

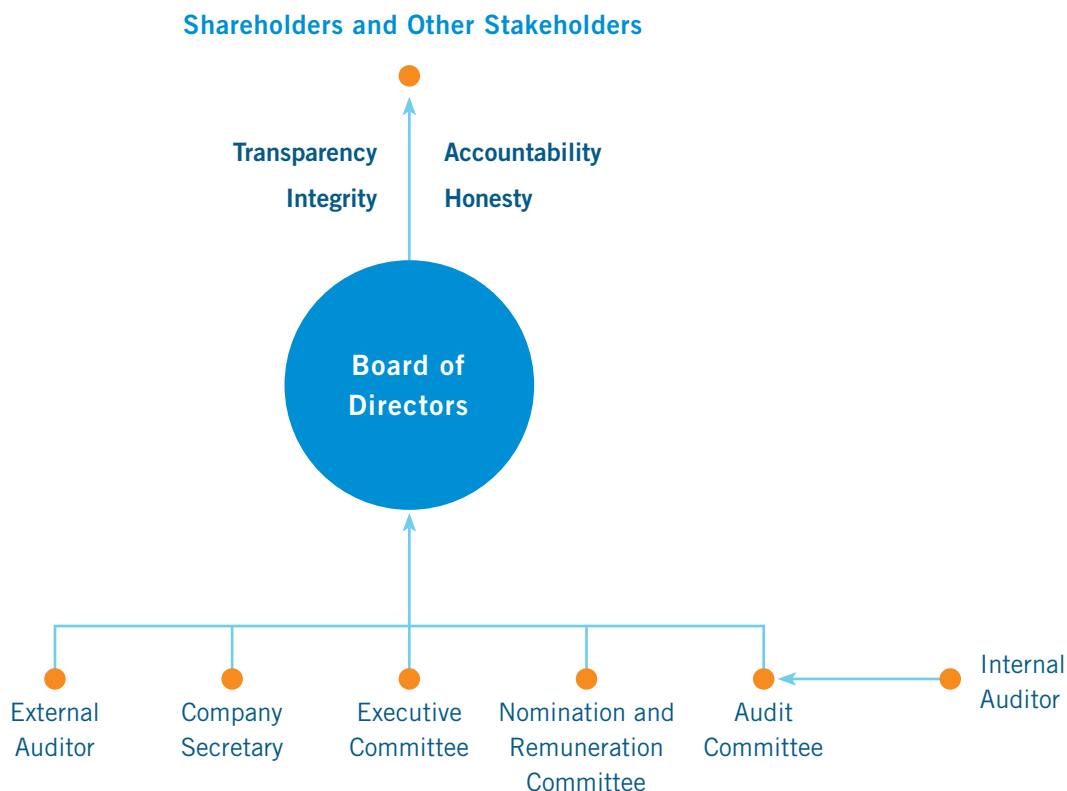
# Corporate Governance Report

Hang Lung is committed to maintaining highest standards of corporate governance to protect the interests of our stakeholders. To prepare itself to overcome the highly competitive and challenging business environment in recent years, Hang Lung has well established a strong corporate governance structure and sound corporate culture which are essential to our sustainable growth and long-term success. In particular, the Board of Directors (the “Board”) is committed to promoting a culture of integrity throughout Hang Lung in face of the intense competition in the Mainland market and the inherent risk of bribery and corruption in the real estate industry.

## OUR STRONG BELIEF IN GOVERNANCE

Hang Lung firmly believes that strong governance is the foundation for delivering the corporate objective of maximizing return to its stakeholders over the long term. The core of the governance structure is an effective and qualified Board which is committed to maintaining highest standard 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 principle that has guided us to operate our business with integrity and honesty. A sound governance culture has to reach all levels and the highest standards of integrity and honesty from every employee in every process are expected. The professional management together with the Board strive to instill integrity into every aspect of our business and maintain the highest standards of corporate governance in every city where the Company is operating its world-class projects.

