

HILTON HEAD PROPERTIES, INC. GUIDELINES ON GOVERNANCE

Amended and Restated July 25, 2007

The Board of Directors of Hilton Head Properties, Inc. (the "Company") recognizes the importance of good corporate governance. These Guidelines, as established by the Corporate Governance Committee of the Board of Trust Managers, along with the charters and key practices of the Board's committees, reflect the Board's commitment to monitor the effectiveness of policy and decision-making both at the Board and management level, with a view to enhancing long-term shareholder value.

I. Role of the Board

The Board's role is to oversee the actions and results of management in conducting the business and affairs of the Company. In discharging its responsibilities, the Board will exercise its business judgment to act in what it reasonably believes to be in the best interests of the Company and its shareholders. The Board may consider, among other pertinent factors, the effect of its actions on the Company's employees, customers and suppliers and on the communities in which the Company operates.

The Board is responsible for:

- electing the Company's officers and members of the Board's committees;
- evaluating the performance of the Company's Chief Executive Officer, the Company's President and other senior management;
- ensuring that there is continuity of leadership;
- designing and approving the compensation of the Company's Chief Executive Officer, the Company's President and other senior management and approving the Company's compensation philosophy;
- periodically reviewing the Company's long-term strategic and business plans and monitoring performance against those plans;
- ensuring that the Company's systems of financial and internal controls are adequate to maintain the integrity of the Company, including its financial statements and compliance with applicable laws and ethics; and
- evaluating annually the effectiveness of the Board and of Board members.

Except as prohibited by law or the Bylaws of the Company, the Board may form and delegate authority to committees when appropriate.

II. Board Selection and Composition

- A. **Independence**. A majority of the Board shall attempt to be comprised of independent 'Outside' Directors (as defined by the listing standards of the New York Stock Exchange (the "NYSE")).

- B. **Board Size.** In terms of determining Board size, skill needs and group dynamics are determining factors. The Board attempts to balance the operational benefits of small size with the need for a large enough group of Directors to ensure a broad range of talents and experience. The Company's Bylaws limit the number of Directors to seven Directors.
- C. **Limits on Number of Board Memberships.** The Board recognizes that its members benefit from service on the boards of other companies. We encourage that service but also believe it is critical that Directors have the opportunity to dedicate sufficient time to their service on the Board. To that end, employee Directors may not serve on more than one other public company boards in addition to the Company's Board. Individuals who serve on more than six other public company boards will not normally be asked to join the Board and individuals who serve on more than two other public company audit committees will not normally be asked to join the Audit Committee, unless, in any such case, the Board determines that such simultaneous service would not impair the ability of such individual to effectively serve on the Board or the Audit Committee. Current positions in excess of these limits may be maintained unless the Board determines that doing so would impair their service on the Board or Audit Committee, as applicable.
- D. **Former Senior Officers.** If the Chief Executive Officer, the President or another senior officer resigns or tenders a resignation to the Company, he or she should simultaneously tender a resignation from the Board if on the Board. The full Board will consider and decide upon the resignation. A former Chief Executive Officer, President or other senior officer will not be considered an independent Director for purposes of corporate governance for a period of at least five years following termination of employment.
- E. **Employee Directors.** In normal circumstances, only the Chief Executive Officer, the President and the Chief Financial Officer of the Company shall be members of the Board of Directors. The Board may choose to elect other senior officer(s) to the Board in appropriate situations so long as a majority of the Board is comprised of independent Directors.
- F. **Separation of Chairman and CEO Positions.** The Bylaws of the Company provide that the Chairman of the Board can be the Chief Executive Officer of the Company. This is the Company's current practice.
- G. **Selection Process.** The Board is responsible for nominating candidates for Director to the Board to be submitted for election by shareholders at the annual meeting, as well as selecting new Directors who will serve on the Board between annual shareholder meetings. The Board has delegated the recruitment and screening process to the Nominating Committee, which may at its discretion seek third-party resources to assist in the process. The Nominating Committee will make the final recommendation of candidates to the Board for nomination.
- H. **Director Qualifications.** Directors on the Board of Directors of the Company shall be a person of integrity, with significant accomplishments and recognized business stature, who will bring a diversity of perspectives to the Board. Board members should possess such attributes and experience as are necessary to provide a broad range of personal characteristics including diversity, management skills and technological, business and international experience. Directors should be able to commit the requisite time for preparation and attendance at regularly scheduled Board and Committee meetings, as well as be able to participate in other matters necessary to good corporate governance.

III. Board Committees

- A. **Standing Committees.** The Board has established Audit, Compensation, Corporate Governance, Nominating and Executive committees to assist the Board in discharging its responsibilities. Other committees may be created and dissolved from time to time. The committee Chairs report on their meetings to the full Board.
- B. **Committee Composition.** The Audit, Compensation, Nominating and Corporate Governance committees are composed of outside and inside Directors as well as independent other parties. However, should the company go public, the committee's shall be made up solely of independent Directors, as defined by NYSE listing standards. Members of the Audit Committee, if required, must also meet the additional experience requirements of the NYSE listing standards and the rules and regulations promulgated by the Securities and Exchange Commission, and may not directly or indirectly receive any compensation from the Company other than their annual Director fee.

