



Corporate Governance Report

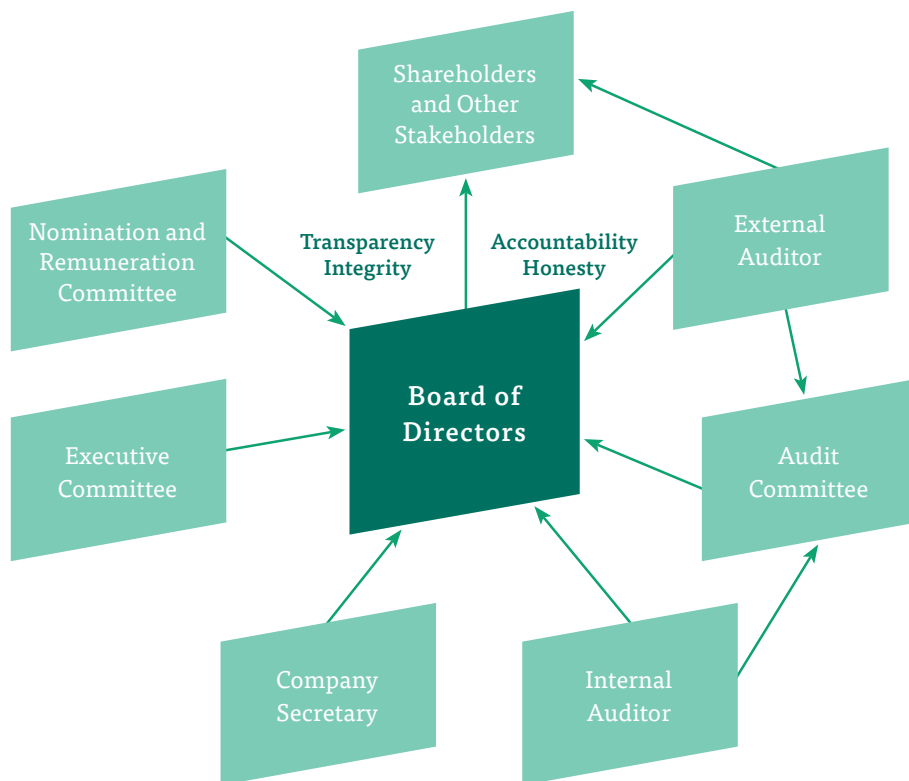
To build a sustainable future, we are always mindful of pursuing good corporate governance with a clear vision on sustainability.

We recognize that sound corporate governance is a strong foundation for our sustainable business growth and a key to long-term success.

Our Strong Belief in Governance

Hang Lung firmly believes that strong governance is the foundation for delivering the corporate objective of maximizing returns to its stakeholders over the long term. At the core of the governance structure is an effective and qualified Board, which is committed to maintaining the highest standards of corporate governance, sound internal controls, and effective risk management to enhance transparency, accountability, integrity and honesty in order to earn the confidence of our shareholders and other stakeholders.

Corporate Governance Structure



A Sound Corporate Culture

As good governance is essential to corporate success, we have always been proud of our We Do It Right business philosophy, which has guided us to operate our business with integrity and honesty. A sound culture of governance has to reach all levels of the organization and the highest standards of integrity and honesty from every employee in every process is expected. Our professional management together with the Board strive to instill integrity into every aspect of our business in every city where the Company is operating its world-class projects.

Professional and Responsible Board

The Board comprises professionals from different sectors of society, who bring a wide range of business and financial experience and expertise to the Board. The Board includes a balanced composition with a strong independent element which can effectively exercise impartial judgment. To enhance the function of the Board, three Board committees, namely, the Executive Committee, Audit Committee and Nomination and Remuneration Committee have been set up to assume different responsibilities.

Prudent Risk Management

The Company recognizes the various risk factors it will face in its operations and properly deals with them in a manageable manner by setting a good internal control environment and making continuous improvements to suit the changing operational needs. Further explanations are disclosed hereunder and in the Risk Management section of this annual report.

Compliance with Corporate Governance Code

As good corporate citizens, we have adopted and fully complied with, and in many cases exceeded, the code provisions and some recommended best practices of the CG Code.

The key cases are listed below:

Board & Board Committees
• Diverse range of Board expertise and experience
• Six regular Board meetings in 2018
• Four Audit Committee meetings in 2018
• Management's attendance in the meetings of the Board and Audit Committee for provision of information to facilitate decision-making process
• The Nomination and Remuneration Committee comprising INEDs only
• Audit Committee members meeting external auditor without the presence of management four times in 2018



Sustainability

- Sustainability framework in place since 2012 with the establishment of Sustainability Steering Committee
- ERM Working Group as a robust forum for risk management
- Well established framework for robust crisis management
- Publication of separate sustainability report 2017, which exceeded the requirements of the ESG Guide and received independent third party assurance

Accountability

- Publication of results announcement within one month from the end of accounting period
- Adoption of Code of Conduct since 1994
- Well-defined whistleblowing policy
- Whistleblowing cases reported to the Audit Committee on a half-yearly basis
- Policy governing the non-audit services provided by the external auditor in place with scopes and fees approved by the Audit Committee

Communications

- The Chairman's detailed explanation of the business strategies and outlook of the Group in his Letter to Shareholders
- Open and direct dialogue between the Chairman and shareholders in AGM
- Corporate website as means of communication with stakeholders
- Serving of AGM notice with more than 20 clear business days

Our efforts on the corporate governance disclosures and practices were recognized by The Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy, Hong Kong Baptist University through the Hong Kong Corporate Governance Excellence Awards 2018. Our major listed subsidiary, HLP, received the Corporate Governance Excellence Award - Category 1 (Hang Seng Index Constituent Companies). This accolade once again reaffirmed the Group's dedication to promoting good corporate governance.

(I) Effective and Qualified Board

1. Composition, Board Diversity, Functions, and Board Process and Access to Information

Composition

The Board currently comprises 11 members:

- four Executive Board Members, namely, Mr. Ronnie C. Chan (Chairman), Mr. Weber W.P. Lo (Chief Executive Officer), Mr. H.C. Ho (Chief Financial Officer) and Mr. Adriel W. Chan;
- three NEDs, namely, Mr. Gerald L. Chan, Mr. George K.K. Chang and Mr. Roy Y.C. Chen; and
- four INEDs, namely, Mr. Simon S.O. Ip, Prof. P.W. Liu, Prof. L.C. Tsui and Mr. Martin C.K. Liao.

