

Corporate Governance Report

ACCOUNTABILITY, TRANSPARENCY, INTEGRITY

The Board and management of the Group are committed to maintaining high standards of corporate governance. Underlying this commitment is our aim to be a responsible business. To Hysan, governance is not an exercise in compliance but a more powerful concept. The Board, as representative of our shareholders, is responsible for achieving consistent and sustainable long-term returns. We believe that such long-term success is only made possible by effective governance. The cornerstones of our corporate governance practices are accountability, transparency, and integrity.

Best Practices in Corporate Governance in Place at Hysan	
Exceeded Code Provisions	Hysan's Corporate Governance Practices
✓	The Board first established a formal Corporate Governance Policy in 2004.
✓	The Board has formally designated a "senior" Independent non-executive Director, Sir David Akers-Jones, who currently serves as Independent non-executive Deputy Chairman. [NEW]
✓	The Board has established formal mandates and responsibilities for itself, with clear division of roles with management. [NEW]
✓	The Board has established formal criteria and requirements for non-executive director appointments. [NEW]
✓	Board evaluation: Chairman and non-executive Directors meet at regularly scheduled sessions without presence of management.
✓	The Group has established a Corporate Disclosure Policy to guide its communications with its stakeholders in order to ensure consistent and timely disclosure. [NEW]
✓	The Group has demonstrated its commitment to transparency in shareholder reporting by publishing a separate Corporate Governance Report since 2001. This year, we have introduced a Corporate Responsibility Report. [NEW]
✓	In 2004 the Group introduced a new form of annual general meeting ("AGM") that went beyond discharging statutory business. A detailed business review session led by the Chairman and Managing Director was established.
✓	The Group has initiated and funded a programme inviting major nominee companies to pro-actively forward communication materials to shareholders at its expense.
✓	The Group has a written Code of Ethics applicable to all staff.

CODE PROVISIONS COMPLIANCE

The Group has complied throughout the review year with the Code Provisions contained in the Code on Corporate Governance Practices (the “Corporate Governance Code”) set out in Appendix 14 of the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), except that its Emoluments Review Committee (established since 1987) has the responsibility for determining executive Director compensation. In light of the current organisational structure and the relatively simple nature of Hysan’s business activities, the Board regards the current arrangements for the Emoluments Review Committee to determine executive Director compensation as appropriate.

FOCUS IN 2006 AND CORPORATE GOVERNANCE REPORTING

Hysan’s governance model seeks to combine the best of family ownership and professional management. We take the view that the element of family ownership can enable managers to take a long-term view in decision-making, whilst balancing short-term targets. We recognize, however, that appropriate checks-and-balances must be built in.

In this light, we further strengthened our governance structure during 2006. New measures included establishing formal mandates for the Board and for the “senior” Independent non-executive Director, as well as setting down clear criteria for non-executive Director appointments.

We recognize that effective governance does not stop at Board level. The Board must delegate to other executives, who in turn implement policies across the organisation. We therefore place strong emphasis on fostering an appropriate corporate culture across the Group. During the year, we began to formalize and communicate a set of corporate values to guide our staff in all their actions.

The quality of disclosure has also been enhanced, notably in regard to Board activities, Board appointments, and internal control, all as a result of feedback from analysts.

Detailed information on our governance structure and practices are set out in the following separate reports:

- Corporate Governance Report
- Audit Committee Report (Page 70)
- Directors’ Remuneration and Interests Report (Page 63)
- Report on Internal Control and Risk Management (Page 36)

Further information relating to our underlying corporate values, and exchange of views with our “senior” Independent non-executive Director and analysts respectively are set out in a separate Corporate Responsibility Report.

1. HYSAN’S GOVERNANCE MODEL

Hysan’s governance model is based on an effective combination of family ownership and professional management. Our founding shareholding family remains a major shareholder today. We take the view that this element of family ownership can enable managers to take a long-term view in decision-making, balancing the need to produce short-term results or earnings targets. In general, family owners also have a direct interest in the outcome of decisions made.