## **PROFESSIONAL AND RESPONSIBLE BOARD**

The Board comprises professionals from different facets of society who bring a wide range of business and financial experience and expertise to the Board. The Board includes 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 judgment. To enhance the function of the Board, three Board Committees, namely the Executive Committee, Audit Committee and Nomination and Remuneration Committee had been set up to take up different responsibilities.

## **PRUDENT RISK MANAGEMENT**

The Group 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 changing operational needs. Further explanations are disclosed hereunder and under the paragraph headed “Risk Management” in the Management Discussion and Analysis 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 Corporate Governance Code (the “CG Code”) as stated in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The following are the major aspects of our corporate governance practice in addition to the code provisions and some recommended best practices of the CG Code.

- Six regular Board Meetings were held in 2014.
- A strong independent element is maintained on the Board as over half of the Board is represented by Independent Non-Executive Directors.
- Management is invited to join the Board Meetings, where appropriate, to provide appropriate information to enable the Directors to make an informed decision and to discharge their duties and responsibilities.
- The Nomination and Remuneration Committee is made up of entirely Independent Non-Executive Directors to ensure no Executive Director is involved in deciding his own remuneration package.
- The Audit Committee met the external auditor four times without the presence of the Executive Board members in 2014.
- Since 2008, the Company has announced its interim and annual results within one month from the end of the accounting period.
- Our Internal Audit Department is independent of our daily operation and accounting functions.
- The Company has adopted a corporate Code of Conduct since 1994 which is applicable to all staff and Directors. The Code of Conduct contains our well-defined whistle-blowing policy.
- The Company has been publishing a separate Sustainability Report before the Stock Exchange's introduction of the Environmental, Social and Governance Reporting Guide as a recommended practice for the financial years ending after December 31, 2012. The standalone Sustainability Report is available on our website and the website of Hong Kong Exchanges and Clearing Limited ("HKEx").
- The Company continuously enhances its website as a means of communication with stakeholders. Principal corporate governance structures, newsletters and webcasts of analysts' briefings are available on our website.
- The Group has reviewed and revised the policy governing the engagement of the external auditor for non-audit services to ensure the independence of the external auditor.
- In addition to the Chairman's Letter to Shareholders, the Chairman explains to the shareholders the business strategies and outlook of the Group in the annual general meeting ("AGM") and proactively opens a dialogue with shareholders.

## **(I) Effective and Qualified Board**

### *1. Composition and Functions*

The list of Board members is set out on page 203 of this annual report. Board members possess diverse academic and professional qualifications or related financial management expertise and bring a wide range of business and financial experience to the Board.

The Board has established a policy setting out the approach to achieve diversity on the Board (the “Board Diversity Policy”) with the aims 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 aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, required expertise, skills, knowledge and length of service.

The Board Diversity Policy was taken into account by the Nomination and Remuneration Committee and the Board in the appointment of Dr Andrew K.C. Chan as Non-Executive Director of the Company in October 2014. The diversity of the Board was further enhanced in terms of balance of skills, experience and professional background. 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 growing business needs and availability of the human resources market, suitable qualified individuals will be considered.

An updated list of Board members identifying their roles and functions and whether they are Independent Non-Executive Directors is maintained on our website and the website of HKEx. Their biographical details, disclosed on pages 123 to 129 of this annual report, are also maintained on our website.

The Board is responsible for, among other things:

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

Non-Executive Directors (including the Independent Non-Executive Directors) have made a positive contribution to the development of the Company's strategies and policies through independent, constructive and informed comments. They gave 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 Directors are required to disclose to the Company their offices held in public companies or organizations and other significant commitments.

In 2014, six regular Board Meetings were held. Three Board Meetings were held during three offsite Board trips including visits to Tianjin for the opening ceremony of Riverside 66 and Shanghai for a malls visit.