Our NEDs and INEDs possess diverse academic and professional qualifications or related financial management expertise and bring a wide range of business and financial experience to the Board.

Mr. Weber W.P. Lo was appointed as Chief Executive Officer Designate and Executive Board Member of the Company and HLP on May 16, 2018, and became the Chief Executive Officer upon the retirement of Mr. Philip N.L. Chen as Chief Executive Officer on July 16, 2018.

Mr. Ronnie C. Chan is the brother of Mr. Gerald L. Chan, a cousin of Mr. Roy Y.C. Chen and the father of Mr. Adriel W. Chan. Mr. George K.K. Chang is an employee of Morningside Group, which was co-founded by Mr. Ronnie C. Chan and Mr. Gerald L. Chan and is currently chaired by Mr. Gerald L. Chan.

Board Diversity

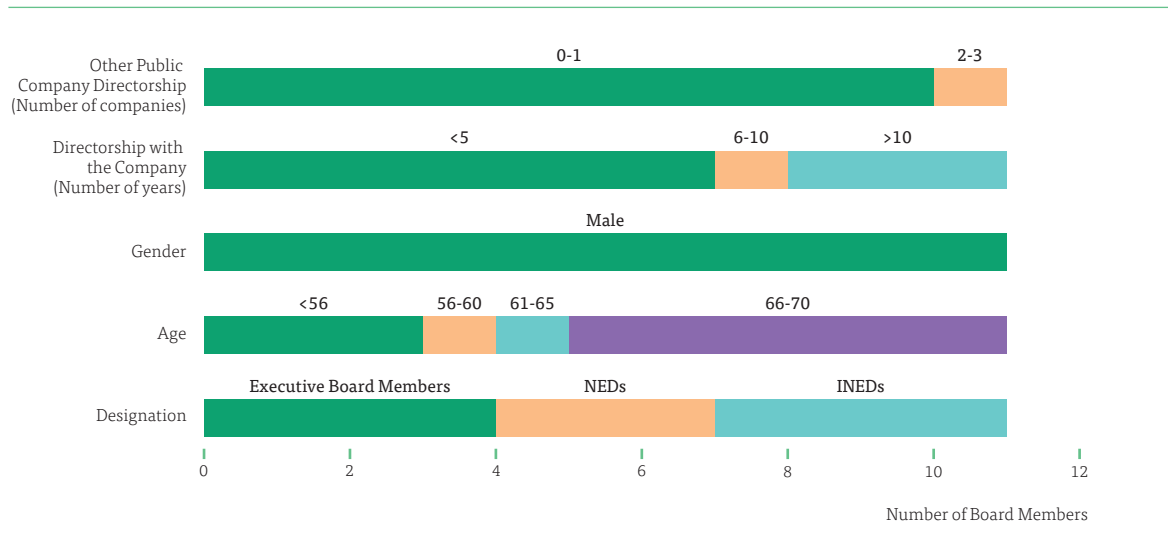
The Board has a policy setting out the approach to achieve diversity on the Board (the Board Diversity Policy) with the aim of enhancing Board effectiveness and corporate governance as well as achieving our business objectives and sustainable development. Board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, required expertise, 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 Board Diversity Policy is available on our website under Board of Directors of Corporate Governance of the Investor Relations section.

The Board Diversity Policy was taken into account by the Nomination and Remuneration Committee and the Board in the appointment of Mr. Weber W.P. Lo, a successor to the retiring Chief Executive Officer Mr. Philip N.L. Chen in 2018. In face of the fast-evolving retail business environment and the prevalent use of technology nowadays, the Board has successfully identified Mr. Weber W.P. Lo, a young and tech-savvy member to join the Board to provide diverse perspective and innovative thinking. His appointment has further enhanced the diversity of the Board in terms of balance of skills, expertise, experience, age and professional background. The more diversified Board enables the Group to take on challenges of the millennial generation.

The current Board consists of a diverse mix of Board Members with appropriate skills and experience to lead and oversee the business of the Company, and depending on the needs of our growing business and the availability of competent candidates to fulfill those needs, suitably qualified individuals will be considered in the future for membership.



Board composition and diversity as at December 31, 2018 are as follows:



Functions

An updated list of Board Members identifying their roles and functions and whether they are INEDs is maintained on our website and the website of HKEx. Their biographical details, disclosed on pages 115 to 120 of this annual report, are also maintained on our website under Board of Directors of Corporate Governance of the Investor Relations section.

The Board is responsible for, among other things:

- ensuring continuity of leadership;
- the development of sound business strategies;
- the deployment of adequate capital and managerial resources to implement the business strategies adopted; and
- the adequacy of systems of financial and internal controls, risk management, as well as the conduct of business in conformity with applicable laws and regulations.

NEDs and INEDs have made a positive contribution to the development of the Company's strategies and policies, providing independent, constructive and informed advice. They have given the Board and the committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation.

All Board Members are required to disclose to the Company any offices held in public companies or organizations and other significant commitments.

In 2018, six regular Board meetings were held. Two Board meetings were held during two offsite Board trips: (1) a Kunming trip for inspection of the construction site of Spring City 66 to gain more understanding on the construction progress, and the business environment in Kunming and (2) a Tokyo trip for visits to certain leading mall operators.

In 2018, the average attendance rate of Board Members at Board meetings was 96%. Details of Board Members' attendance records in 2018 are set out below:

Board Members	Meetings Attended/Held			2018 AGM
	Board	Audit Committee	Nomination and Remuneration Committee	
Independent Non-Executive Directors				
Simon S. O. Ip	6/6	4/4	1/1	1/1
P. W. Liu	6/6	3/4	1/1	1/1
L. C. Tsui	5/6	4/4	N/A	1/1
Martin C. K. Liao	5/6	N/A	1/1	1/1
Non-Executive Directors				
Gerald L. Chan	5/6	N/A	N/A	0/1
George K. K. Chang	6/6	4/4	N/A	1/1
Roy Y. C. Chen	6/6	N/A	N/A	1/1
Executive Directors				
Ronnie C. Chan	6/6	N/A	N/A	1/1
Weber W. P. Lo ^(Note 1)	4/4	N/A	N/A	N/A
H. C. Ho	6/6	N/A	N/A	1/1
Adriel W. Chan	6/6	N/A	N/A	1/1
Philip N. L. Chen ^(Note 2)	3/3	N/A	N/A	1/1

Notes

1. Mr. Weber W. P. Lo was appointed as Executive Board Member on May 16, 2018.
2. Mr. Philip N. L. Chen retired as Executive Board Member on July 16, 2018.

