

# Corporate Governance Report

The Board of Directors of the Company (the “Board”) is pleased to present the Corporate Governance Report of the Company for the year ended 31 December 2017.

## 1 Commitment to Corporate Governance

The Company acknowledges the importance of good corporate governance practices and procedures and regards a pre-eminent board of directors, sound internal controls and accountability to all shareholders as the core elements of its corporate governance principles. The Company endeavours to ensure that its businesses are conducted in accordance with rules and regulations, and applicable codes and standards.

## 2 Corporate Governance Code

During the year ended 31 December 2017, the Company complied with the applicable code provisions set out in the Corporate Governance Code (the “CG Code”) as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), with the exception that the roles of the chairman and the chief executive officer of the Company have not been segregated as required by code provision A.2.1 of the CG Code. The Company is of the view that it is in the best interest of the Company that Dr Lee Shau Kee, with his profound expertise in property business, shall continue in his dual capacity as the Chairman and Managing Director.

## 3 Board of Directors

### (a) Responsibilities of and Support for Directors

The Board has the responsibility for management of the Company, which includes formulating business strategies, and directing and supervising the Company's affairs, approving interim reports and annual reports, announcements and press releases of interim and final results, considering dividend policy, approving the issue, allotment or disposal, or grant of options, in respect of securities or debentures of the Company and reviewing the effectiveness of the risk management and internal control systems which include reviewing the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The Board makes broad policy decisions and has delegated the responsibility for detailed considerations to the standing committee of the Board (the “Standing Committee”).

The day-to-day management, administration and operation of the Company are delegated to the management team. The Board gives clear directions to the management as to their powers of management, and circumstances in which the management should report back.

Every Director ensures that he/she gives sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of his/her appointment the directorships held in listed companies or nature of offices held in public organisations and other significant commitment, with the identity of such listed companies or public organisations. The Company has also requested Directors to provide in a timely manner any change on such information. Each Director is also required to disclose to the Company his/her time commitment. The details of the Directors' time commitment are disclosed under the sub-paragraph “Directors' Time Commitment and Trainings” below.

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All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Directors will be notified of code provision amendment updates in respect of the CG Code so as to be kept abreast of latest code provision requirements and be assisted in fulfilling their responsibilities. The Directors are also provided with monthly updates which contain periodic financials with summaries of key events, outlook and business related matters of the Group. The monthly updates present a balanced and understandable assessment of the Company's performance and position. The Non-executive Directors and Independent Non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, after making a request to the Board.

### (b) Corporate Governance Functions

The Corporate Governance Committee as set up in 2012 has undertaken the corporate governance functions as required under the CG Code. Details of the Corporate Governance Committee are shown in paragraph 4(d) headed "Corporate Governance Committee" below.

### (c) Board Composition

The Board currently comprises eighteen members, as detailed below:

<b>Executive Directors</b>	<b>Non-executive Directors</b>	<b>Independent Non-executive Directors</b>
Dr Lee Shau Kee (Chairman and Managing Director)	Lee Pui Ling, Angelina Lee Tat Man	Kwong Che Keung, Gordon Professor Ko Ping Keung
Dr Lee Ka Kit (Vice Chairman)		Wu King Cheong
Dr Lam Ko Yin, Colin (Vice Chairman)		Woo Ka Biu, Jackson Leung Hay Man
Lee Ka Shing (Vice Chairman)		Professor Poon Chung Kwong
Yip Ying Chee, John		
Suen Kwok Lam		
Fung Lee Woon King		
Lau Yum Chuen, Eddie		
Kwok Ping Ho		
Wong Ho Ming, Augustine		

The biographical details of the Directors are set out on pages 125 to 129 of this Annual Report. Dr Lee Shau Kee is the father of Dr Lee Ka Kit and Mr Lee Ka Shing, the brother of Mr Lee Tat Man and Madam Fung Lee Woon King. Save as aforesaid, none of the members of the Board is related to one another. A List of Directors and their Role and Function is available on the Company's website.