Details of Directors' attendance records in 2014 are set out below:

Directors	Meetings Attended/Held			
	Board	Audit Committee	Nomination and Remuneration Committee	2014 AGM
<b>Independent Non-Executive Directors</b>				
S.S. Yin	5 / 6	N/A	N/A	1 / 1
Ronald J. Arculli	5 / 6	N/A	1 / 1	1 / 1
H.K. Cheng	6 / 6	4 / 4	1 / 1	1 / 1
Laura L.Y. Chen	6 / 6	4 / 4	1 / 1	0 / 1
P.W. Liu	6 / 6	4 / 4	1 / 1	1 / 1
Dominic C.F. Ho	6 / 6	4 / 4	1 / 1	0 / 1
Nelson W.L. Yuen*	6 / 6	N/A	N/A	1 / 1
<b>Non-Executive Director</b>				
Andrew K.C. Chan <sup>#</sup>	1 / 1	N/A	N/A	N/A
<b>Executive Directors</b>				
Ronnie C. Chan	6 / 6	N/A	N/A	1 / 1
Philip N.L. Chen	6 / 6	N/A	N/A	1 / 1
H.C. Ho	6 / 6	N/A	N/A	1 / 1

\* Mr Nelson W.L. Yuen was re-designated from Non-Executive Director to Independent Non-Executive Director of the Company on November 10, 2014.

<sup>#</sup> Dr Andrew K.C. Chan was appointed as Non-Executive Director of the Company on October 20, 2014 and only one Board meeting was held from his date of appointment up to December 31, 2014.

All Directors can give notice to the Chairman or the Company Secretary if they intend to include matters in the agenda for Board Meetings. Full Board or Committee papers will be sent to all Directors or Committee members at least three days before the intended date of a Board Meeting or Committee Meeting respectively. Management also supplies the Board and its Committees with sufficient information and explanations 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 understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under the Listing Rules.

All the Directors are entitled to have access to timely information in relation to our business and make further enquiries where necessary, and they can have separate and independent access to management.

In addition, all Directors 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 has taken no less than 15 hours of relevant professional training in 2014.

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

Under our articles of association, a Director shall not vote or be counted in the quorum in respect of any contract or arrangement in which he/she or any of his/her associates is/are materially interested.

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

## *2. Clear Division of Responsibilities between Chairman and Managing Director*

There is a clear division of responsibilities between the Chairman and the Managing Director 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 Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable and that Directors 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 Non-Executive Directors (including Independent Non-Executive Directors) without the Executive Directors 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 Directors for inclusion in the agenda, or delegates such responsibility to the Company Secretary.

He encourages all Directors 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 Directors with different views to voice their concerns, allows sufficient time for discussion on issues on which the Board can deliberate and reach decisions.

He promotes a culture of openness and debate by facilitating the effective contributions of Non-Executive Directors in particular and ensures constructive relations between Executive Directors and Non-Executive Directors.

He also arranges suitable training to Directors to refresh their knowledge and skills.

### *Managing Director*

The Managing Director, Mr Philip N.L. Chen, is a member of the Executive Committee of the Company and is responsible for:

- leading the management team to operate the business of the Company and implementing 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 financial and internal control systems and the conduct of business in conformity with applicable laws and regulations.

The Managing Director chairs the monthly meetings of the Company's various operational divisions. 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 Managing Director, has put great effort in 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.

### *3. Independence of Non-Executive Directors*

We have received from each of our Independent Non-Executive Directors an annual confirmation of his/her independence and we consider the Independent Non-Executive Directors are independent.

On November 10, 2014, Mr Nelson W.L. Yuen was re-designated from Non-Executive Director to Independent Non-Executive Director of the Company. Other than holding the office of Non-Executive Director immediately prior to the re-designation, Mr Nelson W.L. Yuen confirmed that he had satisfied all factors set out in rule 3.13 of the Listing Rules in assessing his independence. As disclosed in the announcement of the Company on November 10, 2014, Mr Nelson W.L. Yuen had gone through more than four years' cooling-off period since his retirement as managing director of the Company and had not held any executive or management function or position in the Company or its subsidiaries since his appointment as Non-Executive Director. In addition, he did not have any business connections with the Company nor Hang Lung Group Limited (the ultimate holding company of the Company) except performing the duty of Non-Executive Director of the Company. In view of the above, the Company considered that Mr Nelson W.L. Yuen met the independence requirements of the Listing Rules.