This family ownership model is combined with a commitment to apply the principle of meritocracy in human resources management across the Group. Recruitment of professional management staff from outside the controlling shareholder base ensures that a wide net is cast for talent. Appropriate checks-and-balances are also built into our governance structure. These include the designation of a “senior” Independent non-executive Director and various board committees. The roles and responsibilities of the Board, non-executive Directors, and Board Committees are clearly delineated.



2. HOW OUR BOARD GOVERNS THE GROUP
Corporate Governance Framework

KEY GOVERNANCE DOCUMENTS

There are many guidelines, policies, and procedures that support the governance framework at Hysan. The following documents are reviewed periodically and constitute key components of Hysan’s governance framework. They are available at www.hysan.com.hk.

- Corporate Governance Guidelines
- Board of Directors Mandate
- Role requirements of non-executive Directors
- Terms of Reference of various corporate governance-related Board Committees (Audit, Emoluments, and Nomination Committees)
- Code of Ethics for Employees
- Auditor Services Policy
- Corporate Disclosure Policy

To discharge its governance function in the most effective manner, the Board has laid down rules for its own activities in a set of **Corporate Governance Guidelines**.

The guidelines covers:

- Mission of the Board
- Board appointment and induction
- Board Leadership: Chairman, Managing Director and “senior” Independent non-executive Director
- “Independence” standards for outside Directors
- Board authorities, delegations and discretions
- Board compensation review
- Board access to senior management; availability of information
- Meeting procedures
- Governance-related Board Committees

NEW: FORMAL BOARD OF DIRECTORS MANDATE

The Board is responsible for the stewardship of the Group and is accountable for ensuring that the Group and its subsidiaries are managed in such a way as to achieve the objective of prudent stewardship. The Board’s responsibility is, firstly, to formulate strategy and, secondly, to monitor and control operating and financial performance in pursuit of the Group’s strategic objectives. The Board established a formal **Board of Directors Mandate** in 2007 setting out its key responsibilities in fulfilling such stewardship roles. These include the following:

DUTIES AND OBLIGATIONS

The Board must understand and meet the duties and performance standards expected of it under applicable regulatory requirements.

STRATEGIC PLANNING

The Board establishes, oversees and receives regular updates on the strategic direction, plans and priorities of the Group, and ensures that the Group has the necessary finances, people and systems in place to meet its objectives.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board monitors and assesses procedures implemented to identify the principal risks of the Group’s business, receiving frequent updates on the same.

CULTURE AND VALUES

The Board promotes the culture of integrity and transparency and other corporate values.

CAPITAL MANAGEMENT

The Board considers and approves Group activities relating to major capital expenditures, allocation of resources among the Group’s lines of business, and other major financial activities.

CORPORATE GOVERNANCE

The Board promotes the highest standards of corporate governance.

BOARD SUCCESSION

The Board continually assesses and evaluates the skills and expertise needed on the Board.

Matters Reserved For Board Decision

The roles of the Board and of the management are separate and distinct. The Board's role is not to manage business, which responsibility remains vested in management. Board responsibility is to test and question management, and to monitor progress.

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

The Board has in place a list of key matters that are to be retained for full Board decision including transactions with connected persons. These matters include:

- Long-term objectives and strategies
- Extension of Group activities into new business areas
- Annual budgets
- Preliminary announcements of interim and final results
- Dividends
- Material banking facilities
- Material acquisitions and disposals
- Connected Transactions
- Annual internal control assessment and
- Appointments to the Board following recommendations by the Nomination Committee

Where applicable, the "materiality" thresholds are based on Listing Rules requirements but they are set at lower levels, which means more stringent monetary levels.

Board Focus in 2006

During 2006, the Board paid considerable attention to the development of the Group's future growth strategy. Succession planning was considered in this light and the principle of meritocracy was formally established as the guiding principle of human resources management across the organisation. Formal role requirements for new director appointments were established. The Board also reviewed the Group's internal control systems, which are moving towards an approach based on established principles and policies rather than concentration of power in the hands of a small number of management personnel. In this light, the Board strengthened the Board infrastructure, including formalising a Board Mandate which sets out the Board's key responsibilities.