Board Process and Access to Information

Any Board Member can give notice to the Chairman or the Company Secretary if he intends to include matters on the agenda of a Board meeting. Board or committee papers will be sent to all Board Members or committee members at least three days before the intended date of a Board meeting or committee meeting. Management also supplies the Board and its committees with sufficient information and analyses so as to enable them to make an informed assessment of financial and other information put before the Board and its committees for approval. Management is also invited to join Board meetings where appropriate.

Furthermore, management provides all Board Members with monthly updates which give a balanced and up-to-date assessment of the Company's performance, position, and prospects in sufficient detail to enable the Board as a whole and each Board Member to discharge his duties under the Listing Rules.

All Board Members are entitled to have access to timely information in relation to our business and make further enquiries where necessary, and each also has separate and independent access to management.



In addition, all Board Members have access to the advice and services of the Company Secretary, a full time employee of the Company, who is responsible to the Board for ensuring that procedures are followed and that all applicable laws, rules and regulations are complied with. The Company Secretary supports the Board by ensuring good information flow within the Board and is also a source of advice to the Chairman and to the Board on corporate governance and the implementation of the CG Code. The Company Secretary has confirmed that she took more than 15 hours of relevant professional training to update her skills and knowledge in 2018.

Procedures have also been agreed by the Board to enable Board Members to seek independent professional advice at the Company's expense.

Under the Articles of Association, a Board Member shall not vote or be counted in the quorum in respect of any transaction, contract, or arrangement in which he or any of his associates is/are materially interested unless otherwise stated.

We have also arranged appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against them arising from corporate activities. The insurance policy is reviewed every year to ensure fair and sufficient coverage.

2. Clear Division of Responsibilities between Chairman and Chief Executive Officer

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer to ensure a balance of power and authority.

Chairman

The Chairman, Mr. Ronnie C. Chan, provides leadership for the Board. He is responsible for ensuring that all Board Members receive, in a timely manner, adequate information which must be accurate, clear, complete, and reliable, and that Board Members are properly briefed on issues arising at Board meetings. He also ensures that:

- the Board works effectively and discharges its responsibilities;

- all key and appropriate issues are discussed by the Board in a timely manner;
- good corporate governance practices and procedures are established; and
- appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole.

He, at least annually, holds meetings with the NEDs and INEDs without the other Executive Board Members being present.

He is primarily responsible for drawing up and approving the agenda for each Board meeting. He takes into account, where appropriate, any matters proposed by the other Board Members for inclusion on the agenda, or delegates such responsibility to the Company Secretary.

He encourages all Board Members to make an active contribution to the Board's affairs and takes the lead in ensuring that the Board acts in the best interests of the Company. He encourages Board Members with different views to voice their concerns, allows sufficient time for discussion of issues which the Board is charged to deliberate and reach decisions on.

He promotes a culture of openness and debate by facilitating the effective contribution of NEDs and INEDs in particular and ensures constructive relations between Executive Board Members, NEDs and INEDs.

He also arranges suitable training for Board Members to refresh their knowledge and skills.

Chief Executive Officer

The Chief Executive Officer, Mr. Weber W.P. Lo (who succeeded Mr. Philip N.L. Chen), is a member of the Executive Committee of the Company and is responsible for:

- leading the management team in business operations and in the implementation of policies and strategies adopted by the Board;
- the Company's day-to-day management in accordance with the instructions issued by the Board;

- developing strategic operating plans that reflect the objectives and priorities established by the Board and maintaining operational performance; and
- ensuring the adequacy of risk management, financial and internal control systems, and the conduct of business in conformity with applicable laws and regulations.

The Chief Executive Officer chairs the monthly business review meetings. He also chairs the biweekly “Morning Prayer” meetings of the Company’s key executives. Matters concerning the day-to-day operations of the Company are discussed in these meetings. He reports to the Board from time to time on matters of material importance.

To cope with the fast pace of expansion and the ever-changing operating environment, management, under the leadership of the Chief Executive Officer, has put great effort into enhancing our operating system as well as our corporate culture with a regular integrity program for our staff. These reflect the way Hang Lung runs its business – We Do It Right.

To become the most admired commercial property developer in Hong Kong and mainland China, the Chief Executive Officer has also formulated and led the management team to implement strategies to strive for sustainable growth.

3. Independence of INEDs

We have received from each of our INEDs an annual confirmation of his independence and we consider each INED to be independent.

To further enhance accountability, any appointment of an INED who has served on the Board for more than nine years will be subject to a separate resolution to be approved by shareholders. We will state in the notice of the AGM the reason why we consider the INED to still be independent and our recommendation to shareholders to vote in favor of the re-election of such an INED.

4. Appointment, Re-election and Removal

In accordance with the Articles of Association, one-third of the Board Members are required to retire from office by rotation for re-election by shareholders at an AGM, and new appointments to the Board are subject to re-election by shareholders at the next general meeting. In addition, every Board Member is subject to retirement by rotation at least once every three years. The names of such Board Members eligible and offering themselves for re-election, accompanied by detailed biographies, will be presented in the notice of the general meeting. In relation to the appointment or re-election of INED, we will also state in the notice of the general meeting the identifying process, the reason why we consider the INED is independent, the perspectives, skills and experience that the INED can bring to the Board, and how the INED contributes to diversity of the Board.

The NEDs and INEDs are appointed for specific terms, which coincide with their expected dates of retirement by rotation at least once every three years.

5. Continuous Professional Development

Each newly appointed Board Member will meet with fellow Board Members and key executives, and will receive a comprehensive, formal, and tailored induction on the first occasion of his/her appointment. Subsequently, he/she will receive the briefings and professional development necessary to ensure he/she has a proper understanding of the Company’s operations and business and full awareness of his/her responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements, and especially the Company’s business and governance policies. The Company Secretary facilitates the induction and professional development of Board Members.



All Board Members are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. The Chairman also arranges suitable training for Board Members from time to time. In 2018, the Company arranged for Board Members' an offsite strategic review workshop to discuss the top strategic risks and strategic plan in light of global economic outlook, technology changes and development of luxury goods market.