The Board comprises male and female Directors with diverse backgrounds and/or extensive expertise in the Group's businesses. The Board also has a balanced composition of Executive and Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

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The term of office of all Non-executive Directors (including Independent Non-executive Directors) has been fixed for a specific term of not more than three years. All Directors are subject to retirement by rotation and re-election at the Company's Annual General Meeting ("AGM") in accordance with the Articles of Association of the Company ("Articles").

During the year ended 31 December 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors and at least one-third of its members being Independent Non-executive Directors, with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received confirmation in writing of independence from each of the Independent Non-executive Directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgement. The Board considers that each of the Non-executive Directors and Independent Non-executive Directors brings his/her own relevant expertise to the Board.

### (d) Appointment and Re-election of Directors

The Board is empowered under the Articles to appoint any person, as a Director, either to fill a casual vacancy on or to be an additional member of the Board. Only the most suitable candidates who are experienced and competent and able to fulfill the fiduciary duties and exercise reasonable care, skill and diligence would be recommended to the Board for selection. Appointments are first considered by the Nomination Committee in accordance with its terms of reference with due regard to the Company's board diversity policy, and recommendations of the Nomination Committee are then put to the Board for decision.

In accordance with the Articles, new appointments to the Board are subject to re-election at the next following AGM. Furthermore, nearest one-third of the Directors, including those appointed for a specific term, shall retire from office by rotation but are eligible for re-election at the AGM and the Board will ensure that every Director is subject to retirement by rotation at least once every three years. Each Director was appointed by a letter of appointment setting out the key terms and conditions of his/her appointment.

The appointment of Independent Non-executive Directors adheres to the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules.

### (e) Board Meetings

#### (i) *Number of Meetings and Directors' Attendance*

The Board meets from time to time and at least four times a year to discuss and exchange ideas on the affairs of the Company. During the year ended 31 December 2017, the Board held five meetings to approve interim/final results announcements and interim/annual reports, to determine the level of dividends, to discuss significant issues and the general operation of the Company and to approve matters and transactions specifically reserved to the Board for its decision. The attendance of the Directors is set out in the table on page 101.

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During the year, the Non-executive Directors (including Independent Non-executive Directors) held a meeting among themselves. In addition, the Chairman held a meeting with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors being present in accordance with the CG Code.

### (ii) *Practices and Conduct of Meetings*

Notices of regular Board meetings are given to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Meeting agenda and accompanying Board papers are sent to all Directors in a timely manner and at least three days before the Board/committee meetings.

The Company Secretary of the Company is responsible to take and keep minutes of all Board and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final signed version is open for Directors' inspection with copies sent to all Directors for their records.

### (f) Conflict of Interest

If a Director has a material interest in a matter to be considered by the Board, a physical meeting will be held to discuss the matter instead of seeking Directors' written consent by way of circulation of written resolution. In accordance with the Articles, such Director who is considered to be materially interested in the matter shall abstain from voting and not be counted in the quorum.

### (g) Director's and Officer's Liability Insurance

The Company has arranged director's and officer's liability insurance to indemnify the Directors and senior management against any potential liability arising from the Company's business activities which such Directors and senior management may be held liable.

The Company also keeps Directors indemnified against any claims to the fullest extent permitted by the applicable laws and regulations arising out of the Directors' proper discharge of duties except for those attributable to any gross negligence or wilful misconduct.

### (h) Directors' Time Commitment and Trainings

The Company has received confirmation from each Director that he/she had given sufficient time and attention to the affairs of the Company for the year. Directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies and organisations and an indication of the time involved. Directors are encouraged to participate in professional, public and community organisations. They are also reminded to notify in a timely manner the Company of any change of such information. In respect of those Directors who stand for re-election at the 2018 AGM, all their directorships held in listed public companies in the past three years are set out in the Circular of general mandates. Other details of Directors are set out in the biographical details of Directors on pages 125 to 129 of this Annual Report.

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During the year, arrangements were made for speakers delivering talks and presentations to Directors of the Company on relevant topics with emphasis on the roles, functions and duties of directors, as well as corporate governance. Legal and regulatory updates are provided from time to time to the Directors for their reading. Directors are also encouraged to attend outside talks and seminars to enrich their knowledge in discharging their duties as a director. On a regular basis, information on seminars organised by professional bodies are provided to the Directors, and the seminar enrolments are handled by the company secretarial department.

