,000	–	–	–	–	2,000,000	0.190
Michael Tze Hau Lee	1,023,233	–	–	–	–	1,023,233	0.097
Fa-kuang Hu	–	–	255,012 (Note 1)	–	–	255,012	0.024
Hans Michael Jebsen	60,000	–	2,432,914 (Note 2)	–	–	2,492,914	0.236
Per Jorgensen	6,726	–	–	–	–	6,726	0.001
Chien Lee	850,000	–	–	3,150,000 (Note 3)	–	4,000,000	0.379
Deanna Ruth Tak Yung Rudgard	1,871,600	–	–	–	–	1,871,600	0.177
Pauline Wah Ling Yu Wong	194,000	–	–	–	–	194,000	0.018
Geoffrey Meou-tsen Yeh	255,472	–	–	–	–	255,472	0.024
V-nee Yeh (alternate to Geoffrey Meou-tsen Yeh)	43,259	–	84,575 (Note 2)	–	–	127,834	0.012

* This percentage has been compiled based on the total number of shares (i.e. 1,054,606,243 ordinary shares) of the Company in issue as at 30 June 2006.

DIRECTORS' INTERESTS IN SHARES *continued*

Aggregate long position in shares and underlying shares of the company *continued*

Certain executive Directors of the Company have been granted share options under the Company's Share Option Schemes (details are set out in the section headed "LONG-TERM INCENTIVES: SHARE OPTION SCHEMES" below). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Notes:

1. Such shares were held by a company which was wholly-owned by Fa-kuang Hu and he was deemed to be interested in all these shares.
2. Such shares were held through corporations in which the respective Directors were members entitled to exercise no less than one-third of the voting power at general meetings.
3. Such shares were held by a discretionary trust of which Chien Lee was one of the beneficiaries.

Aggregate long positions in shares of associated corporations

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

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

Notes:

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

DIRECTORS' INTERESTS IN SHARES *continued*

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2006 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.

LONG-TERM INCENTIVES: SHARE OPTION SCHEMES

The Company has granted options under two executive share option schemes. The purpose of both schemes was to strengthen the link between individual staff and shareholder interests. The power of grant to executive Directors is vested in the Emoluments Review Committee and endorsed by all Independent non-executive Directors as required under the Listing Rules. As approved by the Board, either the Chairman or the Managing Director may make grants to management staff below executive Director level.

The 1995 Share Option Scheme (“the 1995 Scheme”)

The 1995 Scheme was approved by shareholders on 28 April 1995 and had a term of 10 years. It expired on 28 April 2005. All outstanding options granted under the 1995 Scheme will continue to be valid and exercisable in accordance with the provisions of the 1995 Scheme.

The 2005 Share Option Scheme (“the 2005 Scheme”)

The Company adopted the 2005 Scheme (together with the 1995 Scheme are referred to as “the Schemes”) at the Annual General Meeting of the Company held on 10 May 2005, which has a term of 10 years and will expire on 9 May 2015.

During the review period, a total of 659,000 share options were granted under the 2005 Scheme.

As at 30 June 2006, an aggregate of 2,881,333 share options granted under the Schemes remained outstanding, representing approximately 0.27% of the issued share capital of the Company.