Record of training received by each existing Board Member in 2018 is summarized below:

Board Members	Types of Training
Ronnie C. Chan	A, B, C
Weber W.P. Lo	A, B, C
Gerald L. Chan	A, B, C
Simon S.O. Ip	A, B, C
P.W. Liu	A, B, C
L.C. Tsui	A, B, C
Martin C.K. Liao	A, B, C
George K.K. Chang	A, B, C
Roy Y.C. Chen	A, B, C
H.C. Ho	A, B, C
Adriel W. Chan	A, B, C

- A Attending seminar(s)/forum(s) and/or giving talk(s) relating to the business or directors' duties
- B Reading materials relating to the business or directors' duties
- C Attending corporate event(s)/visit(s)

(II) Delegation by the Board

The Executive Committee, Audit Committee, and Nomination and Remuneration Committee were formed in 1989, 1999, and 2003 respectively.

1. Executive Committee

The Executive Committee of the Board was formed in 1989. Its members are all the Executive Board Members of the Company, who meet regularly to establish the strategic direction of the Company and to monitor the performance of the management. Clear terms of reference have been adopted by the Board, and guidelines have also been set up for certain issues requiring Board approval. Each of the Committee members has full understanding on determining which issues require a decision of the full Board and which are delegated by the Board to the Committee or management.

2. Audit Committee

An Audit Committee was established by the Board in 1999. The Committee currently comprises three INEDs and one NED, namely, Mr. Simon S.O. Ip (Chairman of the Committee), Prof. P.W. Liu, Prof. L.C. Tsui and Mr. George K.K. Chang. They possess appropriate academic and professional qualifications or related financial management expertise.

Under the CG Code, it is required that meetings are held at least two times per year with the external auditor. Separate meetings are also held with the external auditor, in the absence of management, as and when required. The Audit Committee has exceeded the CG Code requirements and held four meetings in 2018 for the purpose of, inter alia, discussing the nature and scope of internal audit work and assessing the Company's internal controls. Moreover, the Committee met the external auditor four times in 2018 without the presence of management.

The terms of reference detailing the Committee's role and authority, which include duties pertaining to corporate governance functions and the oversight of risk management, are available on both our website under Audit Committee of Corporate Governance of the Investor Relations section and the website of HKEx.

The Committee is authorized by the Board to investigate any activity within its terms of reference; to seek any information it requires from any employee (and all employees are directed to co-operate with any requests made by the Committee); to obtain outside legal or other independent professional advice; and to secure the attendance of outsiders with relevant experience and expertise at their meetings if necessary. Sufficient resources are provided to the Committee to discharge its duty.

In 2018, the Audit Committee performed, inter alia, the following:

Relationship with External Auditor, Review of Financial Information and Oversight of Financial Reporting System, Risk Management and Internal Control Systems

- reviewed and obtained an explanation from management and the external auditor for the interim and annual results, including the causes of changes from the previous accounting period, the effects on the application of new accounting policies, compliance with the Listing Rules and relevant legislation, and any audit issues, before recommending their adoption by the Board;
- considered and proposed to the Board the re-appointment of KPMG as the Company's external auditor and approved its terms of engagement;
- reviewed the procedures and guidelines for employing the external auditor to perform non-audit assignments for the Company, and approved the scopes and fees for non-audit assignments;
- received and reviewed the internal audit reports from the Internal Auditor;

- held meetings with the external auditor in the absence of management to discuss any material audit issues;
- held meetings with the Internal Auditor in private to discuss material internal audit issues;
- approved the internal audit plan for 2019;
- carried out reviews of the effectiveness of the Company's risk management and internal control systems including tax strategy, the structure of senior management, the adequacy of resources, staff qualifications and experience, as well as training, for financial reporting and internal audit;
- reviewed and approved amendments to the Internal Audit Charter; and
- initiated the offsite strategic review workshop for the Board to discuss top strategic risks and strategic planning

Corporate Governance Functions

- reviewed the Company's policies and practices on corporate governance, compliance with legal and regulatory requirements and the Code of Conduct, and made recommendations to the Board;
- reviewed and monitored the training and continuous professional development of Board Members; and
- reviewed the Company's compliance with the CG Code and disclosure in annual report on corporate governance and sustainable development.

The Audit Committee also reviewed environmental, social and governance (ESG) related risks and confirmed that the ESG risk management and internal control systems were in place and remained effective throughout 2018.



In view of our rapid expansion in mainland China, the Audit Committee also meets quarterly to review and monitor the progress and construction costs of Mainland development projects and major renovation projects. The Cost and Controls Department reports regularly in these Audit Committee meetings, and continues to provide an effective check and balance in the control of our sizeable capital expenditures spending and investment, as well as the quality and safety aspects of the projects.

3. Nomination and Remuneration Committee

A Nomination and Remuneration Committee, set up in 2003, now comprises entirely INEDs, namely, Prof. P. W. Liu (Chairman of the Committee), Mr. Simon S. O. Ip and Mr. Martin C. K. Liao. Regular reviews of significant changes to the salary structure of the Group and the terms and conditions affecting Executive Board Members and senior management are conducted. The Committee met once in 2018 to review, inter alia, the composition of Board Members and Board Members' remuneration.

The existing terms of reference of the Committee has contained the criteria and principles for nomination of Board Members. In view of the amendments to the CG Code which took effect from January 1, 2019, the terms of reference of the Committee has been revised to formally regard those criteria and principles as the nomination policy for Board Members. The updated terms of reference of the Committee can be accessed on both our website under Nomination and Remuneration Committee of Corporate Governance of the Investor Relations section and the website of HKEx.

The major works performed by the Committee in 2018 included the following:

- reviewed the Board Diversity Policy and its implementation;
- reviewed the structure, size and diversity of the Board;
- assessed the independence of the INEDs;

- as part of the succession plan, identified and made recommendations to the Board on the appointment of Chief Executive Officer;
- made recommendations to the Board on the selection of individuals nominated for directorship with reference to qualifications and related expertise;
- made recommendations to the Board on re-election of retiring Board Members at the AGM;
- made recommendations to the Board on the Company's remuneration policy and structure for all Board Members and senior management;
- determined the remuneration packages for individual Executive Board Members and senior management, including benefits in kind, pension rights, and compensation payments;
- made recommendations to the Board on the remuneration of the NEDs and INEDs; and
- endorsed the amendments to the terms of reference of the Committee to regard the existing criteria and principles for nominating Board Members as the nomination policy.

In the nomination policy, the Committee will:

- review the structure, size and diversity of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identify individuals suitably qualified to become Board Members and select or make recommendations to the Board. In identifying suitable candidates, the Committee shall consider candidates on merit and against the objective criteria, with due regard for the benefits of diversity on the Board; and
- make recommendations to the Board on the appointment or re-appointment of the Board Members and succession planning for Board Members, in particular the Chairman of the Board and the Chief Executive Officer, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future.