To further enhance accountability, any appointment of an Independent Non-Executive Director 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 Independent Non-Executive Director is still independent and our recommendation to shareholders to vote in favor of the re-election of such Independent Non-Executive Director.

#### *4. Appointment, Re-election and Removal*

In accordance with our articles of association, one-third of the Directors are required to retire from office by rotation for re-election by shareholders at an AGM. In addition, every Director is subject to retirement by rotation at least once every three years, and new appointments to the Board are subject to re-election by shareholders at the upcoming general meeting. Names of such Directors eligible for re-election, being accompanied by detailed biographies, will be stated in the notice of the general meeting.

The Non-Executive Director and Independent Non-Executive Directors are appointed for specific terms, which coincide with their expected dates of retirement by rotation at least once every three years.

#### *5. Directors' Continuous Professional Development*

Every newly appointed Director will meet with fellow Directors 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 any briefing 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 Directors.

All Directors 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. In 2014, the Company has arranged for Directors three offsite Board trips including two visits to our property projects in mainland China.

Directors' training records in 2014 are summarized below:

Directors	Types of Training
Ronnie C. Chan	A, B, C, D
S.S. Yin	A, B, D
Philip N.L. Chen	A, B, C, D
Andrew K.C. Chan	A, B, C, D
Ronald J. Arculli	A, B, C, D
H.K. Cheng	A, B, D
Laura L.Y. Chen	A, B
P.W. Liu	A, B, C, D
Dominic C.F. Ho	A, B, D
Nelson W.L. Yuen	A, B, D
H.C. Ho	A, B, D

- A Attending seminar(s)/forum(s)
- B Reading materials relating to general business, property development and investment, directors' duties and responsibilities and so on
- C Giving talks to external seminar(s)/forum(s)
- D 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 of the Company was formed in 1989. Its members are all the Executive Directors of the Company, who meet regularly to establish the strategic direction of the Company, and to monitor the performance of management. Clear terms of reference have been adopted by the Board, and guidelines were also 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. During the year 2014 and up to January 26, 2015, the Committee comprises entirely Independent Non-Executive Directors with appropriate academic and professional qualifications or related financial management expertise, namely Dr H.K. Cheng (Chairman of the Committee), Ms Laura L.Y. Chen, Prof P.W. Liu and Mr Dominic C.F. Ho.

Under the CG Code, it is required that meetings are held at least two times a year with the external auditor. Separate meetings will also need to be held with the external auditor (in the absence of management) as and when required. The Audit Committee has exceeded

the CG Code and has held four meetings for the purpose of, inter alia, discussing the nature and scope of internal audit work and assessing the Group's internal controls in 2014. Moreover, the Committee met the external auditor four times in 2014 without the presence of the Executive Board members.

The terms of reference explaining the Committee's role and authority, which include duties regarding corporate governance functions and as a minimum the specific duties as stipulated in the Listing Rules, are available on both our website 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 to their meetings if necessary. Sufficient resources are provided to the Committee to discharge its duty.

In 2014, the Audit Committee has performed, inter alia, the following:

*Relationship with External Auditor, Review of Financial Information and Oversight of Financial Reporting System and Internal Control Procedures*

- reviewed and obtained an explanation from management and the external auditor about 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;
- considered and approved the procedures and guidelines in employing the external auditor to perform non-audit assignments for the Company;
- 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;
- endorsed the Internal Audit Charter for approval of the Board;
- held meetings with the Internal Auditor in private to discuss material internal audit issues;
- approved the internal audit program for 2015; and
- carried out reviews of the internal control system of the Company including senior management's structure, risk management, the adequacy of resources, staff qualifications and experience, training programs and the Company's procedures for financial and functional reporting.