According to the training records provided by the Directors to the Company, they participated in continuous professional development in 2017 which comprised attending seminars and talks, and reading legal and regulatory updates and other reference materials. The seminars and talks involved topics on corporate governance, directors' duties and responsibilities, information technology, regional economic development, etc. During the year, the trainings undertaken by the Directors are summarised as follows:

	Attending Seminars, Talks and Briefings	Reading Legal and Regulatory Updates and other Reference Materials
<b>Executive Directors</b>		
Lee Shau Kee ( <i>Chairman and Managing Director</i> )	✓	✓
Lee Ka Kit	✓	✓
Lam Ko Yin, Colin	✓	✓
Lee Ka Shing	✓	✓
Yip Ying Chee, John	✓	✓
Suen Kwok Lam	✓	✓
Fung Lee Woon King	✓	✓
Lau Yum Chuen, Eddie	✓	✓
Kwok Ping Ho	✓	✓
Wong Ho Ming, Augustine	✓	✓
<b>Non-executive Directors</b>		
Lee Pui Ling, Angelina	✓	✓
Lee Tat Man		✓
<b>Independent Non-executive Directors</b>		
Kwong Che Keung, Gordon	✓	✓
Ko Ping Keung	✓	✓
Wu King Cheong	✓	✓
Woo Ka Biu, Jackson	✓	✓
Leung Hay Man		✓
Poon Chung Kwong	✓	✓

## 4 Board Committees

The Board has five Board Committees, namely, the Standing Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Corporate Governance Committee for overseeing particular aspects of the Company's affairs. The Standing Committee of the Board operates as a general management committee with delegated authority from the Board.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

### (a) Audit Committee

The Audit Committee was established in December 1998 and reports to the Board. The members of the Audit Committee are:

#### **Independent Non-executive Directors**

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Kwong Che Keung, Gordon (*Chairman*)

Professor Ko Ping Keung

Wu King Cheong

Leung Hay Man

The Chairman has the appropriate professional qualifications as required under the Listing Rules. None of the members of the Audit Committee was a former partner of the Company's existing external auditor within one year immediately prior to the dates of their respective appointments. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of public companies. The Board expects the Committee members to exercise independent judgement in conducting the business of the Committee.

The written terms of reference also include the authority and duties of the Audit Committee and amongst its principal duties are the review and supervision of the Company's financial reporting process and risk management and internal control systems. The terms of reference of the Audit Committee are available on the Company's website.

The Audit Committee held three meetings during the year ended 31 December 2017. The major work performed by the Audit Committee in respect of the year ended 31 December 2017 included reviewing and recommending the re-appointment of external auditor, approving the terms of engagement (including the remuneration) of the external auditor and the audit plan, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2017, reviewing the audited financial statements and final results announcement for the year ended 31 December 2016, reviewing the work of the Group's audit department and assessing the effectiveness of the Group's systems of risk management and internal control. The Audit Committee also discussed with the management to ensure that the Company is having adequate resources, qualified and experienced staff of the accounting and financial reporting function, training programmes and budget.

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### (b) Remuneration Committee

The Remuneration Committee which was established in January 2005 comprises:

#### **Executive Directors**

Dr Lee Shau Kee  
Dr Lam Ko Yin, Colin

#### **Independent Non-executive Directors**

Wu King Cheong (*Chairman*)  
Kwong Che Keung, Gordon  
Professor Ko Ping Keung

Each member is sufficiently experienced and is appropriately skilled in the issues of determining executive compensations in public companies. The Board expects the committee members to exercise independent judgement in conducting the business of the committee.

The written terms of reference include the specific duties of determining, with delegated responsibility, the remuneration package of the individual Executive Director and senior management and making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The terms of reference of the Remuneration Committee are available on the Company's website.

During the year ended 31 December 2017, the Remuneration Committee held a meeting to review the salary structure of the employees of the Company and the level of salary increments for 2018 as well as the remuneration of senior management staff and the Directors with reference to the remuneration level of directors of comparable listed companies. In addition, the Remuneration Committee endorsed the remuneration of the new Chief Financial Officer of the Company.