The remuneration package of Executive Board Members and senior management, including discretionary bonuses and share options, is based on the following criteria:

- individual performance;
- skills and knowledge;
- involvement in the Group's affairs;
- achievement of business targets; and
- the performance and profitability of the Group.

The Committee also considers factors such as salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group.

The Committee obtains benchmark reports for the evaluation of market trends and the competitiveness of the remuneration being offered to Board Members and senior management. Sufficient resources are provided to the Committee to discharge its duties. The Committee may consult the Chairman and the Chief Executive Officer about remuneration proposals of other Executive Board Members and has access to independent professional advice if necessary.

Details of remuneration payable to members of the senior management (which includes Executive Board Members only) are disclosed in Note 7 to the Financial Statements.

4. Management Functions

Senior Management means our Executive Board Members. Their duties are explained in the paragraph headed Executive Committee above. Key executives are responsible for day-to-day operations and the administration function of the Group under the leadership of the Executive Board Members. The Board has given clear directions to management as to matters that must be approved by the Board before decisions are made on behalf of the Company. The types of decisions to be delegated by the Board to

management include implementation of strategies and direction determined by the Board, operation of the Group's businesses, preparation of financial statements and operating budgets, and compliance with applicable laws and regulations. These arrangements are reviewed periodically to ensure that they remain appropriate to our needs.

(III) Securities Transactions and Share Interests

1. Securities Transactions

We have set out guidelines regarding securities transactions by Board Members under Transactions in the Company's Shares in our Code of Conduct according to the required standard set out in the Model Code. The Company has made specific enquiries with all Board Members and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding Board Members' securities transactions.

The Company has also set out guidelines regarding securities transactions by relevant employees who, because of their office in the Company or its subsidiary, are likely to be in possession of inside information. The relevant employees are also requested to comply with the required standard set out in the Model Code. All the relevant employees are reminded of the compliance of the guidelines every six months. In 2018, the Company also arranged a refresher training to key executives, including the Executive Board Members.



2. Share Interests

Details of Board Members' interests in shares of the Company and HLP as at December 31, 2018 are as follows:

Board Members	The Company	Hang Lung Properties Limited	
	Number of Shares	Number of Shares	Number of Shares under Option
Ronnie C. Chan	11,790,000	16,330,000	21,000,000
Weber W.P. Lo	–	–	10,000,000
Gerald L. Chan	–	–	–
Simon S.O. Ip	–	–	–
P.W. Liu	–	100,000	–
L.C. Tsui	–	–	–
Martin C.K. Liao	–	–	–
George K.K. Chang	–	–	–
Roy Y.C. Chen	–	–	–
H.C. Ho	–	–	11,700,000
Adriel W. Chan ^(Note)	498,428,580	2,619,719,340	2,200,000

Note

Mr. Adriel W. Chan was deemed to be interested in 498,428,580 shares of the Company and 2,619,719,340 shares of HLP as he was a discretionary beneficiary of a family trust. The family trust held 498,428,580 shares (representing 36.61% interests) of the Company and held/was deemed to be interested in 2,619,719,340 shares of HLP.

(IV) Accountability and Audit

1. Financial Reporting

Board Members acknowledge their responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Company's financial statements are prepared in accordance with the Listing Rules, the Companies Ordinance, and also the accounting principles and practices generally accepted in Hong Kong. Appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable. A statement by the external auditor, KPMG, about its reporting responsibilities is included in the Independent Auditor's Report on the Company's consolidated financial statements.

The Board Members endeavor to ensure a balanced, clear and coherent assessment of the Company's position and prospects in annual reports, interim reports, inside information announcements, and other disclosures required under the Listing Rules and other statutory requirements.

2. Risk Management and Internal Controls

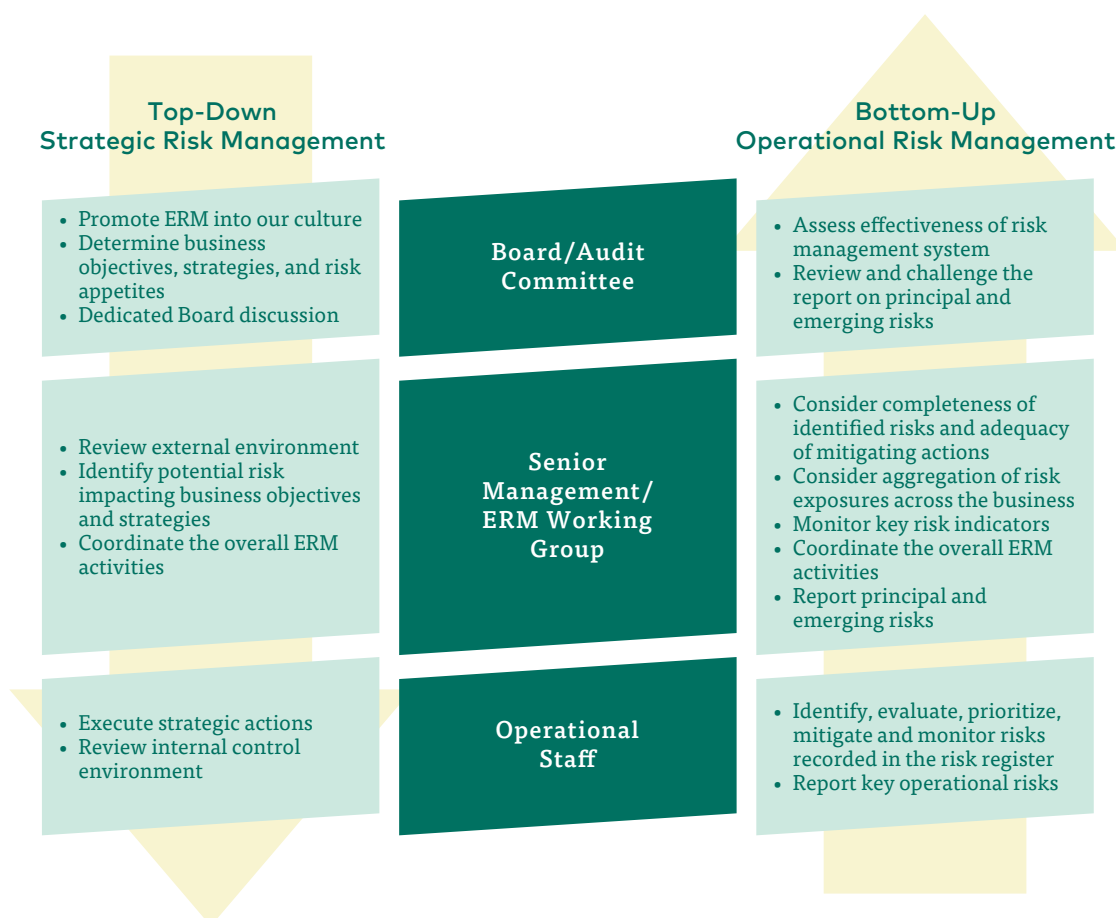
Risk Management Framework

The Board has overall responsibility for risk management and for determining the nature and extent of significant risks it is willing to take to achieve the Company's strategic objectives. The Audit Committee is delegated to oversee the effectiveness of our risk management system. Management is tasked with the design, implementation, and

maintenance of a sound and effective risk management framework with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) principles, which is crucial in delivering our corporate strategies and ensuring sustainability.

