

# Strategy



Hang Lung's sophisticated corporate governance and professional management systems ensure that our strategies support our vision. Equipped with insightful minds for astute planning and thoughtful execution, we take the guess work out of strategizing and put the highest priority on gaining the trust and respect of our stakeholders.







# Risk Management

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

The Company's principal risks in 2016 are listed below:

## PROPERTY DEVELOPMENT RISK

The ability to acquire suitable land for development is critical for the Company in order to sustain its continuous growth and desired return on investment. Complexity of design and tight deadlines present implementation challenges to deliver our projects on budget, on time, and to quality. Sudden changes in government policies and regulations without sufficient consultation could significantly impact our project 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"> <li>Set investment criteria and risk appetite prior to land acquisition</li> <li>Consolidate local market information</li> <li>Conduct appropriate due diligence including third party experts' reviews</li> <li>Identify critical resource constrains for proper planning</li> <li>Structured analyses of business opportunities</li> <li>Financial prudence and continuous monitoring of return on investment</li> </ul>
Complexity of design and tight deadlines present implementation challenges to deliver our projects on budget, on time and in line with required quality	 Tighter design guidelines and change control	<ul style="list-style-type: none"> <li>Clear roles and responsibilities for accountability and division of duties among the departments of Project Planning, Project Construction, Cost and Controls and Leasing &amp; Management at various stages of the development cycle</li> <li>Closely monitor the projects' progress and review of all aspects of developments, planning and construction progress</li> <li>Clear and comprehensive policies and procedures with periodic enhancements to tighten controls</li> <li>Regular and comprehensive reports to the Board, and close management supervision</li> </ul>
Introduction of new government regulations or sudden changes of policies without sufficient consultation could adversely affect project development	 New/updated laws and regulations at both national and local level	<ul style="list-style-type: none"> <li>Actively engage with regulatory bodies and professional firms on updates to laws and regulations</li> <li>Monitor the impact of major breaches or non-compliance with regulatory requirements, if any</li> <li>Continue monitoring and assessing the impact of the regulatory changes</li> </ul>

## BUSINESS AND OPERATIONAL RISK

We ensure our properties remain competitive and up to the highest standards by closely monitoring and responding to the business environment and market trends. However, changes in market economic conditions or regulations/policies can significantly impact our business performance. Moreover, changing consumer behavior and fast paced technology development created new challenges to our business.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Changes in market economic conditions, such as the weaker overall economy of mainland China as well as slower luxury retail growth in recent years impact our business strategy	 Economic slowdown in mainland China	<ul style="list-style-type: none"> <li>• Conduct structured market studies and research to understand the local competition and customer needs</li> <li>• Develop a positioning strategy and review tenant mix regularly at each project site</li> <li>• Review asset performance of each property on a regular basis and fine-tune business strategy to remain competitive</li> </ul>
Fast paced technology innovation such as e-commerce and mobile applications, as well as rapidly changing consumer behavior and taste could impact the Company's business model or strategy	 Development of e-commerce, overseas purchasing and changes in consumer taste undermine our competitiveness	<ul style="list-style-type: none"> <li>• Study the latest relevant technological developments and customer needs</li> <li>• Ensure IT infrastructure readiness for anticipated future IT developments such as mobile applications</li> <li>• Targeted Customer Relationship Management program to better understand customers, drive sales, and increase customer loyalty</li> </ul>
Major external disasters or crisis, such as pandemics, pollution, floods, earthquake, etc. impact our assets or sustainability of the business		<ul style="list-style-type: none"> <li>• Ensure appropriate insurance coverage for properties and business</li> <li>• Develop business continuity plans for each critical function</li> <li>• Crisis management training and drills</li> <li>• Conduct testing on the effectiveness of design and implementation of crisis management plan</li> </ul>



## PEOPLE RISK

Strong competition for talented staff and the tight labor markets in the property management industries, together with the added demands from new projects, pose a challenge to the Company in providing adequate resources to support the existing and growing business. The sudden loss of key management is another risk which may affect our ability to operate.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Failure to recruit, develop or retain staff with suitable capability and capacity to support expansion/growth of the Company	 Increasing number of projects in mainland China with more penetration to the second-tier cities	<ul style="list-style-type: none"> <li>• Develop manpower plan to match the existing human capital resources against our business strategy</li> <li>• Review the competitiveness of our compensation and benefits regularly</li> <li>• Provide training or financial assistance for staff attending recognized professional programs</li> <li>• Establish programs for management trainees, staff secondments and rotation to ensure our operations are supported by adequate talents</li> </ul>
Sudden loss of key management could affect sustainability of business		<ul style="list-style-type: none"> <li>• Establish a more structured succession planning for key management team members</li> <li>• Accelerate the internal movement of staff with the right calibre to build succession into key roles</li> </ul>
Fraud and corrupt activities could result in significant financial losses and/or impact reputation of the business		<ul style="list-style-type: none"> <li>• Commitment to the highest standards of integrity and accountability</li> <li>• Continuous training and communication with staff on integrity, impartiality, and honesty</li> <li>• Effective whistleblowing mechanism and grievance reporting system</li> </ul>

## 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 components under treasury function include interest rate and foreign exchange rate risks, funding and liquidity risk, as well as credit/counterparty risks.

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"> <li>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</li> <li>Maintain a relatively conservative gearing ratio</li> </ul>
Our business in mainland China has by nature foreign currency risk from the capital investment, as well as those due to the currency mismatch between revenue and debts	 Increasing volatility in Renminbi	<ul style="list-style-type: none"> <li>Maintain an appropriate level of Renminbi resources for Company's capital requirements in mainland China</li> <li>Monitor foreign exchange risk and perform sensitivity analysis periodically</li> <li>Modify the currency hedging strategy when necessary</li> </ul>
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"> <li>Manage cash and financing at corporate level by the treasury team</li> <li>Maintain closer relationships with banks and intermediaries</li> <li>Manage maturity profile of deposits and loans to minimize refinancing risk</li> <li>Establish and maintain diversified channels of debt financing</li> </ul>
Credit/counterparty risk exposure is primarily in rents receivable, installments receivable relating to property sales, and deposits placed with banks	 Economic slowdown in mainland China	<ul style="list-style-type: none"> <li>Undertake careful credit assessment of prospective tenants</li> <li>Rental deposits, rental in advance and closely monitor outstanding rents to mitigate rents receivable risk</li> <li>Use properties as collateral to protect receivables related to property sales</li> <li>Assign bank exposure limits to mitigate concentration risk on our deposits</li> <li>Only make deposits with banks that have sound financial strength and/or good credit ratings</li> </ul>

In addition to addressing the principal risk categories faced by the Company, specific emerging risks such as major social or political developments in Hong Kong, mainland China and overseas have been monitored closely and reviewed periodically during the year. The Company recognizes that the potential impact of such emerging risk may be significant, and monitors the impact and likelihood of occurrence on a regular basis.

Key – Risk Trend (Change from last year)

 Upward/increasing risk trend

 Risk trend remains similar as previous year

 Downward/decreasing risk trend