Particulars of the Directors' emoluments disclosed pursuant to the Companies Ordinance (Cap. 622) and Appendix 16 of the Listing Rules are set out in note 9 to the financial statements on pages 181 to 183 while the analysis of the senior management's emoluments by band is set out in note 10 to the financial statements on page 184. At the AGM held on 5 June 2017, the shareholders approved the revised Director's fees as fixed at the rate of HK\$150,000 per annum for each Executive Director/Non-executive Director, HK\$250,000 per annum for each Independent Non-executive Director and an additional fee for an Independent Non-executive Director acting as member of (i) the Nomination Committee at a fee of HK\$100,000 per annum and (ii) the Remuneration Committee at a fee of HK\$100,000 per annum with effect from 1 July 2017 until the Company in general meetings otherwise determines. The additional fee for an Independent Non-executive Director acting as member of (i) the Audit Committee remained fixed at HK\$250,000 per annum and (ii) the Corporate Governance Committee remained fixed at HK\$100,000 per annum. Other emoluments shall from time to time be determined by the Board with reference to the Directors' duties and responsibilities and subject to a review by the Remuneration Committee.

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### (c) Nomination Committee

The Nomination Committee which was established in December 2011 comprises:

#### **Executive Directors**

Dr Lee Shau Kee  
*(Chairman, in his absence, Professor Ko Ping Keung,  
acting as Chairman)*

Dr Lam Ko Yin, Colin

#### **Independent Non-executive Directors**

Kwong Che Keung, Gordon

Professor Ko Ping Keung

Wu King Cheong

Each member is sufficiently experienced and is appropriately skilled in the issues of nomination of directors to the Board. The Company has provided the Nomination Committee with sufficient resources to perform its duties. The Nomination Committee may seek independent professional advice, at the Company's expense, to perform its responsibilities.

The written terms of reference include the specific duties of reviewing the structure, size and composition of the Board with due regard to the board diversity policy and making recommendation on any proposed changes to the Board to complement the Company's corporate policy. The board diversity policy provides that selection of candidates will be based on a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The terms of reference of the Nomination Committee are available on the Company's website.

During the year ended 31 December 2017, the Nomination Committee held two meetings to assess the independence of Independent Non-executive Directors of the Company, make recommendation to the Board on the retiring Directors' eligibility for re-election at the AGM, extend the term of office of an Independent Non-executive Director, and review the size and composition of the Board and the board diversity policy. After the above review, the Nomination Committee considered that the board diversity policy was appropriate and effective.



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### (d) Corporate Governance Committee

The Corporate Governance Committee which was established in October 2012 comprises:

#### **Independent Non-executive Directors**

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Kwong Che Keung, Gordon (*Chairman*)

Leung Hay Man

Professor Poon Chung Kwong

Each member is sufficiently experienced and is appropriately skilled in the issues of corporate governance. The Company has provided the Corporate Governance Committee with sufficient resources to perform its duties.

The written terms of reference include the duties of developing and reviewing the Company's policies and practices on corporate governance and monitor such policies and practices on compliance with legal and regulatory requirements. The terms of reference of the Corporate Governance Committee are available on the Company's website.

During the year, the Corporate Governance Committee held a meeting to review the Company's policies and practices on corporate governance and formulated the work plan for the 2017 Corporate Governance Report.

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### (e) Attendance Record at Board Meeting, Committees' Meeting and AGM

The attendance of the individual Director at the meetings of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Corporate Governance Committee and the AGM during the year ended 31 December 2017 is set out in the following table:

