

# Audit and Risk Management Committee Report

## Dear Shareholders,

We are pleased to present the Committee's report, which provides an overview of the works undertaken by the Committee during the year. The Committee continues to play a key role to assist the Board in reviewing the risk management and internal control systems, monitoring internal and external auditors and overseeing the financial reporting process, as part of the overall strategy-setting of the Group. In February 2019, the Committee was renamed the "Audit and Risk Management Committee" from the "Audit Committee" to reflect and emphasize its ongoing role of evaluating, overseeing and monitoring the Group's risk appetite, profile and tolerance. In February 2019, the terms of reference were at the same time updated to embrace the Committee's key objectives on risk management.

## Composition

Majority are Independent Non-Executive Directors

## Committee Members

Poon Chung Yin Joseph\* (Chairman)

Churchouse Frederick Peter\*

Fan Yan Hok Philip\*

Lee Anthony Hsien Pin

\* Independent Non-Executive Director

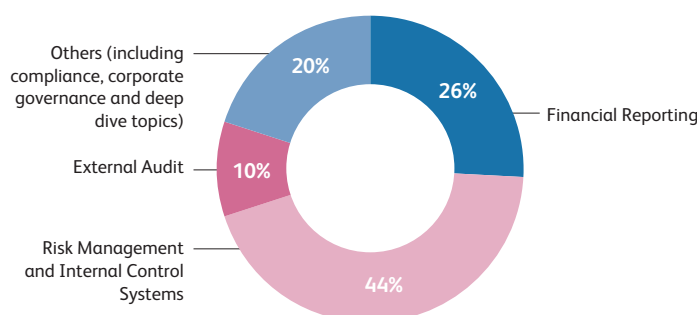
## Highlights in 2019

- Engaged an external professional and evaluated the Group's cyber risk
- Reviewed the Group's privacy compliance updates
- Reviewed the Corporate Disclosure Policy and framework
- Reviewed the Group's risk appetite framework
- Reviewed the Group's crisis management protocol
- Reviewed the Group's corporate structure to address new business operations and risk management
- Reviewed internal control process on share dealing and share repurchase

## Key responsibilities

- Oversee the integrity of the Group's financial management and reporting processes
- Review the major risks identified and monitor the effectiveness of risk management and internal control systems
- Review the risk management and internal control framework
- Oversee the relationship with the external auditor and provision of non-audit services

## Audit and Risk Management Committee activities and agenda time during the year



## Meetings Schedule

Starting from 2019, the Audit and Risk Management Committee has held an additional meeting (making a total of 4 meetings during the year) to address dynamic risks and enhance the risk management oversight function. By the invitation of the Audit and Risk Management Committee, the Board Chairman and members of management (including the Chief Operating Officer and the Chief Financial Officer), internal auditor, external auditor and external valuer (as appropriate) attend the meetings to present and answer relevant questions and to facilitate the Committee's decision-making process. Pre-meeting sessions with external and internal auditors are held without management's presence.

- Review the effectiveness of the Company's internal audit function.
- Oversee the Company's relationship with the external auditor.
- Report to the Board on its findings after each Audit and Risk Management Committee meeting.

## Activities

Details on the meeting held in February 2019 were set out in the 2018 Annual Report.

From March 2019 to February 2020, the Audit and Risk Management Committee held 4 meetings to:

## Roles and Authorities

- Oversee the Group's financial management and reporting processes and monitor the works carried out by the external auditor. In this process, management is responsible for the preparation of the Group's financial statements including the selection of suitable accounting policies. The external auditor is responsible for auditing and attesting to the Group's financial statements and evaluating the Group's system of internal controls in such regard. Formal statements of Directors' Responsibility for the Financial Statements are contained in "Financial Statements, Valuation and Other Information" of this Annual Report.
- Review the Company's risk management and internal control systems.
- Review reports on major risks the Group is facing.
- Review the adequacy of resources, qualifications and experience of staff of the Group's internal audit, accounting and financial reporting functions, as well as their training programmes and budget.
- Review the Group's Whistleblowing Policy with an extended application coverage and enhanced reporting procedures. Under this policy, employees and related third parties who deal with the Group (e.g. consultants, contractors, suppliers, agents and customers) can raise concerns, in confidence or anonymously, about misconduct, malpractice or irregularities in any matters related to the Group. The Audit and Risk Management Committee ensures that the concerns raised are investigated and followed up as appropriate.

## Financial Reporting

- Review and discuss with management and the external auditor, as well as recommend to the Board to approve, the unaudited financial statements for the first 6 months ended 30 June 2019; the audited financial statements for the year ended 31 December 2019; and the Independent Auditor's Report for the year ended 31 December 2019, prior to their publication based on the external auditor's review work and the following:
  - Discuss with the external auditor and internal auditor the scope of their respective review and findings.
  - Discuss with management significant parameters and judgments affecting the Group's financial statements, including valuation of investment properties as at 30 June 2019 and 31 December 2019 by the independent professional valuer, Knight Frank Petty Limited.
  - Review with both management and the external auditor the Key Audit Matters included in the Independent Auditor's Report for the year ended 31 December 2019.

