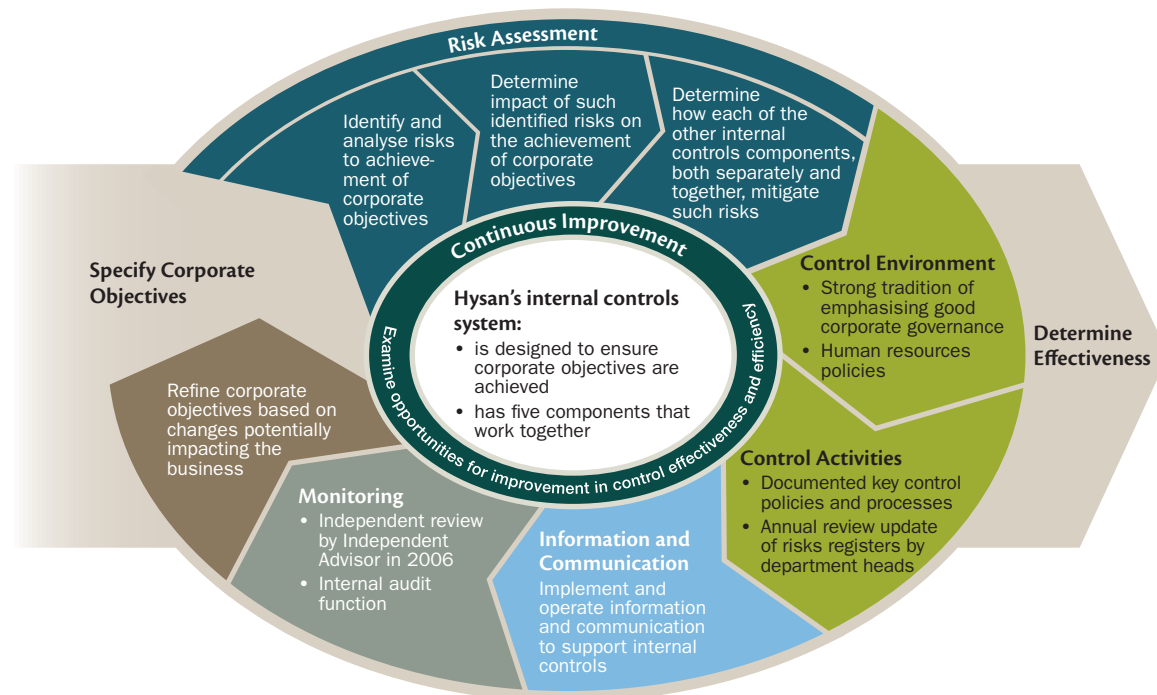


INTERNAL CONTROLS AND RISK MANAGEMENT

Responsibility

Our Board of Directors has the overall responsibility to ensure that sound and effective internal controls are maintained, while management is charged with the responsibility to design and implement an internal controls system to manage risks. A sound system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance.



Hysan's Internal Controls Model

Our internal controls model is based on that set down by the Committee of Sponsoring Organisations of the U.S. Treadway Commission ("COSO"), and has five components, namely Control Environment; Risk Assessment; Control Activities; Information and Communication; and Monitoring. In developing our internal controls model based on the COSO principles, we have taken into consideration our organisational structure and the nature of our business activities:

- Control Environment – this is very important as it sets the tone for internal controls in a company. Hysan is a tightly-knit organisation with around 500 staff members. The actions of management and its demonstrated commitment to effective governance and control are therefore very transparent to all. We have a strong tradition of good corporate governance and a corporate culture based on good business ethics and accountability. We have in place a formal Code of Ethics that is communicated to all staff (including new recruits). Our "whistle-blowing" system is monitored by an independent third party service provider with direct reporting to the Audit Committee Chairman. We aim to build risk awareness and control responsibility into our culture and regard them as the foundation of our internal controls system.

- Control Activities – our core property leasing and management business involves well-established business processes. Control Activities have traditionally been built on senior management reviews, segregation of duties and physical controls. Nonetheless, we recognise that an appropriate level of further formalisation commensurate with the complexity of business processes is beneficial to the continual development of the Group. Over the past few years, we have been pursuing this goal in line with a general desire to move towards a management style based on systematic and structured control principles.

Currently, the key features of our system of internal control include:

- Strategic and business planning: each business unit produces and obtains Board approval on a business plan each year, against which its performance is regularly monitored. Targets for a wide variety of key performance indicators are set.
 - Investment appraisal: capital projects are reviewed in detail and approved by Executive Directors, Chief Executive Officer, or the Board where appropriate, in accordance with delegated authority limits.
 - Financial monitoring: profitability, cash flow and capital expenditure are closely monitored and key financial information is reported to the Board on a regular basis, including explanations of variances between actual and budgeted performance.
 - Systems of control procedures and delegated authorities: there are clearly defined guidelines and approval limits for capital and operating expenditure and other key business transactions and decisions.
 - During the transitional period between the unexpected passing of the late Chairman and Acting Chief Executive Officer and the appointment of the new Chief Executive Officer, Chief-executive authorities were delegated to management, with the aim of balancing controls and operational efficiency. Segregation of duties was observed. Lower financial limits were imposed where appropriate. Delegation was principally sought for operational matters only. There was periodic reporting to both the Acting Chairman and Special Board Committee.
- Risk management: we have an ongoing process to identify, evaluate and manage the risks faced by the Group. We rate each risk in terms of probability of occurrence and potential impact on performance, and we identify mitigating actions, control effectiveness and management responsibility. Our approach is supported by an oversight structure under the Audit Committee and the Board.

Risk Management Process

Annual assessments: department heads review and update the relevant risks registers once a year, providing assurances that controls are both embedded and effective within the business.

Internal audit: responsible for reviewing and testing key business processes and controls in accordance with its audit plan, including following up the implementation of management actions and reporting any overdue actions to the Audit Committee. The Head of Internal Audit reports to the Chief Executive Officer and has direct access to the Audit Committee Chairman.

2009 Review of Internal Controls Effectiveness

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Internal Audit reports on reviews of the business processes and activities, including action plans to address any identified control weaknesses. Management assesses and presents to the Audit Committee its own assessments of the strengths and weaknesses of the overall internal controls systems, with action plans to address the weaknesses. External auditors also report on any control issues identified in the course of their work. Taking these into consideration, the Audit Committee reviews the effectiveness of the Group's system of internal controls at least once each year and reports to the Board on such reviews.

In respect of the year ended 31 December 2009, the Board considered the internal controls system effective and adequate. No significant areas of concern that might affect the operational, financial reporting, and compliance functions of the Group were identified. The scope of this review covers the adequacy of resources, qualification/experience of staff of the Group's accounting and financial reporting function and their training and budget.

Way Forward

We recognise that the strengthening of internal controls is a continuing process. We shall continually review our business processes and control activities accordingly.