IV. Board Operation and Structure

- A. **Board Meetings.** The Chairman of the Board will establish the agenda for the Board meetings. Any Board member may recommend the inclusion of specific agenda items to the Chairman, the Corporate Secretary or any other Director or appropriate committee chair. Such recommendations will be accommodated to the extent practicable. Materials important to the Board's understanding of agenda items will be distributed to the Board in a timely manner before it meets.
- B. **Lead Independent Outside Director.** The Board has *'not'* appointed an independent Outside Director to act as Lead Independent Outside Director to coordinate the other Independent Directors. The Lead Independent Outside Director's duties, when one is appointed, will include consulting with the Chairman of the Board on Board agendas, coordinating the agenda for and moderating sessions of the Board's Independent Directors and acting as principal liaison between the Independent Directors and the Chairman on sensitive issues.
- C. **Private Sessions of Independent Outside Directors.** Independent Outside Directors will meet regularly in private at least three times during the year and as otherwise determined by the Lead Independent Outside Directors (if appointed). The Lead Independent Outside Director (if appointed) may brief the Chairman regarding the private session discussions as the Lead Independent Outside Director deems appropriate.
- D. **Term Limits; Retirement Age.** As a general matter, non-employee Directors will not stand for election to a new term of service at any annual meeting following their 75th birthday. However, the Board may approve exceptions to this practice when it believes it is in the interest of the Company to do so. The Board does not believe it should establish term limits for Directors service, instead preferring to rely upon the mandatory retirement age and the evaluation procedures described below as the primary methods of ensuring that each Director continues to act in a manner consistent with the best interests of the shareholders, the Board and the Company. The Board believes that term limits have the disadvantage of losing the contribution of Directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole.

- E. **Board Compensation.** The Compensation Committee has responsibility for recommending to the Board the compensation for non-employee Directors. To link Directors compensation to performance and to more effectively align the Board's interests with the interests of shareholders, the Board believes that a substantial portion of the Directors' annual compensation should be payable in some form of Company equity.
- F. **Consulting and Similar Arrangements.** Independent Directors on the Board will not be paid for consulting or similar services nor will the Company retain any of their affiliates for consulting or other services without approval of the full Board.

V. Board Orientation and Evaluation

- A. **Orientation and Continuing Education.** Each new Board member will receive an orientation that includes an extensive review of the Company and its business, general information about the Board and its committees, and a review of Directors duties and responsibilities. Some of these topics will be included in written materials and others will be covered in meetings with senior executives. Board members are encouraged to visit Company properties and to attend continuing director education programs offered by various organizations.
- B. **Board and Committee Performance Evaluations.** The Corporate Governance Committee will sponsor an annual assessment of the Board's performance, the results of which will be discussed with the full Board. The assessment will include a review of any areas in which the Board or management believes the Board can make a better contribution to the governance of the Company. The purpose of the review will be to improve the performance of the Board as a unit, and not to target the performance of any individual Board member. The Nominating Committee will utilize the results of the Board evaluation process in assessing and determining the characteristics and critical skills required of prospective candidates for election to the Board. The Audit, Compensation and Corporate Governance Committees are also responsible for assessing their respective committee's performance and reviewing their charter on an annual basis.

VI. Board Planning and Oversight Functions

- A. **Succession Planning and Management Development.** The Chief Executive Officer, working with the Board, is responsible for developing and maintaining a process for succession planning with respect to the position of Chief Executive Officer. The CEO will review these plans for with the Board on an annual basis, including a discussion of assessments, leadership development plans and other relevant factors.
- B. **Board Involvement With Regard to Compensation Matters for the Chief Executive Officer, the President and Other Senior Management.** The Board will be provided with a thorough annual review with respect to compensation matters for the Chief Executive Officer, the President and the Chief Finance Officer. The Board will be apprised with respect to compensation actions for the remaining corporate officers.
- C. **Annual Evaluations of the CEO and the President.** The Compensation Committee will perform annual evaluations of the Chief Executive Officer, the President and the Chief Financial Officer. The evaluations will include objective criteria, including Company's performance and relative shareholder return, accomplishment of long-term goals and

such other matters deemed pertinent to performance. The full Board shall be apprised annually of such matters. Results of the annual evaluations will affect the Chief Executive Officer's, the President's and the Chief Financial Officer annual compensation.

- D. **CEO's Death, Resignation or Disability**. In the event of the death, resignation or disability of the Company's President or Chief Executive Officer, the Chair of the Corporate Governance Committee will immediately call a meeting of the Committee to recommend to the full Board the selection of a temporary or permanent replacement for such position.
- E. **Directors Have Access to Management**. Board members have complete access to the Company's management team and the independent auditors. Providing advice and counsel to management occurs both in formal Board and committee meetings and through informal contact with members of management. The Board encourages the continuation of the long-standing practice of the Chairman to bring managers into Board meetings from time to time who can provide additional insight into the items being discussed.
- F. **Board's Outside Advisors**. The Board may retain and have access to outside counsel of its choice, at the Company's expense, with respect to any issue relating to its activities. Board committees shall have access to accountants, compensation consultants, or other independent advisers whose expertise is deemed essential to carrying out the committees' respective missions.
- G. **Ethics Hotline**. As part of the Company's commitment to maintaining a workplace free from discrimination, harassment, fraud and other illegal, dishonest or unethical activity, the Company has established an Ethics Hotline. The hotline provides individuals with a toll-free number to submit a voicemail message on a confidential and anonymous basis regarding concerns of such activity or any questionable accounting or audit-related matters. The Company's human resources department is responsible for receiving and handling these complaints.

VII. Executive Ownership; Repricing Prohibition

- A. **Executive Share Ownership**. To further support the Company's goal of achieving a strong link between shareholders and senior management and to more fully tie compensation to long-term performance, executives must receive a substantial portion of their annual bonuses in restricted shares.
- B. **Repricing Prohibition**. Options to purchase common shares of the Company may not be repriced. The exercise price for options will not be lowered even if the current market price of the Company's shares is below the exercise price.

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