The Board held four meetings in 2006. Details of Directors' attendance records are as follows:

	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
Dr. Geoffrey M.T. Yeh	100 (50 by alternate)
Non-executive Directors	
Fa-kuang Hu	100
Hans Michael Jebsen	75 (75 by alternate)
Anthony H.P. Lee	100
Chien Lee	100
Dr. Deanna R.T.Y. Rudgard	100 (25 by alternate)

3. WHO IS ON THE BOARD

The Board is composed of three executive and eight non-executive Directors. The Board is actively engaged in succession planning issues for both executive and non-executive roles.

Diversity

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

Skill/Experience of the Hysan Board Members
Executive Directors
<ul style="list-style-type: none"> • 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 (Executive Director)
Independent non-executive Directors
<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • 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

Directors' biographies are set out on pages 41 and 42.

**BEST CORPORATE
GOVERNANCE DISCLOSURE
AWARDS 2006
NON-HANG SENG INDEX
CATEGORRY – GOLD AWARD**

*ORGANISED BY THE HONG KONG
INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS*



“THE 2005 REPORT OF HYSAN, IN A NUMBER OF WAYS, SETS A BENCHMARK FOR LISTED COMPANIES GENERALLY... IN A NUMBER OF ASPECTS, THE COMPANY’S CORPORATE GOVERNANCE PRACTICES EXCEED THE STANDARDS LAID DOWN BY THE CODE”

EXTRACTED FROM JUDGES’ REPORT

4. BOARD INDEPENDENCE

Independence

The Board has established “independence” standards as contained in the Corporate Governance Guidelines. It considers “independence” as a matter of judgment and conscience. A Director is considered independent only where he is free from any business or other relationship that might interfere with the exercise of his independent judgment.

The Board makes a determination concerning the “independence” of a Director each year at the time the Board approves Director nominees for inclusion in the AGM circular. If a Director joins the Board mid-year, the Board makes a determination on the new Director’s independence at that time.

Currently, the Group has three Independent non-executive Directors who are identified in our Annual and Interim Reports and other communications with shareholders.

Dr. Geoffrey M.T. Yeh, Independent non-executive Director seeking re-election at this year’s AGM, has served the Board for more than nine years. Dr. Yeh has clearly demonstrated his willingness to exercise independent judgment and to provide objective challenges to management. There is no evidence that length of tenure is having an adverse impact on his independence. The Board therefore considers that Dr. Yeh remains independent, notwithstanding the length of his tenure.

5. DIRECTOR APPOINTMENTS AND RE-ELECTION

Requirements

The Nomination Committee is responsible for recommending candidates to the full Board for consideration. The Committee and, in turn, the Board reviews the skill set of the Director candidates as well as the Board as a whole. In 2007, the Board formalised the role requirements of non-executive Directors.

NEW: FORMAL ROLE REQUIREMENTS OF NON-EXECUTIVE DIRECTORS

The Board considers that its non-executive Directors have four key roles in addition to requirements applicable to all Directors:

STRATEGY

Non-executive Directors should constructively challenge, hence help develop proposals on strategy.

PERFORMANCE

Non-executive Directors should scrutinise the performance of management in meeting agreed goals and objectives.

RISK

Non-executive Directors should satisfy themselves on the integrity of financial information and also that controls and systems of risk management are robust.

PEOPLE

Non-executive Directors are responsible for determining appropriate levels of remuneration for executive Directors and for succession planning.

In terms of requirements, a non-executive Director must demonstrate the necessary **time commitment** to discharge his role effectively. He must also take all reasonable actions to avoid **potential conflicts of interest** and disclose any that may arise. In addition, an Independent non-executive Director must maintain his own **independence** as measured by the independence criteria for non-executive Directors agreed by the Board under its Corporate Governance Guidelines and applicable regulations.

Term

Non-executive Directors are appointed for a term of three years, with the qualification that new Directors are required to submit themselves for re-election at the first AGM following their appointment. The Group's Articles of Association contains provisions regarding rotation of Directors so that every Director will be subject to retirement by rotation at least once every three years. Retiring Directors are subject to re-election at the general meeting at which they retire.

6. SERVING AS A DIRECTOR: INDUCTION, SUPPLY OF INFORMATION AND EVALUATION

Induction and Update

The Chairman, with the assistance of the Company Secretary, is responsible for the induction of new Board members. Directors receive induction on their appointment to the Board as appropriate, covering matters such as the operation and activities of the Group, the role of the Board and the matters reserved for its decision, the tasks and membership of the principal Board Committees, the powers delegated to those Committees, the Board's governance policies and practices, and the latest financial information about the Group. On their appointment, Directors are advised on the legal and other duties and obligations they have as directors of a listed company.

