

As good governance is essential to corporate success, we have always been proud of our business philosophy that has guided us to operate our business with integrity and honesty.



Clarity



Riverside 66, Tianjin





Parc 66, Jinan



Risk Management

The Corporate Governance Report sets out details of our risk management and internal control systems.

The Company's principal risks in 2018 are listed below:




Property Development Risk

The ability to acquire suitable land for development is critical for the Company in order to sustain continuous growth and the desired return on investment. Complexity of design and tight deadlines present implementation challenges in delivering projects safely, on budget, on time, and to desired quality. Sudden changes in government policies and regulations without sufficient consultation could significantly impact a project's development.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Heavy capital investment coupled with a long investment period and market cycles provide both opportunities and challenges in land acquisition		<ul style="list-style-type: none"> • Set investment criteria and risk appetite prior to land acquisition • Consolidate local market information • Conduct appropriate due diligence including third party expert reviews • Identify critical resource constraints for proper planning • Undertake structured analyses of business opportunities • Exercise financial prudence and continuous monitoring of return on investment
Complexity of design, tight deadlines and fluctuations in material cost after tender award due to major changes in macro government policies present implementation challenges in delivering projects safely, on budget, on time and in line with required quality		<ul style="list-style-type: none"> • Establish clear roles and responsibilities for accountability and division of duties among the Development and Design, Project Management, Cost and Controls, Leasing, and Service Delivery departments at various stages of the development cycle • Closely monitor project progress and review all aspects of a development's planning and construction • Closely monitor costs and supply of materials, tighten controls on price variation claims, and define terms in both the tenders and the contracts • Establish clear and comprehensive policies and procedures with periodic enhancements to tighten controls • Provide regular and comprehensive reports to the Board, and strengthen management supervision
Introduction of new government regulations or sudden policy changes without sufficient consultation could adversely affect a project's development	 New/updated laws and regulations at both national and local level	<ul style="list-style-type: none"> • Actively engage with regulatory bodies and professional firms on updates to laws and regulations • Monitor the impact of major breaches or noncompliance with regulatory requirements, if any • Continue monitoring and assessing the impact of the regulatory changes • Maintain proper and sufficient documentation as far as possible

Business and Operational Risk




We ensure our properties remain competitive to the highest standards by closely monitoring and responding to the business environment and market trends. However, increasing local competition or changes in the regulations/policies can significantly impact our business performance. Moreover, changing consumer behavior and fast-paced technological development can create new challenges to our business.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Changes in economic conditions and a challenging retail market in mainland China could impact our business strategy	 Increase in local competition and impact of online shopping	<ul style="list-style-type: none"> • Conduct structured market studies and research to understand local competitors and customer needs • Define and present three types of malls with different positioning strategy clearly in mainland China • Review and enhance tenant mix regularly at each project site and to engage new brands • Review the asset performance of each property on a regular basis and fine-tune business strategy, including refinement of positioning and different product lines for existing malls, to remain competitive • Perform tenant and shopper surveys to further improve levels of satisfaction and overall service quality • Undertake project renovations and employ proactive marketing strategies as necessary
Fast-paced technological innovations such as advances in e-commerce, mobile applications and the development of artificial intelligence, as well as rapidly changing consumer behavior and taste could impact the Company's business model or strategy	 Development of e-commerce and changes in consumer taste undermining competitiveness	<ul style="list-style-type: none"> • Study the latest relevant technological developments and customer needs such as artificial intelligence and B2C big data • Ensure IT infrastructure readiness for anticipated future IT developments such as Smart POS and Cloud Technology • Establish targeted Customer Relationship Management programs to better understand customers, drive sales, and increase customer loyalty
Major external disasters or crises, such as pandemics, pollution, floods, earthquakes, cyber-crime, etc., could impact assets or business sustainability		<ul style="list-style-type: none"> • Ensure appropriate insurance coverage for properties and business • Develop business continuity plans for each critical function • Implement crisis management training and drills, including cyber-attack scenarios • Conduct testing on the effectiveness of the design and implementation of crisis management plans • Increase defense in gaps identified under the cyber security assessment







People Risk

Strong competition for talented staff and the tight labor market across the property management sector, together with the additional demand on resources from new projects create a challenging environment for the Company as it seeks to provide adequate resources to support its existing and growing business.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Failure to recruit, develop or retain staff with suitable capabilities and the capacity to support expansion/growth of the Company	 Challenges in recruiting/retaining talents at second-tier cities in mainland China	<ul style="list-style-type: none"> • Develop a manpower plan to match existing and future human capital resources needs against our business strategy • Review the competitiveness of our compensation and benefits regularly • Provide training courses such as the Executive Training Program or offer financial assistance for staff attending recognized professional programs • Establish programs for management trainees (including dedicated mentorship), internship program, and internal rotation to ensure our operations are supported by adequate talents • Refine our training program from time to time to ensure our staff possess the expertise and skills to support business growth • Promote employer branding to attract and retain talents • Operate an effective grievance reporting system
Sudden loss of key management could affect the sustainability of the business		<ul style="list-style-type: none"> • Establish more structured succession planning for key management team members • Accelerate the internal movement of staff with the right caliber to build succession into key roles
Fraud and corrupt activities could result in significant financial losses and/or impact the reputation of the business		<ul style="list-style-type: none"> • Strengthen commitment to the highest standards of integrity and accountability • Provide continuous training and reinforce communications with staff on integrity, impartiality, and honesty • Operate an effective whistleblowing mechanism

Treasury Risk

In keeping with the principle of prudent financial management, we have processes in place to identify and manage risks associated with our treasury operations. Key risk areas under the treasury function include interest rate and foreign exchange rate risks, funding and liquidity risks, as well as credit/counterparty risk.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Part of the Company's borrowings is floating-rate bank loans, which could expose us to rising interest rates	 US interest rates rise	<ul style="list-style-type: none"> Adopt various appropriate measures such as the issuance of fixed rate bonds, the use of derivatives such as interest rate swaps for managing fixed/floating debt ratio Maintain a relatively conservative gearing ratio
Our business in mainland China has by nature currency risk from the capital investment, as well as risks from the currency mismatch between revenue and debts	 Increasing volatility in Renminbi	<ul style="list-style-type: none"> Maintain an appropriate level of Renminbi resources for the Company's capital requirements in mainland China Monitor currency risk and perform sensitivity analyses periodically Modify the currency hedging strategy when necessary
Market liquidity may change from time to time and limit our ability to borrow adequate and cost-effective funding		<ul style="list-style-type: none"> Manage cash and financing at corporate level by the treasury team Maintain closer relationships with banks and intermediaries Manage the maturity profile of deposits and loans to minimize refinancing risk Establish and maintain diversified channels of debt financing Establish cross-border cash pooling and Panda Bond platform to broaden funding sources for mainland projects
Credit/counterparty risk exposure is primarily in rents receivable and deposits placed with banks		<ul style="list-style-type: none"> Undertake comprehensive credit assessments of prospective tenants Require rental deposits and rent in advance, and closely monitor outstanding rents to mitigate rents receivable risk Assign bank exposure limits to mitigate concentration risk on our deposits Only make deposits with banks that have sound financial strength and/or good credit ratings

In addition to addressing the principal risk categories faced by the Company, specific emerging risks, such as Sino-US tension that may affect our operations, have been monitored closely and reviewed periodically during the year. The Company recognizes that the potential impact of such emerging risks may become more significant in the future.

Key – Risk Trend (Change from last year)

 Upward/increasing risk trend  Risk trend remains similar