Risks are inherent in every sector of our business. It is important to have a risk-aware culture throughout the organization, as well as a systematic approach to identify and assess risks such that they can be reduced, transferred, avoided or understood. We are committed to continuously enhancing our risk management framework, linking it to our corporate strategies as well as integrating it into our day-to-day operations and decision-making. Under its approved terms of reference, the ERM Working Group (comprising an Executive Board Member as Chairman and unit heads from all business units and support divisions) has been established as our second line of defense to coordinate and oversee risk management activities, whilst operational management remains the first line of defense. The Internal Audit Department, who reports directly to the Audit Committee on risk management and internal control matters, acts as the third line of defense in this system.

The Company takes proactive measures to identify, evaluate, and manage significant risks arising from our business and from the constantly changing business environment at different levels within the organization. This integrated approach combines a top-down strategic view with a complementary bottom-up operational process as illustrated below:





A list of principal risks, covering both strategic and operational risks as identified by our risk assessment process, is compiled with reference to their residual risk impact and likelihood (after taking into consideration the mitigation controls). Action plans are developed, and risk ownership is assigned for each principal risk. The risk owners coordinate the mitigation measures to ensure proper implementation of these action plans. They are also required to continuously monitor, evaluate, and report on risks for which they bear responsibility. Mitigation controls are subject to internal audit review and testing.

During the year, a dedicated offsite workshop was arranged and attended by Board members to discuss top strategic risks. The Company has continued its program to formalize and fine-tune the risk management system for operating sites and sites under development. Various risk management workshops were conducted for local management teams not only to further promote risk awareness across all levels of the organization, but also to engage them in the risk assessment process. When compiling their risk registers, each site will identify key risks and mitigation actions, and rate the residual risks according to the likelihood and impact parameter at site level (scaled down from enterprise level). Top risks at operational level were then extracted from each site's detailed risk register and reported to the Audit Committee.

Through this integrated top-down and bottom-up risk review processes, which enables risks identification and prioritization throughout the Company, we maintain effective lines of communication to ensure timely escalation of potential risks and initiation of mitigating actions to manage them.

The principal risks that the Company faces may not change significantly from year to year, although the magnitude and significance of these risks can and do vary. Our ongoing review of the principal risks focuses on how changes might arise and how our controls need to be adapted in response to evolving business conditions and organizational changes. The ERM Working Group takes a robust assessment of the principal risks and uncertainties that the Company is

exposed to. During 2018, development from Sino-US tension came under close monitoring, while mitigating measures on increasing competition in the retail market and talent management served to support the growth of the Company, amid Renminbi depreciation and rising US interest rates. Meanwhile, risks from the development of e-commerce, changing consumer behavior or taste, and fast-paced innovation in technology continued to present challenges to our business strategy. These principal risks and their respective mitigating actions are covered in the Risk Management section of this annual report.

As the second line of defense, the ERM Working Group is responsible for overseeing risk management activities across all functions. In 2018, it met four times and achieved the following:

- Reviewed the effectiveness of the Company's ERM framework;
- Reviewed risk assessment criteria to ensure that they were appropriately defined and continued to be relevant in light of the Company's business and risk profile;
- Organized various workshops for management and operational staff to promote the ERM framework and to embed a risk-aware culture for monitoring and reporting risks within the Company;
- Identified and evaluated the Company's principal risks and key emerging risks;
- Evaluated the comprehensiveness of identified risks at operational level;
- Challenged the risk owners on the mitigation controls and their effectiveness;
- Analyzed root causes and checked risk enforcement in key areas where controls were previously inadequate or ineffective;
- Examined crisis management capacity for handling large-scale, sudden operational adversities; and
- Compiled relevant and timely risk reports including "deep-dives" for the Board and the Audit Committee.

ERM Working Group Primary Duties

- Ensure appropriate guidelines and procedures applicable to risk assessment are in place
- Establish risk appetite and tolerance level
- Ensure risk assessment criteria are defined
- Coordinate and maintain a register of principal risks
- Facilitate risk identification, including key new risks and risk changes
- Assist in evaluation of the Company's principal risks and key emerging risks
- Facilitate management in assigning roles and responsibilities for risk control and ownership

The Internal Audit Department, as the third line of defense, plays an important role in assessing the effectiveness of the risk management system, and reports regularly to the Audit Committee on key findings as well as making recommendations for improvement and tracking on their implementations.

The Board and the Audit Committee reviewed the Company's top and emerging risks, and conducted an annual review of the effectiveness of the ERM framework. Taking into consideration the principal risks and mitigating actions, the Board believes that the Company has the ability to adequately respond to changes to our business or the external environment.

Internal Control Framework

The Board is responsible for maintaining an effective internal control system. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and but not absolute assurance against material misstatement or loss.

Specifically, our internal control system shall monitor the Company's overall financial position; safeguard its assets against major losses and misappropriation; provide reasonable assurance against material fraud and error; and efficiently monitor and correct non-compliance.

To ensure efficient and effective operations in our growing business units and functions, relevant internal control policies and procedures, committees, and working groups are in place in order to achieve, monitor and enforce internal controls. These policies and procedures are reviewed from time to time and updated where necessary. All employees are made aware of the policies and procedures in place, with comprehensive staff communications and training programs to ensure understanding and awareness.

The Audit Committee is delegated to oversee the effectiveness of internal controls, while management is responsible for designing, implementing, and maintaining an effective internal control system with reference to the COSO principles. In particular, proper policies and procedures governing the activities of the Executive Committee, Board Members, executives, and senior staff, such as delegation of authority, approval of annual and mid-year budgets for all capital and revenue items, etc., have been put in place. Management also continuously reviews, updates, and refines the internal control system to meet anticipated future challenges.