### *Corporate Governance Functions*

- reviewed and approved the Company's policies on corporate governance and compliance with legal and regulatory requirements;
- reviewed and monitored the training and continuous professional development of Directors; and
- reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Audit Committee also meets quarterly to review and monitor the progress and construction costs of Mainland development projects.

### *3. Nomination and Remuneration Committee*

A Nomination and Remuneration Committee, set up in 2003, comprises entirely Independent Non-Executive Directors, namely Prof P.W. Liu (Chairman of the Committee), Mr Ronald J. Arculli, Dr H.K. Cheng, Ms Laura L.Y. Chen and Mr Dominic C.F. Ho during the year 2014 and up to January 26, 2015. Regular meetings were held to review significant changes in the salary structure of the Group and terms and conditions affecting Executive Directors and senior management. The Committee met once in 2014 to review, inter alia, the composition of Board members and Directors' remuneration.

The terms of reference of the Committee can be accessed on both our website and the website of HKEx.

The major work performed by the Committee in 2014 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 Independent Non-Executive Directors, including the independence of director re-designated from Non-Executive Director to Independent Non-Executive Director;
- made recommendations to the Board on the selection of individuals nominated for directorship in view of the qualifications and related expertise;
- made recommendations to the Board on the re-election of retiring Directors at the AGM;
- made recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration;
- determined the remuneration packages of individual Executive Directors and senior management, including benefits in kind, pension rights and compensation payments; and
- made recommendations to the Board on the remuneration of the Non-Executive Director and Independent Non-Executive Directors.

The remuneration package of Executive Directors 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
- 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 evaluation of market trends and the competitive levels of remuneration being offered to Directors and senior management. Sufficient resources are provided to the Committee to discharge its duties. The Committee may consult the Chairman and the Managing Director about remuneration proposals of other Executive Directors and has access to independent professional advice if necessary.

Details of remuneration payable to members of the senior management (which includes Executive Directors only) are disclosed in note 7 on the financial statements.

#### *4. Management Functions*

Senior management includes Executive Directors of the Company only. Their duties were explained in the paragraph headed "Executive Committee" above. Key executives are responsible for the day-to-day operations and administration function of the Group under the leadership of the Executive Directors. The Board has given clear directions to management as to the 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 the strategy 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 will be reviewed periodically to ensure that they remain appropriate to our needs.

### (III) Directors' Securities Transactions and Share Interests

#### 1. Compliance with Model Code

We have set out guidelines regarding securities transactions by Directors under “Transactions in the Company's Shares” in our Code of Conduct according to the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the “Model Code”). The Company has made specific enquiries to all Directors and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding Directors' securities transactions.

#### 2. Share Interests of Directors

Details of Directors' interests in shares of the Company and our listed parent company, Hang Lung Group Limited as at December 31, 2014 are as follows:

Name of Directors	The Company		Hang Lung Group Limited	
	Number of Shares	Number of Shares under Option	Number of Shares	Number of Shares under Option
Ronnie C. Chan	5,090,000	38,730,000	5,090,000	6,700,000
S.S. Yin	–	–	–	–
Philip N.L. Chen	–	21,500,000	–	–
Andrew K.C. Chan	–	–	–	–
Ronald J. Arculli	724,346	–	1,089,975	–
H.K. Cheng	–	–	–	–
Laura L.Y. Chen	–	–	–	–
P.W. Liu	100,000	–	–	–
Dominic C.F. Ho	–	–	–	–
Nelson W.L. Yuen	–	24,320,000	–	–
H.C. Ho	–	10,450,000	–	–

## **(IV) Accountability and Audit**

### *1. Financial Reporting*

Directors 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, 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 their reporting responsibilities is included in the Independent Auditor's Report on the Company's financial statements.

The Directors endeavor to ensure a balanced, clear and understandable assessment of the Company's position and prospects in annual reports, interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory requirements.

### *2. Internal Controls*

We maintain a good internal control environment to enable the internal control systems and procedures to perform effectively and to make improvements. The Code of Conduct details the Group's philosophy in running its business and acts as a benchmark for all staff to follow.