	No. of meetings attended/No. of meetings held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	AGM
<b>Executive Directors</b>						
Lee Shau Kee ( <i>Chairman and Managing Director</i> )	4/4 <sup>1</sup>	N/A	1/1	2/2	N/A	1/1
Lee Ka Kit	4/4 <sup>1</sup>	N/A	N/A	N/A	N/A	1/1
Lam Ko Yin, Colin	4/5	N/A	1/1	2/2	N/A	1/1
Lee Ka Shing	4/4 <sup>1</sup>	N/A	N/A	N/A	N/A	1/1
Yip Ying Chee, John	5/5	N/A	N/A	N/A	N/A	1/1
Suen Kwok Lam	5/5	N/A	N/A	N/A	N/A	1/1
Fung Lee Woon King	4/4 <sup>1</sup>	N/A	N/A	N/A	N/A	1/1
Lau Yum Chuen, Eddie	5/5	N/A	N/A	N/A	N/A	1/1
Kwok Ping Ho	5/5	N/A	N/A	N/A	N/A	1/1
Wong Ho Ming, Augustine	5/5	N/A	N/A	N/A	N/A	1/1
<b>Non-executive Directors</b>						
Lee Pui Ling, Angelina	5/5	N/A	N/A	N/A	N/A	1/1
Lee Tat Man	1/4 <sup>1</sup>	N/A	N/A	N/A	N/A	1/1
<b>Independent Non-executive Directors</b>						
Kwong Che Keung, Gordon	5/5	3/3	1/1	2/2	1/1	1/1
Ko Ping Keung	5/5	3/3	1/1	2/2	N/A	1/1
Wu King Cheong	5/5	3/3	1/1	2/2	N/A	1/1
Woo Ka Biu, Jackson	5/5	N/A	N/A	N/A	N/A	1/1
Leung Hay Man	2/5	2/3	N/A	N/A	1/1	0/1
Poon Chung Kwong	5/5	N/A	N/A	N/A	1/1	1/1

Remark: 1. One board meeting was to consider the connected transactions in which Dr Lee Shau Kee, Dr Lee Ka Kit, Mr Lee Ka Shing, Madam Fung Lee Woon King and Mr Lee Tat Man were deemed to have material interests that they were required to abstain from voting and not counted to the quorum. As such, the aforesaid Directors were absent from such meeting.

## 5 Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2017, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on pages 134 to 139.

## 6 Auditor's Remuneration

For the year ended 31 December 2017, the Auditor(s) of the Company and its subsidiaries agreed to receive approximately HK\$18.4 million for audit and audit related services (2016: HK\$18.3 million) as well as HK\$11.1 million for non-audit services (2016: HK\$10.2 million). The non-audit services rendered were tax services, corporate and advisory services and other reporting services.

## 7 Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiries, the Company confirms that all Directors have complied with the required standards as set out in the Model Code.

## 8 Continuing Connected Transactions

The Independent Non-executive Directors and the Auditor of the Company conducted reviews on the continuing connected transactions as disclosed in the Report of the Directors of this Annual Report (the "Continuing Connected Transactions"). The Audit Department of the Company has reviewed the Continuing Connected Transactions together with the relevant internal controls and confirmed to the Independent Non-executive Directors of the Company that the Continuing Connected Transactions were conducted in accordance with the pricing mechanism under the relevant agreements.

## 9 Inside Information Policy

The Board approved and adopted the Inside Information Policy in December 2012 which contains the guidelines to the directors, officers and all relevant employees (likely possessing the unpublished inside information) of the Group to ensure that the Inside Information of the Group is to be disseminated to public in equal and timely manner in accordance with the applicable laws and regulations. The Inside Information Policy is available on the Company's website.

## 10 Corporate Social Responsibility

The Company is a founding constituent member of the Hang Seng Corporate Sustainability Index Series launched in July 2010.

A Corporate Social Responsibility Committee, chaired by a Vice Chairman with certain Directors and department heads as members, was formed in 2012 to assist the Board in reviewing the policy on corporate social responsibility and

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overseeing relevant issues including workplace quality, environmental protection, operating practices and community involvement. The Corporate Social Responsibility Policy and the terms of reference of the Corporate Social Responsibility Committee have been adopted and posted on the Company's website.

During the year, the Corporate Social Responsibility Committee held a meeting to review the corporate social responsibility policy and performance as well as formulate the strategies for the coming year. A standalone Sustainability and CSR Report is to be published on the same date of this Annual Report and posted on the Company's website.

## 11 Internal Audit, Risk Management and Internal Controls

### Internal Audit

The Board is responsible for ensuring sound and effective risk management and internal control systems to safeguard the shareholders' interests and the Company's assets.