LONG-TERM INCENTIVES: SHARE OPTION SCHEMES *continued*

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

Name	Balance as at 1.1.06	Date of grant	Changes During the Period			Balance as at 30.6.06	Exercise Price HK\$	Exercise period
			Cancelled/ Lapsed	Granted	Exercised			
1995 Scheme								
Executive Director								
Peter Ting Chang Lee (Note 1)	1,350,000	7.1.1999	Nil	Nil	Nil	1,350,000	9.22	7.1.2001 – 6.1.2009
Eligible employees (Note 2)	535,000	30.3.2005	5,400 (Note 4)	Nil	128,267 (Note 5)	401,333	15.85	30.3.2005 – 29.3.2015
2005 Scheme								
Executive Director								
Michael Tze Hau Lee (Note 3)	240,000	10.5.2005	Nil	Nil	Nil	240,000	16.60	10.5.2005 – 9.5.2015
	Nil	30.3.2006	Nil	188,000	Nil	188,000	22.00 (Note 6)	30.3.2006 – 29.3.2016
Eligible employees (Note 2)	144,000	9.8.2005	Nil	Nil	Nil	144,000	18.79	9.8.2005 – 8.8.2015
	120,000	12.10.2005	Nil	Nil	Nil	120,000	18.21	12.10.2005 – 11.10.2015
	Nil	30.3.2006	33,000 (Note 4)	361,000	Nil	328,000	22.00 (Note 6)	30.3.2006 – 29.3.2016
	Nil	26.6.2006	Nil	110,000	Nil	110,000	20.11 (Note 7)	26.6.2006 – 25.6.2016
	<u>2,389,000</u>		<u>38,400</u>	<u>659,000</u>	<u>128,267</u>	<u>2,881,333</u>		

LONG-TERM INCENTIVES: SHARE OPTION SCHEMES *continued*

Notes:

1. Options granted to Peter T. C. Lee were under the 1995 Scheme with a holding period of 2 years and a vesting period of 5 years.
2. Eligible Employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance. The options granted under the Schemes have vesting periods of 3 years in equal proportions.
3. Options granted to Michael T. H. Lee were under the 2005 Scheme with a vesting period of 3 years in equal proportions.
4. These options lapsed during the period upon the resignation of certain Eligible Employees.
5. The weighted average of the closing prices of the shares immediately before the dates on which the options were exercised was HK\$22.09.
6. The closing price of the shares of the Company immediately before the date of grant (as of 29 March 2006) was HK\$22.45.
7. The closing price of the shares of the Company immediately before the date of grant (as of 23 June 2006) was HK\$20.25.

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

LONG-TERM INCENTIVES: SHARE OPTION SCHEMES *continued*

Value of share options

Pursuant to Rule 17.08 of the Listing Rules, the value of the share options granted during the period is as follows to be expensed through the Group's income statement over the three-year vesting period of the options:

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

Details of the fair values of share options determined at the date of grant using the Model with significant variables and assumptions are as follows:

	Date of Grant	
	30.3.2006	26.6.2006
Closing share price at the date of grant	HK\$22.00	HK\$20.00
Risk free rate (Note 1)	4.539%	4.915%
Expected life of option (Note 2)	10 years (till 29 March 2016)	10 years (till 25 June 2016)
Expected volatility (Note 3)	27.04%	32.00%
Expected dividend per annum (Note 4)	HK\$0.390	HK\$0.392
Estimated fair values of options granted	HK\$4,271,220	HK\$859,247

Notes:

1. Risk free rate: being the approximate yields of 10-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
2. Expected life of option: being the period of 10 years commencing on the date of grant, adjusted based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.
3. Expected volatility: being the approximate historical volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.
4. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 30 June 2006, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company were as follows:

Name	Capacity	No. of ordinary shares held	% of the issued share capital*
Lee Hysan Estate Company, Limited	Beneficial owner and interests of controlled corporations	433,130,735 (Note 1)	41.07
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 (Note 1)	41.07

* The percentage has been compiled based on the total number of shares (i.e. 1,054,606,243 ordinary shares) of the Company in issue as at 30 June 2006.

Note:

1. These interests represent the same block of shares of the Company. 270,118,724 shares were held by Lee Hysan Estate Company, Limited ("LHE") and 163,012,011 shares were held by certain subsidiaries of LHE. LHE is a wholly-owned subsidiary of Lee Hysan Company Limited.

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 2006.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 17 to the condensed financial statements.