Internal control systems have been designed to allow us to monitor the Group's overall financial position, to safeguard its assets against major loss and misappropriation, to provide reasonable assurance against material fraud and errors, and to manage the risk in failing to achieve the Group's objectives. Our internal control systems are developed with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) principles. There are five important elements for an effective internal control system as follows:

Control environment – the foundation for the other components of internal control. The resulting control environment has a pervasive impact on the effectiveness of the overall internal control systems. It provides the basis for carrying out internal control across the organization. The factors that may affect the control environment include integrity, ethical values, management's operating style, delegation of authority, as well as the processes for managing and developing people. Directors and senior management understand a strong control environment supports the functioning of all other components of internal control. As a result, we have established the right tone at the top regarding the importance of internal control including expected standards of conduct.

Risk assessment – the identification, evaluation and analysis of risks underlying the achievement of our business objectives. It helps management to determine how such risks should be managed and mitigated. Directors and senior management use the risk assessment process to identify risks, both internally and externally, and assess their likelihood that may impact our operation. After that, we design and implement the controls to mitigate such risks in order to achieve our objectives.

Control activities – the policies and procedures that help to ensure management directives are carried out and necessary actions are taken to address the risks that may hinder the achievement of the Group's objectives. Therefore, we have designed and implemented different types of control activities such as the approvals and authorizations policies, performance reviews, segregation of duties, departmental procedures and manuals, establishment of committees and working groups etc., in order to ensure the efficient and effective operation of the Group. Moreover, we will revisit these activities periodically, so that they can address the latest changes of the risks in achieving our business objectives.

Information and communication – the process and system to identify and capture pertinent information and communicate it to the right person in a timely manner. Directors and senior management have adopted an open environment to facilitate the effective communication within the Group. In addition, we have implemented a functional reporting mechanism so that the local management at subsidiaries level can report to the respective functional head in Hong Kong. As a result, the information can be communicated directly and effectively throughout the Group.

Monitoring – the process that assesses the quality of the system's performance over time. It ascertains that the internal control of the Group continues to operate effectively. This is accomplished through ongoing monitoring activities and evaluations performed by management. More significantly, Internal Audit performs regular independent review on the Group's internal control and directly reports to the Audit Committee. Deficiencies in internal control are reported upstream and rectifications are taken to ensure continuous improvement of the system.

At Hang Lung, we have a well-defined specific limit of authority governing activities of the Executive Committee, Directors, executives and senior staff. Annual and mid-year budgets for all capital and revenue items are prepared and approved by senior management and key executives before being adopted. We monitor the business activities closely and review monthly financial results of operations against budgets. We also review, update and improve the internal controls to meet upcoming challenges.

We take proactive precautionary measures in handling and dissemination of price-sensitive information. Such information is restricted to a need-to-know basis. We have adopted a policy on disclosure of price-sensitive information and senior executives are reminded of the compliance of the policy every six months.



We maintain an Internal Audit Department which is independent of our daily operations and accounting functions. The Internal Auditor reports directly to the Audit Committee. An internal audit program based on risk assessment methodology has been designed and reviewed by the Audit Committee on an annual basis. On a monthly basis, the Internal Auditor discusses his internal audit reviews and findings with the management and obtains management's responses on various issues. Internal audit reports are prepared for the Audit Committee every quarter.

Formal meetings were held every three months between the Internal Auditor and the Audit Committee to discuss internal audit issues in 2014. During Audit Committee Meetings, the Audit Committee also enquired on financial and internal control matters with the external auditor. The Audit Committee has the authority to have direct discussion with the external auditor in the absence of management if deemed necessary, and they meet at least twice annually for this purpose. Executive Director(s) is/are present at the Audit Committee Meetings to answer enquiries from the Audit Committee and to report to the Board on matters arising.