The Audit Department of the Company, which reports directly to the Audit Committee and is independent of the Company's daily operations, is responsible for conducting regular audits on the major activities of the Company. Its objective is to ensure that all material controls, including financial, operational and compliance controls and risk management functions are in place and functioning effectively. It is also considered that the resources, staff qualifications and experience and training programmes are adequate.

An email link has been set up in the webpage of the intranet of the Company for employees to express their opinions or concerns about the Group's operations directly to the Vice Chairman. In addition, the Company has provided a separate email link on its website, by which stakeholders can freely provide comments and suggestions on the operations of the Company so that proper actions can be taken to address issues being raised.

### Risk Management and Internal Controls

The successful management of risks is essential for the long-term growth and sustainability of the Group's business. The Board is responsible for setting strategies, business objectives and risk appetite as well as ensuring a review of effectiveness of the risk management and internal control systems, and overseeing management in the design, implementation and monitoring of the risk management and internal control systems. Management staff of various departments of the Group have provided confirmations to the Board on the effectiveness of such systems.

Risk management is proactive to ensure that significant risks are:

- identified;
- assessed by considering the impacts and likelihoods of their occurrence; and
- effectively managed by identifying suitable controls and countermeasures, and assessing the cost effectiveness of the mitigating actions proposed.

#### (i) *Approach to Risk Management*

The risk management of the Group combines a top-down strategic view with a bottom-up operational process.

The Board, by the top-down approach, has a particular focus on determining the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group.

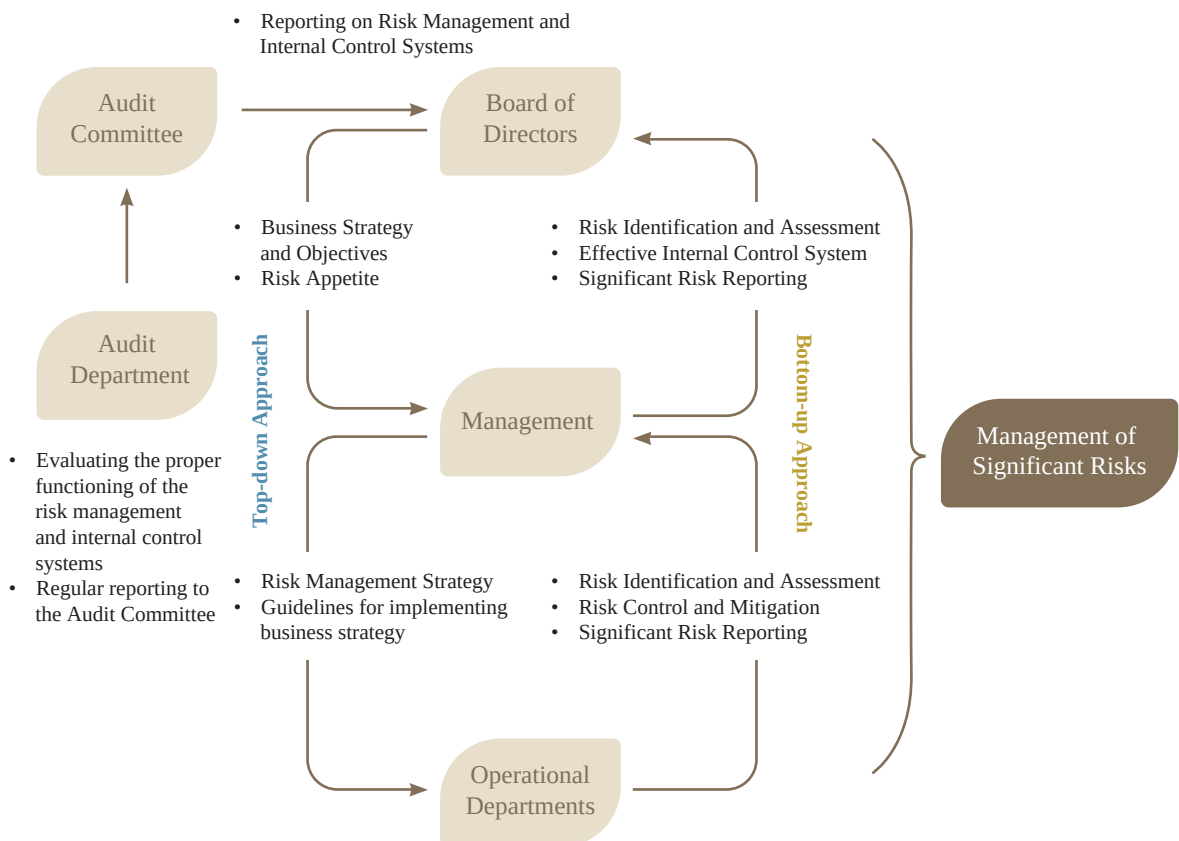
Each department of the Group is responsible for identifying its own risks and designing, implementing and monitoring the relevant risk management and internal control systems. The process involves the maintenance of risk register setting out the particulars of material risks together with the control measures as reported by significant departments of the Group. This bottom-up approach is embedded in the operations of the Group and complements the top-down strategic view by identifying the principal risks and ensuring the significant risks to be considered by the Board in determining the risk appetite.

