



## **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 of Executive and Non-Executive Directors so that there is a strong independent element on the Board 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:

- Six regular Board meetings were held in 2016.
- Management is invited to join Board meetings from time to time for provision of information relevant to Board decisions to enable the Directors to discharge their duties and responsibilities.
- The Nomination and Remuneration Committee comprises entirely Independent Non-Executive Directors to ensure that 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 2016.
- Since 2008, the Company has announced its interim and annual results within one month from the end of the accounting period.
- The ERM Working Group, comprising senior executives representing all business and support functions, has proven to be a robust forum for comprehensive key risks identification, risk evaluation, and formulation of effective mitigating measures.
- The Company has adopted a corporate Code of Conduct since 1994 which is regularly reviewed and is applicable to all staff and Directors. The Code of Conduct contains our well-defined whistleblowing policy and our Internal Audit Department has monitored and reported cases to the Audit Committee on a half-yearly basis.
- A sustainability framework has been in place since 2012 and the Sustainability Steering Committee is represented by senior executives of major business units. Our staff appraisals have incorporated sustainability measures as one of the key performance indicators.
- The Company has set up a crisis management framework which has proven to be robust in handling major incidents.
- The Company continuously enhances its website as a means of communication with stakeholders. Principal corporate governance structures, newsletters and webcasts of analysts' briefings are freely available for public perusal.
- The Company has adopted a policy governing the engagement of the external auditor for non-audit services to ensure the independence of the external auditor.
- The Company served more than 20 clear business days' notice to shareholders for AGM in 2016.
- In addition to his Letter to Shareholders, the Chairman takes the opportunity to explain business strategies and the outlook of the Group to shareholders at the AGM, to proactively open dialogue with them.

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

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

#### *Composition*

The Board currently comprises eleven persons:

- four Executive Directors, namely, Mr. Ronnie C. Chan (Chairman), Mr. Philip N.L. Chen (Managing Director), Mr. H.C. Ho and Mr. Adriel W. Chan;
- three Non-Executive Directors, namely, Mr. Gerald L. Chan, Mr. George K.K. Chang and Mr. Roy Y.C. Chen; and
- four Independent Non-Executive Directors, namely, Mr. Simon S.O. Ip, Prof. L.C. Tsui, Mr. Martin C.K. Liao and Prof. P.W. Liu. 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.

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*

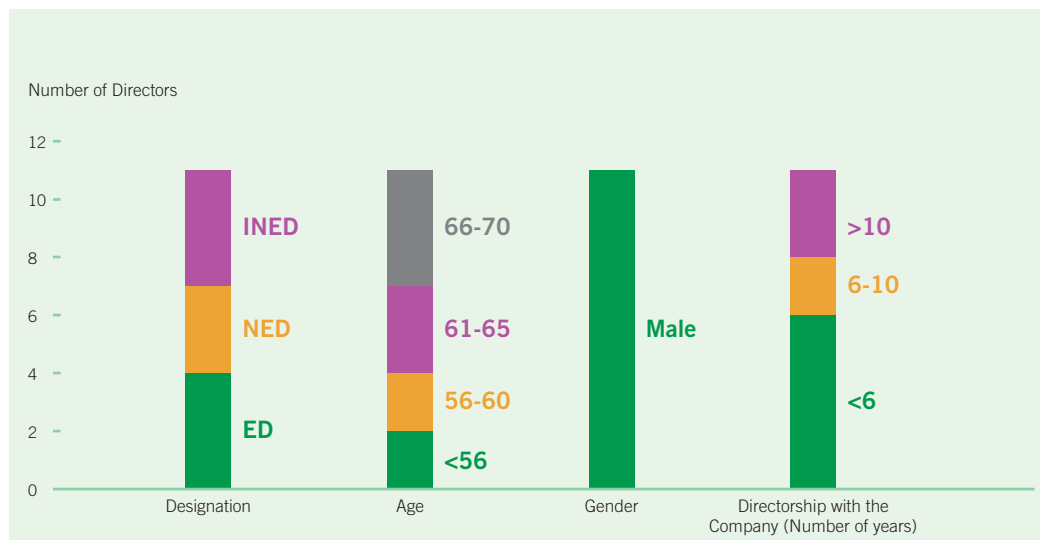
The Board has a policy setting out the approach to achieve diversity on the Board (the Board Diversity Policy) with the aim of enhancing Board effectiveness and corporate governance as well as achieving our business objectives and sustainable development. Board diversity has been considered from a number 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 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 as a whole in the appointment of Mr. Adriel W. Chan as Executive Director in November 2016 who is now mainly responsible for project departments, including project planning, project construction, cost & controls, and the asset assurance & improvement team, the ERM Working Group, as well as various other initiatives in the Group, enhance the effectiveness of the Board. The diversity of the Board was further enhanced in terms of the balance of skills, expertise, experience and professional background, in particular, in the areas of technology and risk management. 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 fulfil those needs, suitably qualified individuals will be considered in the future for membership.