Our Directors are updated on Hysan's business, the environment in which it operates and other matters throughout their period in office. The Board regularly considers the implications of their duties as directors of listed companies under the Board's governance policies.

Supply of Information

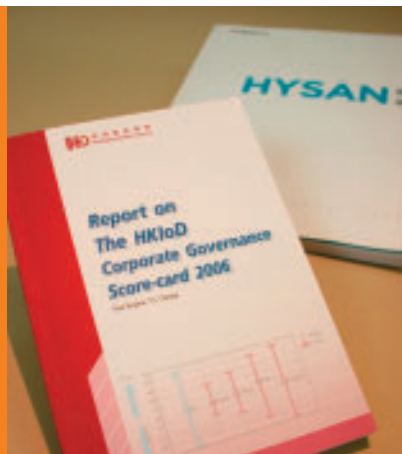
The Board receives detailed quarterly reports from Managing Director, Executive Director and Chief Financial Officer in respect of their areas of responsibility. Appropriate key performance indicators are used to facilitate benchmarking and peer group comparison. Financial plans, including budgets and forecasts, are regularly discussed at Board meetings. From time to time, the Board also receives presentations, including from non-Board management members, on issues of significance or on new opportunities for the Group.

The non-executive Directors and the Chairman regularly meet without executives being present. Non-executive Directors also have access to non-Director management staff where appropriate. These ensure that the Board will be given the answers it needs.

In terms of the Board process, non-executive Directors are given ample opportunity to add items to the agenda of Board meetings.

**RATED TOP 10
COMPANIES WITH BEST
CORPORATE GOVERNANCE**

*SURVEY ON CORPORATE
GOVERNANCE OF HONG KONG
LISTED COMPANIES 2006 –
JOINTLY PRESENTED BY
THE HONG KONG INSTITUTE
OF DIRECTORS AND CITY
UNIVERSITY OF HONG KONG*



**“THE INCLUSION OF COMPANIES
INCLUDING HYSAN ON THE TOP 10 LIST
DISPELS THE PREVAILING MYTH THAT
FAMILY-CONTROLLED COMPANIES DO NOT
HAVE GOOD CORPORATE GOVERNANCE.”**

*PROFESSOR STEPHEN CHEUNG YAN-LEUNG
PROFESSOR (CHAIR) OF FINANCE AT CITY
UNIVERSITY OF HONG KONG*

During the year, there were discussions on the different information needs of the Board and Board Committees in terms of content, timing and format. For instance, there will be a greater focus on technical details in the information provided to Audit Committee members as compared to that provided to the full Board for their respective reviews of the Group's internal control systems.

Evaluation

Since 2005, Hysan has in place a formal process of Board evaluation. The process takes the form of meetings between the Chairman and non-executive Directors without management being present, which meetings are held at least once a year. Two meetings were held in 2006.

The Board regards such meetings as a forum in which a broad range of strategic and performance matters may be openly discussed.

7. BOARD LEADERSHIP: THE CHAIRMAN, MANAGING DIRECTOR AND "SENIOR" INDEPENDENT NON-EXECUTIVE DIRECTOR

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 general development. Sir David Akers-Jones acts as the Independent non-executive Deputy Chairman of the Board, and he also chairs two of Hysan's 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 that the Board functions effectively and is independent of management where appropriate.

NEW: THE "SENIOR" INDEPENDENT NON-EXECUTIVE DIRECTOR

In 2007, the Board formalized the role of the "senior" Independent non-executive Director in its Corporate Governance Guidelines.

The "senior" Independent non-executive Director's role is to be available to shareholders and fellow Directors if they have concerns relating to matters that contact through the normal channels of Chairman and/or Managing Director has failed to resolve, or for which such contact is inappropriate.