The terms of reference of the Audit Committee include, among other things, the responsibility of reviewing the risk management and control systems. In addition, a risk management policy has been adopted to serve as a guideline for risk management and internal control systems and such policy is available on the Company's website.

(ii) *Risk Management Reporting and Framework*

The Audit Department performed audits to evaluate the proper functioning of the risk management and internal control systems for the financial year ended 31 December 2017. It is intended to carry out this evaluation process on an ongoing basis. The Audit Committee, after reviewing and considering the risk management findings submitted by the Audit Department, reported and confirmed to the Board that the risk management and internal control systems are effective and adequate.

The diagram below summarises the complementary top-down and bottom-up aspects of the integrated approach of the Group to risk management.



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### (iii) *Significant Risks and Control/Mitigation*

Certain significant risks have been identified through the process of risk identification and assessment. A summary on such significant risks of the Group together with the relevant internal control measures or mitigation in place is listed below:

#### (a) *Regulatory and Compliance Risk*

As a listed and a diversified property development and investment, construction and real estate developer company, the Group is exposed to and subject to extensive government policies and regulations of mainland China and Hong Kong. These include the Companies Ordinance, financial and tax legislations, Residential Properties (First-hand Sales) Ordinance, new property control measures by the central and/or local government authorities in the mainland China and construction legislations and regulations, as well as the Listing Rules in Hong Kong.

Any non-compliance with these policies and regulations may cause damage to the Group, delay its project development and affect its ability to deliver its primary objectives.

The Group is committed to complying with the relevant policies, regulations and guidelines applicable to its operations through developing internal guidelines, frequent staff trainings, sufficient time for review process, compliance handling by experienced and professional staff as well as by consultancy with external experts.

#### (b) *Economic Risk*

The Group is dependent on the regional economic conditions in which the Group is active. Global economic uncertainty, prospect of interest rates hike, slowdown of mainland China's economic growth and possible sluggish economy of Hong Kong would adversely affect the Group's profitability.

The Group reviews and optimises its asset portfolio to ensure that it is sufficiently cost effective and efficient. The risk of adverse economic conditions is managed by ensuring proper monitoring of the business performance, and constant assessment of economic conditions and the appropriateness of the prevailing investment and business strategy.

#### (c) *Market Risk*

The Group operates in areas that are highly competitive, and failure to compete effectively in terms of price, product quality and specification or levels of service can have an adverse impact on the Group's results. The market demand and supply condition is also one of the significant factors impacting the Group's performance.

The Group manages market risks by keeping track of the property market conditions, strengthening its brand names and product quality, and setting sales strategies commensurate with the market demand.

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### (d) *Financial Risk*

An effective and sound financial management system is essential to the Group's operations. The Group may be exposed and impacted by factors such as shortage of fund flow, increase in costs of funding and currency fluctuation.

The Group's finance team is embedded within the Group to provide financial management support by monitoring the financial market conditions and setting an appropriate financial strategy. The Group maintains an open and proactive relationship with the banking community, arranges different terms of loan facilities from different sources with different tenures and ensures continuous assessment of counterparty risks.