### Review of Risk Management and Internal Control Systems

- Evaluate the Group's enterprise-wide cyber risks. An independent team of Deloitte Touche Tohmatsu was engaged as part of our digital new service pre-launch due diligence. Following the assessment and evaluation of the Group's enterprise-wide cyber security management, the Group adopted the IT Outsourcing Management Policy and Procedure, and the Cloud Services Policy and Procedure, and conducted an intrusion test on its IT systems to strengthen cyber security management. A Key Risk Indicator framework is also in place to incorporate cyber risk assessment into our daily operations.
- Review the Group's privacy compliance updates.
- Review the Corporate Disclosure Policy and framework.
- Review the Group's risk appetite framework, and identify the key corporate risks, including overall business environment, operational risks, ESG risks and compliance, etc., with the tone being set by senior management. Consider the key imminent risks and risk registers presented by the management.
- Review the Group's crisis management protocol managing the impact of social unrest in 2019.
- Review and assess the Group's corporate structure in relation to new business operations and risk management, and respond to new regulatory requirements.
- Review internal control measures on share dealing and share repurchase, and enhance the Code for Securities Dealing by Directors and employees.
- Review the company-wide corporate disclosure training programme as one of the internal control measures to raise awareness and provide guidance to employees when making proper and timely decisions on disclosure.
- Review the property market trends of the retail, office and residential sectors presented by an independent professional valuer, Knight Frank Petty Limited.
- Endorse the enhanced Code of Ethics, which extends to joint ventures, contractors and suppliers working for the Company whom are encouraged to follow this Code of Ethics.
- Review the adequacy of resources, qualifications and experience of staff of the internal audit, accounting and financial reporting functions, and their training programmes and budget.
- Review the adequacy of resources for ESG performance and reporting.
- Review the whistleblowing reports. No material issues were raised during the year.
- Review the legal and regulatory updates/trends that may affect the Group and their implications.
- Review 2019 annual risk management and internal control systems based on:
  - reports of the Internal Audit on the review of the Company's continuing connected transactions for the year ended 31 December 2019, as well as the adequacy and effectiveness of the related internal control procedures
  - regular reports by management of major risks, risk level movement and mitigating actions, and special reports on selected major risk items detailed above
  - regular reports of the Internal Audit, including status of implementation of its recommendations
  - certification and confirmation of controls' effectiveness by management, covering financial, operational and compliance controls, ESG compliance, internal audit, risk management and internal controls, noting the adoption of a control self-assessment questionnaire across the operating departments
  - confirmation from the external auditor that it had not identified any control weaknesses in respect of the Group's financial reporting cycle during the course of its audit.

The Audit and Risk Management Committee was satisfied as to the adequacy and effectiveness of the Company's risk management and internal control systems (including the adequacy of resources, qualifications and experience of staff of the Group's accounting, financial reporting and internal audit functions, their training programmes and budget as well as the adequacy of resources for ESG performance and reporting). No significant areas of concern that might affect financial, operational and compliance controls, ESG compliance, internal audit, risk management and internal controls functions were identified.

## External Auditor

- Review and consider the terms of engagement of the external auditor in respect of the 2019 final results (including 2019 annual audit, the related results announcement, and annual review of continuing connected transactions) and the annual update of the Group's MTN Programme.
- Review the audit progress report of the external auditor.
- Annually assess and declare satisfaction with the auditor's qualifications, expertise and services, including independence. This is performed through review of the management's detailed assessment of the independence, quality of service, level of remuneration and annual confirmation of auditor's independence issued by the external auditor.

In particular, the assessment was satisfied that the auditor's independence and objectivity have not been impaired by reason of the provision of non-audit services. All services were pre-approved by the Audit and Risk Management Committee. Appropriate policies and procedures have been established to identify audit and non-audit services as well as prohibited non-audit services that impair the independence of the auditor. Deloitte Touche Tohmatsu confirmed its independence with regard to the non-audit services provided. A rotation arrangement for the lead audit partner was also established and implemented by the auditor. The lead audit partner is required to comply with professional ethics and independence policies and requirements applicable to the work performed.

## External Auditor's Services and Fees

	2019 HK\$ million	2018 HK\$ million
Audit Services	2.9	2.9
Non-audit Services (Note)	2.5	1.5
Total	5.4	4.4

Note:

"Non-audit services" include review and consultancy services, agreed-upon-procedures reports, statutory compliance, regulatory or government procedures required to comply with financial, accounting or regulatory report matters.

- Review and consider the 2020 audit service plan of the external auditor, and the terms of its engagement in respect of the 2020 interim results review.
- Recommend to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditor for 2020.

## Internal Audit

- Review the internal audit plan, any matters identified as a result of internal audits, and management responses to audit reports issued during the year; as well as the progress made in implementing improvement actions.
- During 2019, the internal audit plan included reviews of leasing business, accounting and financial reporting practice, and corporate communications process, etc. No significant issues were raised during the review.
- Consider and approve the scope of work to be undertaken by the Internal Audit function in 2020. During 2020, it is expected that the internal audit plan will include reviews of leasing business, marketing, information technology management practice, etc.

Members' attendance records are disclosed in the table on page 57.

## Evaluation

The Board and Committee evaluation process, which took place during the year, concluded that the Audit and Risk Management Committee was effective in fulfilling its roles in 2019. For details, please refer to Corporate Governance Report – "Board Evaluation 2019" (from pages 58 to 59).

Members of the Audit and Risk Management Committee

**Poon Chung Yin Joseph** (Chairman)  
**Churchouse Frederick Peter**  
**Fan Yan Hok Philip**  
**Lee Anthony Hsien Pin**

Hong Kong, 20 February 2020