8. ACCOUNTABILITY TO SHAREHOLDERS **Corporate Reporting**

Disciplined measurement of our performance is an important aspect of our strategy to achieve long-term success. Reporting financial and non-financial results in a transparent fashion is critical, recognising that we are accountable to our stakeholders. A number of formal communication channels are used to account to shareholders for the performance of the Group. These include the Annual Report and Accounts, Interim Report and Accounts and press releases/announcements.

The Board and management are committed to promoting consistent disclosure practices aimed at accurate, timely and broadly disseminated disclosure of material information about Hysan. We have established a new Corporate Disclosure Policy, which provides guidance for coordinating the disclosure of material information to investors, analysts and media as well as our processes for results announcements. This policy also identifies who may speak on Hysan's behalf, and outlines the responsibility for communications with various stakeholder groups.

Internal Control Review

The Board's governance policies include a process for the Board to review regularly the effectiveness of the system of internal control as required by the Code. As part of this process, the Board and the Audit Committee requested, received and reviewed reports from management at their regular meetings. These reports enabled them to assess the effectiveness of the system of internal control in operation for managing significant risks, including operational, financial reporting and compliance risks, throughout the year.

A detailed report is set out on pages 36 to 39.

9. OTHER SHAREHOLDER COMMUNICATIONS

Constructive Use of AGMs

The Board welcomes moves towards a more constructive use of AGMs and treats them as one of the principal avenues to enter into a dialogue with shareholders based on mutual understanding of objectives. Since 2004, we have introduced a "business review" session in addition to the statutory part of the meeting. This session is led by the Chairman and Managing Director. Topics covered at the last AGM included: Year 2005 overall business environment; governance and social responsibilities; achievements during the year; business activities review and outlook. The arrangements were positively received by shareholders.

Hysan also exceeded Code Provisions in conducting the statutory business of the AGM in a number of ways. Copies of the Annual Report and financial statements and related papers were dispatched to shareholders at least 35 days prior to the AGM (statutory requirement: 21 days). A comprehensive yet user-friendly AGM circular was prepared containing detailed reports on voting procedures (including procedures for demanding a poll) presented in a user-friendly "frequently-asked-questions-and-answers" format; and comprehensive information on each resolution to be proposed was provided. The Chairman also demanded a poll on all resolutions proposed.

Self-funded Programme to Forward Shareholder Communication Materials via Nominee Companies

There is currently no requirement in Hong Kong providing for mandatory forwarding of shareholder communication materials by nominee companies to beneficial shareholders. Since 2005, we have initiated and funded a programme inviting major nominee companies to



pro-actively forward communication materials to shareholders at our expense. Coverage of the programme has extended by more than double since inception.

Institutional Shareholders

Hysan is committed to maintaining a continuing open dialogue with institutional investors and analysts in order to raise understanding and awareness of the Group's strategy, operations, management and plans. Under the programme in 2006, the Managing Director and/or Chief Financial Officer participated in regular one-on-one meetings and roadshows in Hong Kong as well as overseas.

10. BOARD COMMITTEES

The Corporate Governance Guidelines allocate the tasks of monitoring executive actions and assessing performance to certain governance-related Board Committees. All such committees have a majority of Independent non-executive Directors. In common with the Board, each Committee has access to independent advice and counsel as required and each is supported by the Company Secretary.

A. Audit Committee

Composition and Meetings Schedule

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. The Audit Committee meets no 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 2006 with 100% attendance.

Roles and Authority

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 the appropriate accounting policies and the preparation of the financial statements. The external auditors are responsible for auditing and attesting to the Group's financial statements and evaluating the Group's system of internal control to the extent that they consider necessary to support their audit report. The Audit Committee, as the delegate of the full Board, is responsible for overseeing the entire process.

Activities and Report in 2006

Full details are set out in the "Audit Committee Report" on pages 70 and 71.

B. Emoluments Review Committee

Composition and Meetings Schedule

The Group 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. The Committee generally meets at least once every year. There was 100% attendance for the meeting held in 2006.

Role and Authority

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.

Activities and Report in 2006

Full details are set out in the "Directors' Remuneration and Interests Report" on pages 63 to 69.

C. Nomination Committee

Composition

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. The Committee meets when considered appropriate.

Role and Authority

The Committee has the responsibility of nominating for Board approval candidates to fill Board vacancies as and when they arise and of evaluating the balance of skills, knowledge and experience of the Board.