### (e) *Image/Reputation Risk*

The Group's reputation is one of its most valuable assets, playing a major part in the continued success of the business. The image of the Group may be affected by possible oppositions or protests during the property development process, delayed handover of residential units and quality issues.

The Group is committed to employing, training, developing and retaining a diverse and talented workforce to cope with potential complaints and ensuring proper quality delivery. The Group frequently organises brand name promotion events and maintains good public relations.

### (f) *Sales, Leasing, Construction and Property Development Risk*

The Group continues to develop its well-planned property development and construction projects. Various measures have been well established to ensure that the development projects are built with high quality standards, on time and within budget.

Whilst the Group ensures that strong management controls are in place and monitoring systems are enforced, it has occasionally encountered increases in development and selling costs, delays in property development, contractors' incapability and contract disputes. Minimal risk has been encountered by Leasing operations.

## 12 Company Secretary

The Company Secretary is to support the Board by ensuring that there is good information flow and the board policy and procedures are strictly followed. The Company Secretary is responsible for advising the Board on governance matters and also facilitating the induction and professional development of Directors.

During the year, the Company Secretary took no less than 15 hours of relevant professional training.

## 13 Shareholder Rights and Investor Relations

The Board is committed to maintaining an ongoing dialogue with shareholders and providing timely disclosure of information concerning the Group's material developments to shareholders and investors.

The AGM of the Company provides a forum for communication between shareholders and the Board. The notice of the AGM is despatched to all shareholders at least 20 clear business days prior to such AGM. The Chairmen of all Board Committees are invited to attend the AGM. The Chairman of the Board and the Chairmen of all the Board Committees,

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or in their absence, other members of the respective Committees, are available to answer questions at the AGM. The Auditor is also invited to attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor's independence. The Company's policy is to involve shareholders in the Company's affairs and to communicate with them about the activities and prospects face-to-face at the AGM.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting will be taken by poll. Detailed procedures for conducting a poll will be explained to the shareholders at the general meeting to ensure that shareholders are familiar with such voting procedures. The poll results will be posted on the websites of The Stock Exchange of Hong Kong Limited and the Company on the day of the general meeting. Moreover, separate resolution will be proposed by the chairman of a general meeting in respect of each substantially separate issue.

Under Section 566 of the Companies Ordinance, shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at the general meetings are entitled to send a request to the Company to convene a general meeting. Such requisition must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may be sent to the Company in hard copy form or in electronic form and must be authenticated by the shareholder(s) making it and deposited at the registered office of the Company or sent to the Company's email address at [ir@hld.com](mailto:ir@hld.com). Besides, in relation to an annual general meeting which a company is required to hold, Sections 615 and 616 of the Companies Ordinance provide that shareholders representing at least 2.5% of the total voting rights of all shareholders of the company having a right to vote on the resolution at the annual general meeting or at least 50 shareholders having a right to vote on the resolution at the annual general meeting, may request the company to circulate a notice of the resolution for consideration at the annual general meeting, by sending a request, which must be authenticated by the shareholder(s) making it, in a hard copy form or in electronic form. Such request must be deposited at the registered office of the Company or sent to the Company's email address at [ir@hld.com](mailto:ir@hld.com). The request made under Section 615 must also identify the resolution of which notice is to be given and be received by the Company not later than six weeks before the AGM to which the request relates, or if later, the time at which notice is given of the AGM.

The Company has maintained a Shareholders' Communication Policy which is available on the Company's website. Shareholders may make enquiries to the Board by contacting the Company either through the Company Investor Relations on telephone number (852) 2908 8392 or email at [ir@hld.com](mailto:ir@hld.com) or directly by raising questions at general meetings.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular communication and dialogue with shareholders, investors and analysts. A meeting with analysts will be held after the announcement of interim or annual results which strengthens the communication with investors. Enquiries from investors are dealt with in an informative and timely manner.

As a channel to further promote effective communication, the Group maintains a website at <http://www.hld.com> where the Company's announcements and press releases, business developments and operations, financial information, corporate governance report and other information are posted.