Our Internal Audit Department is independent from our operations and accounting functions. The Internal Auditor reports directly to the Audit Committee. A risk-based internal audit program is approved by the Audit Committee each year. Based on the audit program, the Internal Auditor performs assessment of risks and testing of controls across all business and supports units of the Company in order to provide reasonable assurance that adequate controls and governance are in operation. In line with the Company's zero tolerance of fraud and bribery, the Internal Auditor will perform relevant investigations if fraud or irregularities are uncovered or suspected.



In 2018, the Audit Committee met quarterly to discuss internal audit issues with the Internal Auditor, as well as to enquire on financial and internal control matters with the external auditor. The Audit Committee held four direct discussions with the external auditor in the absence of management. The Audit Committee reported to the Board on key issues arising from these meetings.

There were no significant control failings or weaknesses identified that have not been rectified in 2018. Our internal audit function has been operating effectively.

Annual Assessment

With the confirmation of the management and the foregoing review by the Audit Committee covering all material controls, including financial, operational and compliance controls and risk management functions of the Company and its subsidiaries for the financial year ended December 31, 2018, the Board concluded that effective and adequate risk management and internal control systems had been in operation.

The level of resources, staff qualifications and experience, training programs, and budget of the Company's internal audit, accounting and financial reporting functions were assessed and considered adequate.

3. Code of Conduct

The Company adopted a corporate Code of Conduct in 1994 and has maintained it with regular reviews and updates from time to time as necessary.

The Code of Conduct clearly spells out the Company's policy regarding legal requirements, conflicts of interest, the handling of confidential information and company property, the use of information and communication systems, personal social media activities, our whistleblowing policy, relations with suppliers and contractors, responsibilities to shareholders and the financial community, relations with customers and consumers, employment practices, and responsibilities to the community. In essence, it details the Group's philosophy in running

its business and acts as a benchmark for all staff and suppliers to follow.

In order to monitor and enforce compliance with the Code of Conduct, functional managers are responsible for ensuring their subordinates fully understand and adhere to the standards and requirements as stipulated. Any violation thereof will result in the employee being disciplined, including termination of employment or reporting to appropriate authorities if necessary. The Executive Board Members will also answer directly to any Board Member for impartial and efficient handling of complaints received from all shareholders and potential shareholders, customers and consumers, suppliers and contractors, and our employees. As part of our commitment to good governance, all executive staff are required to submit a signed declaration of compliance with the Code of Conduct regarding Transactions in the Company's Shares on a half-yearly basis.

A well-defined whistleblowing mechanism has been put in place for our employees and other related third parties such as contractors and tenants. It is designed to encourage them to confidentially raise any serious concerns about misconduct, fraudulent activities, or malpractices in any matter related to the Group. An email account (whistleblowing@hanglung.com) has been set up for this purpose. All reported cases are addressed to the Director of Corporate Audit directly and investigated by the Internal Audit Department in complete confidence. Our Internal Audit Department monitors and reports cases to the Audit Committee on a half-yearly basis.

All staff are made aware of issues pertaining to integrity and the Company's zero-tolerance policy for misconduct through the Code of Conduct, policies, and procedures. Launched in 2013, the Hang Lung Integrity Program was established to enforce the highest standards of integrity and honesty from every process and every employee in Hong Kong and mainland China. To remind every employee of the importance of integrity, the Company provides handy tips card and e-learning

program related to integrity for all staff in Hong Kong and on the Mainland. In 2018, about 102,300 training hours were delivered to our employees, of which about 3,100 training hours were delivered as part of the program.

In addition, to make sure that all operations are managed in accordance with a high standard of professional practice and corporate governance, all employees are reminded of the policy governing conflict of interest situations every six months. All executive staff are also required to complete and sign a declaration form every six months declaring their interests, directly or indirectly, with the Company, subsidiaries or associated companies.

4. Inside Information

The Company has adopted a Policy on Disclosure of Inside Information since 2013 setting out the procedures and controls for handling and dissemination of inside information in compliance with the SFO and the Listing Rules, including:

- disclosure of inside information as soon as reasonably practicable under the applicable laws and regulations;
- publication of interim and annual results within one month from the end of accounting periods to minimize the risk of leakage;
- conduct of its affairs with close adherence to the “Guidelines on Disclosure of Inside Information” issued by Securities and Futures Commission;
- authorizing designated person(s) as spokespersons for communications with stakeholders;
- imposing a strict prohibition on the unauthorized disclosure and use of inside information in its Code of Conduct; and
- reminders to the Board Members and staff members (through key executives) of the compliance of the policy every six months.

In 2018, the Company also arranged a refresher training to key executives, including the Executive Board Members.

5. Independence of External Auditor

KPMG conducts audits on the annual consolidated financial statements of the Company, and confirms every year its independence and objectivity. To ensure the independence of KPMG,

- the Audit Committee regularly reviews and monitors the independence of KPMG;
- the Audit Committee reviews the audit scope and non-audit services and approved the relevant fees;
- the policy on engaging the external auditor for non-audit services is in place and regularly reviewed by the Audit Committee. KPMG will confirm its independence before accepting the engagement of non-audit services; and
- the Audit Committee considers and proposes to the Board every year for the re-appointment of KPMG as the auditor.

KPMG confirms its independence with regard to The Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants regarding auditor independence.

Total remuneration in respect of services provided by KPMG is as follows:

	Year ended December 31, 2018 HK\$ (in million)	Year ended December 31, 2017 HK\$ (in million)
Statutory audit services	12	12
Non-audit services	4	5

(V) Communication with Stakeholders

1. Shareholders

The Board has a shareholders communication policy setting out strategies to promote effective communication with shareholders, with the aim of ensuring that shareholders are provided with information about the Company to enable them to engage actively with the Company and to exercise their rights as shareholders in an informed manner. The policy is regularly reviewed to ensure its effectiveness.

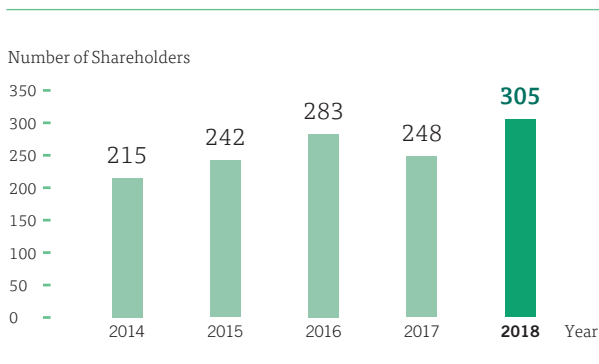


Chairman’s Letters to Shareholders & AGMs

Our commitment to improve transparency and enhance communications with shareholders is evidenced by our Chairman’s Letters to Shareholders. These Letters are personally written by our Chairman. The Letters are included in the annual reports and interim reports. They have provided an in-depth discussion and analysis on the Group’s business, as well as the market and economic outlook.