## DIVERSITY MIX AS AT DECEMBER 31, 2016



### Remarks

ED – Executive Director(s)

NED – Non-Executive Director(s)

INED – Independent NED(s)

### Functions

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 120 to 125 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.

Non-Executive Directors (including the Independent Non-Executive Directors) 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 Directors are required to disclose to the Company any offices held in public companies or organizations and other significant commitments.

In 2016, six regular Board meetings were held. Two Board meetings were held during two offsite Board trips in mainland China including a visit to Dalian for the grand opening ceremony of Olympia 66. Details of Directors' attendance records in 2016 are set out below:

Directors	Meetings Attended/Held			
	Board	Audit Committee	Nomination and Remuneration Committee	2016 AGM
<b>Independent Non-Executive Directors</b>				
Simon S.O. Ip	6 / 6	3 / 4	1 / 1	1 / 1
L.C. Tsui	5 / 6	4 / 4	N/A	1 / 1
Martin C.K. Liao	6 / 6	N/A	1 / 1	1 / 1
P.W. Liu	6 / 6	4 / 4	1 / 1	1 / 1
<b>Non-Executive Directors</b>				
Gerald L. Chan	4 / 6	N/A	N/A	0 / 1
George K.K. Chang	5 / 6	4 / 4	N/A	1 / 1
Roy Y.C. Chen	6 / 6	N/A	N/A	1 / 1
<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
Adriel W. Chan <sup>(Note)</sup>	1 / 1	N/A	N/A	N/A

Note

Mr. Adriel W. Chan was appointed a Director on November 19, 2016.

### *Board Process and Access to Information*

Any Director can give notice to the Chairman or the Company Secretary if they intend to include matters on the agenda of a Board meeting. 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. 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 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 Directors 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 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 took more than 15 hours of relevant professional training to update her skills and knowledge in 2016, including giving talks to external forums on corporate governance and sustainability.

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

Under the Articles of Association, a Director 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 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 the 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 on 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 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 Non-Executive Directors in particular and ensures constructive relations between Executive Directors and Non-Executive Directors.

He also arranges suitable training for 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 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 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 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.

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

We have received from each of our Independent Non-Executive Directors an annual confirmation of his independence and we consider each Independent Non-Executive Director to be independent.

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 to still be independent and our recommendation to shareholders to vote in favor of the re-election of such an Independent Non-Executive Director.

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

In accordance with the Articles of Association, one-third of the Directors 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 Director is subject to retirement by rotation at least once every three years. The names of such Directors eligible and offering themselves for re-election, accompanied by detailed biographies, will be presented in the notice of the general meeting.

The Non-Executive Directors 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*

Each 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 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 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.

Record of training received by each Director in 2016 is summarized below:

<b>Directors</b>	<b>Types of Training</b>
Ronnie C. Chan	A, B, C, D
Philip N.L. Chen	A, B, C, D
Gerald L. Chan	A, B, D
Simon S.O. Ip	A, B, D
L.C. Tsui	A, B, D
Martin C.K. Liao	A, B, D
P.W. Liu	A, B, C, D
George K.K. Chang	A, B, D
Roy Y.C. Chen	A, B, D
H.C. Ho	A, B, D
Adriel W. Chan	A, B, C, D

- A Attending seminar(s)/forum(s)
- B Reading materials relating to general business, property development and investment, directors' duties and responsibilities, etc.
- 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 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 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 Independent Non-Executive Directors and one Non-Executive Director with appropriate academic and professional qualifications or related financial management expertise, namely, Mr. Simon S.O. Ip (Chairman of the Committee), Prof. L.C. Tsui, Prof. P.W. Liu and Mr. George K.K. Chang.

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 2016 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 2016 without the presence of the Executive Board members.

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 2016, 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;

- 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 program for 2017;
- 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, training programs, and the Company's procedures for financial reporting; and
- approved the terms of reference of the ERM Working Group, providing a framework for the work of the risk management function across the board.

#### *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 Directors; and
- reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Audit Committee also reviewed environmental, social and governance (ESG) related risks and confirmed that the ESG risk management system was in place and remained effective throughout 2016.

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 Independent Non-Executive Directors, 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 Directors and senior management are conducted. The Committee met once in 2016 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 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 2016 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;
- 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 the re-election of retiring Directors at the AGM;
- made recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management;
- determined the remuneration packages for 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 Directors 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
- 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 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 to the Financial Statements.