The Directors acknowledged that it was their responsibility to maintain effective risk management and internal control systems. In this regard, the Directors had reviewed them four times in 2014 via the Audit Committee. The Directors manage risks by strategic planning, appointing appropriately qualified and experienced personnel at senior positions, monitoring the Group's performance regularly, maintaining effective control over capital expenditure and investments, and setting a Code of Conduct for all Directors and employees to follow.

The Directors through the delegation to the Audit Committee had conducted a review 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, 2014, and were satisfied that an effective and adequate internal control system had been in operation.

The resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function were considered adequate. The Directors came to such a conclusion based on the Company's policies and procedures, specific limits of authority, budgetary controls, regular monitoring of performance and the reports from both the external auditor and the Internal Auditor.

We identify major risks in different areas of the Group. The major risks have been covered under the paragraph headed "Risk Management" in the Management Discussion and Analysis on page 86 of this annual report.

Heightened economic and political challenges and increasing competition across our Mainland property portfolio have put downside pressures on our rental growth and occupancy, when compared with the previous financial year. The Directors believe that the Company has the ability to respond to any such changes in our business and the external environment, based on assessment of the financial impact under stressed scenarios, as well as the determination in pursuit of our long-term strategy.

Furthermore, there were no significant control failings or weaknesses identified that have not been rectified in 2014. We closely monitor our system of internal controls, and received further assurance from the Audit Committee that the internal audit function has been operating effectively. We have complied with the code provisions set out in the CG Code in respect of maintaining an effective internal control system.

### *3. Code of Conduct*

We have adopted a corporate Code of Conduct since 1994 which is reviewed and updated from time to time.

The Code of Conduct clearly spells out the Company's stance, the legal requirements, conflicts of interest, handling of confidential information and company property, use of information and communication systems, whistle-blowing 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 to the Code of Conduct, functional managers are responsible for ensuring their subordinates fully understand and comply with 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 Directors 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 whistle-blowing mechanism has been put in place for reporting actual or potential violations of the Code of Conduct and other suspected irregularities. It is designed to encourage employees and other related third parties such as contractors and tenants to raise serious concerns in confidence about misconduct, fraudulent activities, or malpractices in any matter related to the Group. All the cases will be addressed to the Head of Internal Audit directly and investigated by Internal Audit on a confidential basis. The Company has also set up an e-mail account ([whistleblowing@hanglung.com](mailto:whistleblowing@hanglung.com)).

All staff are made aware of integrity issues and zero-tolerance policy on misconduct through the Code of Conduct, policies and procedures. Comprehensive and tailored training programs on integrity are arranged for all staff in Hong Kong and mainland China regularly.

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

#### 4. Auditors' Remuneration

KPMG was re-appointed as our external auditor by shareholders at the 2014 AGM until the conclusion of the 2015 AGM. It is primarily responsible for providing audit services in connection with the annual consolidated financial statements.

Total remuneration in respect of services provided by the external auditors is as follows:

	Year ended December 31, 2014 HK\$ (in million)	Year ended December 31, 2013 HK\$ (in million)
Statutory audit services	8	7
Tax and other services	5	5

## (V) Communication with Stakeholders

### 1. Shareholders

The Board has established a shareholders communication policy setting out strategies that the Company has in place to promote effective communication with shareholders, with the aim of ensuring shareholders are provided with information about the Company and enabling 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.

Our AGM provides a good opportunity for communication between the Board and shareholders. The Chairmen of the Board and of the Committees are normally present to answer queries raised by shareholders. The external auditor also attends 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.

In addition to the Chairman's Letter to Shareholders, the Chairman explains to the shareholders the business strategies and outlook of the Group in the AGM and proactively opens a dialogue with shareholders.

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. 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 the registered office of the Company for the attention of the Company Secretary. The above requests authenticated by the person or persons making them may also be sent to the Company in electronic form to [ir@hanglung.com](mailto:ir@hanglung.com).