Some of these transactions also constitute "Continuing Connected Transactions" under the Listing Rules, as identified below.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted continuing connected transactions (the "Transactions") under the Listing Rules. Details of the Transactions as at 30 June 2006 are set out as follows:

I. Lease granted by the Group

(a) *Lee Gardens Two, 28 Yun Ping Road, Hong Kong ("Lee Gardens Two")*

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

Connected person	Date of agreement	Terms	Premises	Annual consideration HK\$
(i) Jepsen and Company Limited (10% equity interest in Barrowgate Limited)	10 September 2003	4 years commencing from 1 September 2003	Office units at 28th to 31st Floors	13,976,460
		Various carpark agreements	2 carparking spaces	
	19 April 2005	On monthly basis with various commencement dates	1 carparking space	
(ii) Hang Seng Bank Limited (24.64% equity interest in Barrowgate Limited)	3 September 2004	2 years and 16 days commencing from 15 September 2004	Shop units at Ground Floor and Lower Ground Floor	9,836,256
(iii) Hang Seng Bank Limited	7 June 2006	3 years commencing from 1 October 2006	Shop units at Ground Floor and Lower Ground Floor	13,187,976 (Note)

Note: This Lease is a renewal of the lease referred to in I(a) (ii) above.

CONTINUING CONNECTED TRANSACTIONS *continued*

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

Certain leases were entered into by Kwong Wan Realty Limited, a wholly-owned subsidiary of the Company and property owner of Bamboo Grove, with Lee Hysan Estate Company, Limited (“Lee Hysan Estate”), a substantial shareholder of the Company (holding 41.07% interest) and Atlas Corporate Management Limited, a wholly-owned subsidiary of Lee Hysan Estate. Details of the leases are set out below:

Connected person	Date of agreement	Terms	Premises	Annual consideration HK\$
(i) Lee Hysan Estate Company, Limited	12 January 2004	2 years commencing from 16 January 2004	An apartment and 2 carparking spaces	1,289,880 (Note)
(ii) Lee Hysan Estate Company, Limited	9 November 2005	2 years commencing from 1 November 2005	An apartment and 1 carparking space	2,644,800
(iii) Atlas Corporate Management Limited	14 December 2005 (Formal tenancy agreement executed on 5 January 2006)	2 years commencing from 16 January 2006	An apartment and 2 carparking spaces	1,778,280

Note: This Lease has expired on 15 January 2006.

CONTINUING CONNECTED TRANSACTIONS *continued*

(c) *One Hysan Avenue, Causeway Bay, Hong Kong*

The following lease arrangement was entered into by OHA Property Company Limited, a wholly-owned subsidiary of the Company and property owner of One Hysan Avenue, with Atlas Corporate Management Limited. Details of the lease are set out below:

Connected person	Date of agreement	Terms	Premises	Annual consideration HK\$
Atlas Corporate Management Limited	9 November 2005	3 years commencing from 1 November 2005	Whole of 21st Floor	1,360,242

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

The following lease arrangements were entered into by Barrowgate Limited with Chickeeduck Retail (Hong Kong) Limited and MF Jebsen International Limited, each of which was a connected person by virtue of the interest of an associate of a non-executive Director :

Connected person	Date of agreement	Terms	Premises	Annual consideration HK\$
(i) Chickeeduck Retail (Hong Kong) Limited	18 December 2003	3 years commencing from 7 November 2003	Shop units on the 2nd Floor	1,248,157
(ii) MF Jebsen International Limited	23 April 2004 and a Supplemental Deed of 12 July 2004	4 years commencing from 1 February 2004 and 3 years and 7 months commencing from 1 July 2004	Office units at 24th and 25th Floors	6,376,938
	1 May 2003	On monthly basis commencing from 1 May 2003	1 carparking space	

CONTINUING CONNECTED TRANSACTIONS *continued*

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

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

Connected person	Date of agreement	Terms	Premises	Consideration HK\$ (Note)
Barrowgate Limited	25 February 2004 and a Supplemental Appointment Letter of 19 July 2004	3 years commencing from 1 April 2004	Whole premise of Lee Gardens Two	8,121,366.02 (i) and 1,050,426.36 (ii)

Note: These represent the actual considerations for the period from 1 January 2006 to 30 June 2006, calculated on the basis of the fee schedules as prescribed therein.

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

COMPLIANCE OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they complied with the required standards set out in the Model Code 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 its objectives. The Group's human resources practices are aligned with its corporate objective so as to maximise shareholder value and achieve growth.

As at 30 June 2006, the total number of employees was 500, and there have been no material changes in respect of the employee remuneration, remuneration policies and staff development as disclosed in Annual Report 2005.