#### *4. Management Functions*

Senior management includes Executive Directors only. 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 Directors. 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) 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. The Company has made specific enquiries with 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 HLPL as at December 31, 2016 are as follows:

Name of Directors	The Company		Hang Lung Properties Limited	
	Number of Shares	Number of Shares under Option	Number of Shares	Number of Shares under Option
Ronnie C. Chan	11,790,000	–	16,330,000	27,490,000
Philip N.L. Chen	–	–	–	21,500,000
Gerald L. Chan	–	–	–	–
Simon S.O. Ip	–	–	–	–
L.C. Tsui	–	–	–	–
Martin C.K. Liao	–	–	–	–
P.W. Liu	–	–	100,000	–
George K.K. Chang	–	–	–	–
Roy Y.C. Chen	–	–	–	–
H.C. Ho	–	–	–	10,450,000
Adriel W. Chan <sup>(Note)</sup>	498,428,580	–	2,507,987,340	350,000

### Note

Mr. Adriel W. Chan was deemed to be interested in 498,428,580 shares of the Company and 2,507,987,340 shares of HLPL 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 2,507,987,340 shares of HLPL.

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

The Directors endeavor to ensure a balanced, clear and coherent 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. Risk Management and Internal Controls*

### *Risk Management Framework*

The Board has overall responsibility for risk management and for the determination of the nature and extent of significant risks it is willing to take to achieve the Company's strategic objectives. The Audit Committee is delegated with overseeing the effectiveness of our risk management system.

Risks are inherent in every sector of our business, and it is important to have a culture involving various staff levels and a systematic approach to identify and assess risks such that they can be reduced, transferred, avoided or understood. 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 of our business. We are committed to continually enhancing our risk management framework, linking to our corporate strategies as well as integrating it into our day-to-day operations and decision-making. Chaired by an Executive Director, the ERM Working Group (comprising unit heads from all business units and support divisions), with the approved terms of reference, 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, reporting directly to the Audit Committee on risk management and internal controls 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. During the year, the Company managed risks involving the identification and assessment of principal external and internal risks at different organizational levels. A list of principal risks, covering both strategic and operational risks identified by our company-wide risk assessment exercise, was compiled with reference to their residual risk impact and likelihood (after taking into consideration the mitigation controls outlined by individual risk owners). Action plans were developed, and risk ownership was assigned for each principal risk. The risk owners coordinated the mitigation measures to ensure proper implementation of these action plans.

The principal risks that the Company faces may not change significantly from year to year, although the magnitude and importance of these risks can and do vary. During 2016, enhancement measures to existing controls were implemented to mitigate rising risks from the continued economic slowdown and regulatory changes on the Mainland, as well as the Renminbi movements. On the other hand, risks from changing consumer behaviors and the rising US interest rates have increased in significance. These principal risks, together with their respective mitigating actions, are covered in the Financial Review and Risk Management sections 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 2016, it met 6 times and achieved the following:

- Reviewed the effectiveness of the Company's ERM framework;
- Formalized the risk appetite and risk tolerance at an enterprise level with Board concurrence;
- Reviewed of risk assessment criteria to ensure that they were appropriately defined and continued to be relevant in light of the business and risk profile of the Company;
- Organized various workshops for management and operational staff to promote the ERM framework and embed a risk culture for monitoring and reporting risks within the Company;
- Evaluated the Company's principal risks and key emerging risks;
- 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 a number of "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
- Help ensure that 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 the assessment of the effectiveness of risk management, and reports to Audit Committee on a regular basis. Key findings and recommendations for improvement and implementation are reported to the Audit Committee regularly.

The Board and the Audit Committee reviewed the Company's top and emerging risks, and conducted an annual review on 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 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-compliances.

To ensure the efficient and effective operation of our growing business units and functions, relevant internal control policies and procedures, committees as well as working groups are established 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 understanding enhanced by staff communications and training.

The Audit Committee is delegated with overseeing the effectiveness of internal controls, while the 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, Directors, executives, and senior staff, such as delegation of authority, approval of annual and mid-year budgets for all capital and revenue items, handling and dissemination of inside information<sup>1</sup>, etc., have been put in place. Management also reviews, updates and improves the internal control system to meet anticipated future challenges.

<sup>1</sup> The Company takes proactive precautionary measures in handling and dissemination of inside information. Such information is restricted to a need-to-know basis. The Company has adopted a policy on disclosure of inside 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 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 support 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 would report or perform relevant investigations if fraud or irregularities are uncovered or suspected.

In 2016, quarterly meetings were held for the Audit Committee 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 had 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 2016. 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, 2016, the Board concluded that effective and adequate internal control and risk management systems had been in operation.

The level of resources, staff qualifications and experience, training programs, and budget of the Company's internal audit and 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 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 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. All reported cases are addressed to the Head of Internal 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. The Company has also set up an e-mail account (whistleblowing@hanglung.com) for this purpose.

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. In 2016, more than 96,900 training hours were delivered to our employees, of which 193 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 and our subsidiaries and associated companies.