Our AGM provides a good opportunity for communication between the Board and shareholders. The chairmen of the Board and of its committees are normally present to answer queries raised by shareholders. The external auditor also attends and reports to shareholders at the AGM every year. Notice of the AGM and related papers are sent to shareholders at least 20 clear business days before the meeting. Each separate issue is proposed by a separate resolution by the Chairman. The meeting enjoys strong participation from shareholders.

Shareholders participation in AGMs is as follow:



In addition to the Chairman’s Letter to Shareholders, the Chairman uses the AGM as an opportunity to open a dialogue with shareholders and to elaborate on the outlook of the Group and its business strategies.

2018 AGM

Our last AGM was held on April 26, 2018 at Grand Ballroom, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong. The meeting was

attended by 305 shareholders present in person or by proxy. At the meeting, the Chairman had demanded a poll on each of the resolutions submitted for voting, and the shareholders were provided with detailed procedures for conducting the poll.

The resolutions tabled at the 2018 AGM included:

- the adoption of the financial statements;
- the declaration of a final dividend;
- the re-election of Board Members;
- the re-appointment of the auditor; and
- the renewal of general mandates.

All these resolutions were voted on by poll, and the results of poll voting were posted on the websites of our Company and of HKEx in the evening of the same day. There are no changes in the Articles of Association, which is available on our website and the website of HKEx, in 2018.

The Board confirms that there are no changes proposed to the Articles of Association at the forthcoming AGM to be held on April 30, 2019. The important shareholders’ dates for the coming financial year, which include the Board meetings for considering the payments of interim and final dividends for the year ending December 31, 2019, and the AGM, are expected to be held in around late July 2019, late January 2020, and in April 2020 respectively.

Procedure for Shareholders to Convene General Meetings

Shareholder(s) representing at least 5% of the total voting rights of all the shareholders of the Company can make a request to convene a general meeting pursuant to the Companies Ordinance. The request must state the business to be dealt with at the meeting, signed by the relevant shareholder(s) and deposited at our registered office for the attention of the Company Secretary. The same request, authenticated by the person or persons making it, may also be sent to the Company in electronic form to ir@hanglung.com.

Procedure for Shareholders to Put Forward Proposals in General Meetings

Furthermore, the Companies Ordinance provides that (i) shareholder(s) representing at least 2.5% of the total voting rights of all the shareholders of the Company, or (ii) at least 50 shareholders entitled to vote can put forward proposals for consideration at a general meeting of the Company by sending a request in writing to our registered office for the attention of the Company Secretary. The same request, authenticated by the person or persons making it, may also be sent to the Company in electronic form to ir@hanglung.com.

Procedure for Shareholders to Propose a Person for Election as a Board Member

According to the Articles of Association, if any shareholder(s) representing not less than 10% of the total voting rights of all the shareholders of the Company wish(es) to propose a person (other than a retiring Board Member) for election as a Board Member (the Candidate) at a general meeting of the Company, the following documents must be lodged at our registered office:

- (i) a written notice of such a proposal duly signed by the shareholder(s) concerned; and
- (ii) a written consent duly signed by the Candidate indicating his/her willingness to be elected.

The period for lodgment of the above documents (being a period of at least seven days) shall commence no earlier than the day after the dispatch of the notice of the meeting appointed for such an election, and end no later than seven days prior to the date of said meeting.

Enquiries from Shareholders

Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at our registered address or by email to our Company at ir@hanglung.com. In addition, shareholders can contact Computershare Hong Kong Investor Services Limited, the share registrar of the Company, if they have any enquiries about their shareholdings or entitlement to dividend. Relevant contact details are set out under the Listing Information section of this annual report.

2. Investors

Details of shareholders by domicile as at December 31, 2018 are as follows:

Domicile	Shareholders		Shareholdings	
	Number	%	Number of Shares	%
Hong Kong	1,916	97.91	978,266,984	71.85
Mainland China	7	0.36	138,375	0.01
Macau	3	0.15	112,700	0.01
Taiwan	2	0.10	2,874	0.00
Australia and New Zealand	4	0.20	16,800	0.00
Canada and United States of America	16	0.82	127,173	0.01
South East Asia	1	0.05	33,000	0.00
United Kingdom	2	0.10	508	0.00
Others	6	0.31	382,919,828	28.12
TOTAL	1,957	100.00	1,361,618,242	100.00



Details of shareholders by holding range as at December 31, 2018 are as follows:

Holding Range	Shareholders*		Shareholdings*	
	Number	%	Number of Shares	%
1 – 1,000 shares	476	24.32	221,650	0.02
1,001 – 5,000 shares	667	34.08	2,013,446	0.15
5,001 – 10,000 shares	304	15.54	2,513,200	0.18
10,001 – 100,000 shares	463	23.66	12,617,811	0.93
Over 100,000 shares	47	2.40	1,344,252,135	98.72
TOTAL	1,957	100.00	1,361,618,242	100.00

* incorporating, in their respective shareholdings range, 262 participants of Central Clearing and Settlement System holding a total of 791,471,009 shares registered in the name of HKSCC Nominees Limited

Based on the information that is publicly available to the Company and within the knowledge of the Board Members as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

We are committed to disclosing relevant information on our activities to our shareholders and investors through regular analysts' briefings, press conferences and press releases, emails and our website, apart from through our annual and interim reports. All enquiries and proposals received from shareholders, investors, the media or the public are responded to by Executive Board Members, the Company Secretary or appropriate key executives.

The Company's information is accessible to all via our website. Besides providing traditional financial data, our website contains the most current information including properties available for sale and leasing, the latest number of issued shares, updated substantial shareholders' interests in shares, corporate brochures, newsletters, details of major corporate events, and frequently asked questions.

Moving Forward

To become the most admired commercial property developer in Hong Kong and mainland China, we will continue to strive for sustainable growth by upholding Hang Lung core values - strong governance and the highest standard of integrity and honesty in Hong Kong and every city where the Group is operating its world-class projects. We are confident of offering our stakeholders a highly transparent and well-governed corporation.