



Pages 102 to 104 of the Corporate Governance Report set out details of our risk management and internal control systems.

## MANAGING PRINCIPAL RISKS

The principal risks that the Company faces may not change significantly from year to year, although the magnitude and importance of these risks can and do vary, as described below:

### Property Development Risk

The ability to acquire suitable land for development is critical for the Company in order to sustain its continuous growth and desired return on investment. Heavy capital investment and government policies, coupled with a long investment period and market cycles, are challenges and opportunities presented to us in forming our land acquisition strategy. A long-term expansion strategy for mainland China has been adopted to smooth out short-term changes and fluctuations.

Changes in government policies and regulations could impact our project development. Our project team is kept abreast with these updates and the effects are properly addressed. Taking a long-term view, as aforementioned, also helps to spread the effect on political and regulatory changes.

Complexity of design and tight deadlines present implementation challenges to deliver our projects on budget, on time and in line with required quality. Guided by our business philosophy of We Do It Right, we design and build projects that exceed minimum environmental standards.

In light of these requirements, our project team closely monitors the projects' progress and evaluates and approves any necessary changes to the design or construction works while the project is under development. Roles and responsibilities for accountability and division of duties are clearly defined among the departments of Project Planning, Project Construction, Cost and Controls and Leasing & Management at various stages of the development cycle. Our project teams make regular and comprehensive reports to the Board, while close management supervision enables well-informed executive decisions to be made promptly.

### Business and Operational Risk

We ensure our properties remain competitive and up to the highest standards by closely monitoring the business environment and market trends. However, changes in market economic conditions, such as the weaker overall economy of mainland China as well as slower retail growth especially for luxury goods in recent years, could significantly impact our business performance. Any political instability and uncertainties in mainland China and Hong Kong could limit our ability to deliver on our strategies.

Consumer behavior and taste, partly driven by the fast paced and/or disruptive technology innovations such as e-commerce and mobile applications, are changing rapidly. We need to stay tuned to the needs of our tenants and shoppers, and continue to revise our modus operandi as appropriate. For example, the introduction of the customized Customer Relationship Management program, social media marketing, and so on, will help us understand the market needs and direct our products and services accordingly.

Our operations in mainland China may also be exposed to the risk of changes in regulations/policies, which may impact our operating results and financial conditions. Regular updates plus the provision of training on regulatory changes are conducted by internal experts, external regulatory bodies or advisors with regard to our position and hence enable us to react as early as possible.

Major external disasters, such as a disease pandemic, pollution, floods, earthquake etc., may impact on our assets and our business operations, and hence reduce our earnings. Appropriate insurance coverage as well as crisis management plans to deal with these hazards have been put in place to safeguard our assets and to ensure business continuity.

### **People Risk**

Strong competition for talented staff and the tight labor markets in the property management industries, together with the added demands from new projects, posted a challenge to the Company in providing adequate resources to support the existing and growing business.

In order to attract, motivate and retain talented employees, we evaluate our employee remuneration packages periodically and monitor them against market trends. Through our Nomination and Remuneration Committee, we ensure that the Company's remuneration levels for Directors and senior management remain competitive in the market. To support continuous professional development, we provide training or financial assistance for those attending recognized professional programs. In addition, programs for management trainees, staff secondments and rotation are established to ensure our leasing operations and development projects are supported by adequate talents.

The sudden loss of key management members is another risk which may affect our ability to deliver on our strategies. A succession plan for key management team members is therefore established.

The Company is committed to the highest standards of openness, probity and accountability. All employees are expected to conduct themselves with integrity, impartiality and honesty. In line with our commitment, a whistleblowing mechanism has been put in place for our employees and other third parties such as contractors and



tenants to raise in confidence serious concerns about misconduct, fraudulent activities or malpractices in any matter related to the Company. Clearly-established communication channels and a grievance reporting system are in place for all levels of staff.

### **Treasury Risk**

In keeping with the principle of prudent financial management, we have processes in place to identify and manage risks associated with our treasury operations.

#### *(a) Interest Rates and Foreign Exchange*

Most of the Company's borrowings are floating-rate bank loans, which expose us to rising interest rates. We closely monitor the interest rate risk and when appropriate adopt measures to manage the associated risk – including but not limited to the issuance of fixed rate bonds, the use of derivatives such as interest rate swaps and management of the ratio of fixed/floating loan portfolio.

Our business in mainland China has by its nature translational foreign currency risk from the capital investments, and transactional foreign currency risk which arises due to the mismatch of revenue generated in mainland China while debts and/or payments are in other currencies.

We manage our Renminbi exchange rate risk prudently for maximum protection. Our recurring rental revenue in Renminbi provides a natural hedge for these investments. We also maintain an appropriate level of Renminbi resources to meet the Company's capital requirements for our ongoing projects in mainland China.

The US Dollar exchange rate risk is considered not significant as our net exposure to the US Dollar is minimal and the HK Dollar is pegged to the US Dollar under the prevailing pegged exchange rate regime in Hong Kong.

#### *(b) Cash Management, Funding and Liquidity*

Markets liquidity may change from time to time and limit our ability to borrow adequate and cost-effective funding when needed. As such, a treasury team is established to manage our cash and financing at corporate level, to build closer lender relationships for better borrowing terms, as well as to maintain flexibility and thus practice coherent financial risk management.

To meet our financial obligations, the Company maintains sufficient funds, banking facilities and multiple fund raising channels. The maturity of deposits and loans is carefully planned and managed to reduce liquidity risk. The Company closely monitors the markets to manage the refinancing risks in a prudent manner.

### *(c) Credit/Counterparty*

Credit/counterparty risk exposure is primarily in the areas of rents receivable, installments receivable relating to property sales, and deposits placed with banks.

We undertake careful credit assessments of prospective tenants, collect rental deposits and closely monitor outstanding rents in order to mitigate rents receivable risk. We also protect receivables related to property sales by using properties as collateral. Bank exposure limits are assigned so that we can mitigate concentration risks on our deposits, which are made only with banks that have sound financial strength and/or good credit ratings.

### *(d) Use of Derivatives*

Our earnings may be impacted by marked to market fair value gains/losses according to Hong Kong Financial Reporting Standards. To minimize our exposure on this, we use derivative instruments for hedging purposes only. The Company's policies do not permit entering into derivative transactions for speculative purposes.