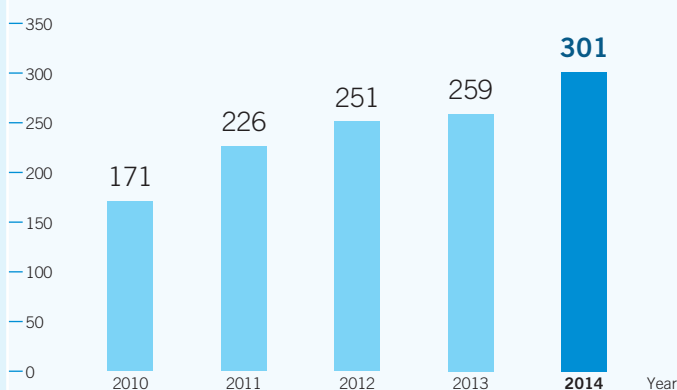
According to our articles of association, if any shareholder(s) representing not less than 10% of the total voting rights of all the shareholders having the right to attend and vote at general meetings of the Company wish(es) to propose a person (other than a retiring director) for election as a director (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 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 election and end no later than seven days prior to the date of such meeting.

Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at our registered address or by e-mail to our Company at [ir@hanglung.com](mailto: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 the shareholdings and entitlement to dividend. Relevant contact details are set out under "Listing Information" of this annual report.

Our last AGM was held on April 24, 2014 at Meeting Room S421, Level 4, Hong Kong Convention and Exhibition Centre, 1 Harbour Road, Wanchai, Hong Kong. The meeting was attended by 301 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 a poll. All resolutions tabled at the 2014 AGM, inter alia, adoption of the financial statements, re-election of Directors, re-appointment of auditor, renewal of general mandates and adoption of new articles of association of the Company in substitution of the then memorandum and articles of association of the Company 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 on the same day.

## SHAREHOLDERS PARTICIPATION IN AGMs

Number of Shareholders



The Board confirms that there are no changes proposed to the articles of association of the Company at the forthcoming AGM to be held on April 29, 2015. 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, 2015 and the AGM, are expected to be held at around late July 2015, late January 2016 and in April 2016 respectively.

## 2. Investors

Details of shareholders by domicile as at December 31, 2014 are as follows:

Domicile	Shareholders		Shareholdings	
	Number	%	Number of Shares	%
Hong Kong	2,984	94.49	4,475,767,070	99.79
Mainland China	54	1.71	3,932,490	0.09
Macau	7	0.22	376,933	0.01
Taiwan	2	0.06	593	0.00
Australia and New Zealand	9	0.28	14,105	0.00
Canada and USA	45	1.43	2,588,800	0.05
South East Asia	45	1.43	2,611,917	0.06
United Kingdom	8	0.25	14,400	0.00
Others	4	0.13	3,362	0.00
<b>TOTAL</b>	<b>3,158</b>	<b>100.00</b>	<b>4,485,309,670</b>	<b>100.00</b>

Details of shareholders by holding range as at December 31, 2014 are as follows:

Holding Range	Shareholders*		Shareholdings*	
	Number	%	Number of Shares	%
1 - 1,000 shares	1,463	46.33	688,674	0.02
1,001 - 5,000 shares	800	25.33	2,230,880	0.05
5,001 - 10,000 shares	317	10.04	2,597,120	0.06
10,001 - 100,000 shares	479	15.17	16,453,041	0.37
Over 100,000 shares	99	3.13	4,463,339,955	99.50
<b>TOTAL</b>	<b>3,158</b>	<b>100.00</b>	<b>4,485,309,670</b>	<b>100.00</b>

\* incorporating, in their respective shareholdings range, 417 participants of Central Clearing and Settlement System holding a total of 2,821,097,319 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 Directors of the Company 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, e-mails 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 Directors, 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, newsletters, major corporate events and frequently asked questions.

## MOVING FORWARD

As a long-term player, Hang Lung will continue to strive for living up to its motto of We Do It Right by extending its concept and vision of excellence in corporate governance in Hong Kong and every city where the Group is operating its world-class projects. We are confident of offering our stakeholders one of the most transparent and well-governed corporation in Greater China.