#### 4. Auditors' Remuneration

KPMG was re-appointed as our external auditor by shareholders at the 2016 AGM until the conclusion of the 2017 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, 2016 HK\$ (in million)	Year ended December 31, 2015 HK\$ (in million)
Statutory audit services	12	12
Non-audit services	4	7





## (V) Communication with Stakeholders

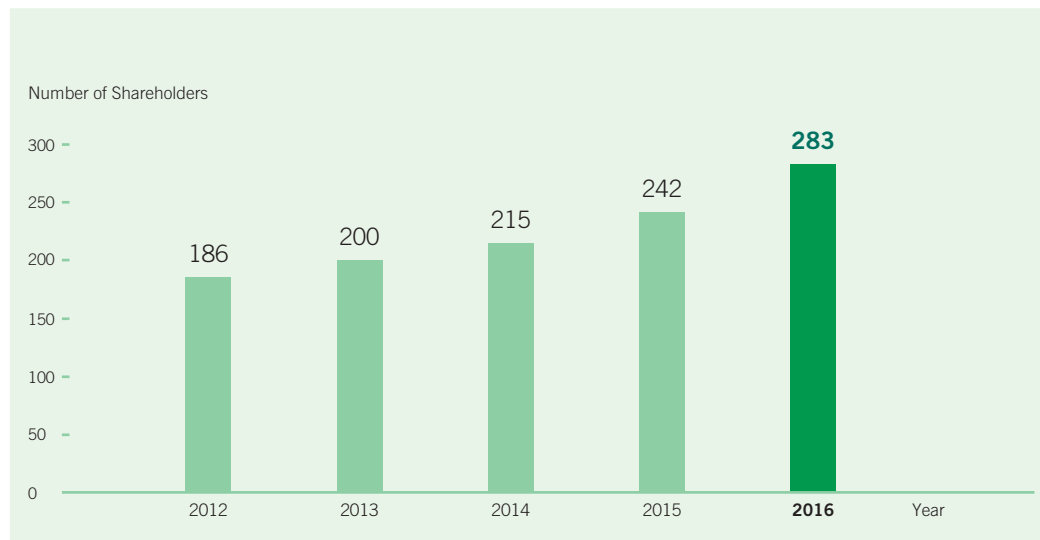
### 1. Shareholders

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.

#### AGMs

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



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.

### *2016 AGM*

Our last AGM was held on April 28, 2016 at Grand Ballroom, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong. The meeting was attended by 283 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. All of the resolutions tabled at the 2016 AGM, including the adoption of the financial statements, the re-election of Directors, the re-appointment of the auditor, and the renewal of general mandates 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 in 2016 and the Articles of Association is available on our website and the website of HKEx.

The Board confirms that there are no changes proposed to the Articles of Association at the forthcoming AGM to be held on April 27, 2017. 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, 2017, and the AGM, are expected to be held in around late July 2017, late January 2018, and in April 2018 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](mailto: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](mailto:ir@hanglung.com).





### *Procedure for Shareholders to Propose a Person for Election as a Director*

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 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 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 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 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, 2016 are as follows:

Domicile	Shareholders		Shareholdings	
	Number	%	Number of Shares	%
Hong Kong	1,991	97.84	978,233,709	71.84
Mainland China	7	0.34	138,375	0.01
Macau	4	0.20	116,075	0.01
Taiwan	2	0.10	2,874	0.00
Australia and New Zealand	4	0.20	18,200	0.00
Canada and United States of America	16	0.78	130,423	0.01
South East Asia	1	0.05	33,000	0.00
United Kingdom	3	0.15	5,758	0.00
Others	7	0.34	382,939,828	28.13
<b>TOTAL</b>	<b>2,035</b>	<b>100.00</b>	<b>1,361,618,242</b>	<b>100.00</b>

Details of shareholders by holding range as at December 31, 2016 are as follows:

Holding Range	Shareholders*		Shareholdings*	
	Number	%	Number of Shares	%
1 - 1,000 shares	459	22.56	232,670	0.02
1,001 - 5,000 shares	692	34.00	2,095,012	0.16
5,001 - 10,000 shares	335	16.46	2,769,990	0.20
10,001 - 100,000 shares	505	24.82	13,798,547	1.01
Over 100,000 shares	44	2.16	1,342,722,023	98.61
<b>TOTAL</b>	<b>2,035</b>	<b>100.00</b>	<b>1,361,618,242</b>	<b>100.00</b>

\* incorporating, in their respective shareholdings range, 263 participants of Central Clearing and Settlement System holding a total of 810,391,887 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 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, corporate brochures, newsletters, details of major corporate events, and frequently asked questions.

## MOVING FORWARD

As a long-term player, Hang Lung will continue to strive to live up to its motto, 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 corporations in Greater China.

