

Audit and Risk Management Committee Report

Dear Shareholders,

We are pleased to present the Audit and Risk Management Committee's report for 2020, which provides an overview of the work undertaken by the Committee during the year. In 2020, the Committee continued to focus on reviewing the Group's risk management and internal control systems, monitoring internal and external auditors and overseeing the financial reporting process. The most significant topics considered by the Committee during the year included rigorous assessment of the Group's enhanced risk management and internal control systems, major risks relating to digital technology projects and the impact of COVID-19.

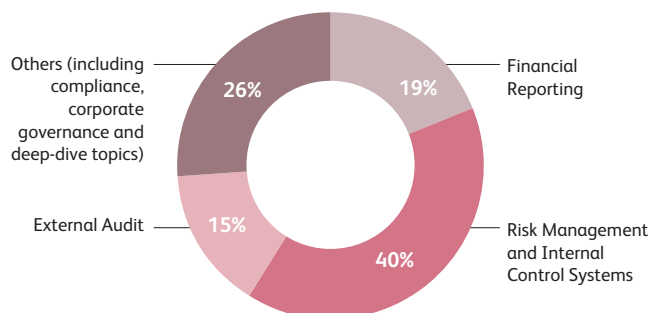
Highlights in 2020 and 2021

- Assessed the Group's risk management and internal control (including its new enhanced three-dimensional risk management framework) and refined the risk management model in order to identify, assess and monitor emerging risks
- Reviewed major risks relating to digital technology projects and the business impact of COVID-19
- Reviewed the Tax Governance Policy
- Reviewed a separate Anti-Fraud Policy
- Updated the Terms of Reference

Key responsibilities

- Oversee the integrity of the Group's financial management and reporting processes and the preparation of financial statements
- Review the risk management and internal control framework
- Review the effectiveness and adequacy of the risk management and internal control systems
- Review the major identified risks
- Assess and determine the risk appetite of the Group
- Oversee the Internal Audit
- Oversee the relationship with the external auditor and the provision of non-audit services

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



Composition

The majority of the Committee is comprised of 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

Meeting Schedule

The Audit and Risk Management Committee held four meetings during the year, with one of those meetings specifically focused on addressing dynamic risks and enhancing the risk management oversight function. The Board Chairman and management members (including the Chief Operating Officer and Chief Financial Officer), internal auditor, external auditor and external valuer (as appropriate) attend the meetings by invitation to present updates and answer relevant questions, and thus facilitate the Committee's decision-making process. Pre-meeting sessions with external and internal auditors are held without the management's presence at least twice a year.

Roles and Authorities

- Oversee the Group’s financial management and reporting processes and monitor the work carried out by the external auditor. Within this process, the management is responsible for the preparation of the Group’s financial statements, including the selection of suitable accounting policies, while 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 this regard. Formal statements of Directors’ Responsibility for the Financial Statements are contained in “Financial Statements, Valuation and Other Information” section of this Annual Report.
- Review the Company’s risk management and internal control systems.
- Review reports on major risks faced by the Group.
- Review adequacy of resources and staff qualifications and experience in the Group’s internal audit, accounting and financial reporting functions, as well as their training programmes and budget.
- Review the Group’s Whistleblowing Policy. 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.
- Review the Anti-Fraud Policy. This is a separate policy to further promote an ethical culture and emphasize our “zero tolerance” attitude to fraud.
- 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 of the meeting held in February 2020 were set out in the 2019 Annual Report.

From March 2020 to February 2021, the Audit and Risk Management Committee held four meetings to:

The Audit and Risk Management Committee Over the Past 12 Months

May 2020 meeting	Report from Internal Audit 3-year Internal Audit Plan “Deep-dive” topic Legal and regulatory update
August 2020 meeting	Interim results Property valuations External auditor report Risk management review Report from Internal Audit Legal and regulatory update
November 2020 meeting	External audit progress report Report from Internal Audit Risk management review Annual review of adequacy of resources Corporate governance policies and Committee terms of reference Legal and regulatory update
February 2021 meeting	Annual results Property valuations Annual review of risk management and internal control effectiveness Effectiveness and independence of external auditor External audit completion report External audit plan for 2021 Annual review of continuing connected transactions Legal and regulatory update



Financial Reporting

- Review and discuss with management and the external auditor, and recommend for approval to the Board, the unaudited financial statements for the first six months ended 30 June 2020; the audited financial statements for the year ended 31 December 2020; and the Independent Auditor's Report for the year ended 31 December 2020, prior to their publication. The Committee's review and recommendations were based on the external auditor's review work, as well as the following:
 - Discussions with the external auditor and internal auditor regarding the scope of their respective reviews and findings.
 - Discussions with management regarding significant parameters and judgments affecting the Group's financial statements, including the valuation of investment properties as at 30 June 2020 and 31 December 2020 by the independent professional valuer, Knight Frank Petty Limited.
 - A joint review with both management and the external auditor of the Key Audit Matters included in the Independent Auditor's Report for the year ended 31 December 2020.
- Consider the Group's key corporate risks, including the overall business environment, operational risks, ESG risks and compliance, etc., with the overall approach being set by senior management.
- Consider the key imminent risks and risk registers presented by the management.
- Review the methodology used by the Group's independent professional valuer, Knight Frank Petty Limited, in the valuation of its investment properties, and discuss the capitalization rate and property market outlook.
- Review adequacy of resources and staff qualifications and experience in the Group's internal audit, accounting and financial reporting functions, as well as their training programmes and budget.
- Review all legal and regulatory updates and trends that may affect the Group, and their implications.
- Review the Tax Governance Policy, which sets out the approach to tax strategy and policies across the Group.
- Review the Group's separate Anti-Fraud Policy to further promote an ethical culture and enhance the detection and prevention of fraud.
- Review the annual risk management and internal control systems performance for 2020, based on:
 - Reports from Internal Audit on the review of the Company's continuing connected transactions for the year ended 31 December 2020, as well as the adequacy and effectiveness of the related internal control procedures.
 - Regular reports by management regarding major risks, movements in risk levels and mitigating actions, as well as special reports on select major risk items (as detailed above).
 - Regular reports from Internal Audit, including the implementation status 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 control, as well as 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.

Review of Risk Management and Internal Control Systems

- Review Internal Audit findings on the following areas, with no significant issues raised during the reviews:
 - Enterprise risk management framework: the introduction of a refined risk management model and an enhanced three-dimensional risk management framework that takes into account "risk velocity" for future risk prioritization and proposes new key risk indicators
 - Digital technology projects: pre-implementation review on various initiatives, including digital marketing activities and operational systems development to enhance IT governance
 - Data privacy review
 - Leasing business
- Consider a "deep-dive" exploration into the risks relating to COVID-19 on our business and mitigating actions.
- Evaluate the financial aspects of the Group's strategy implementation.
- Consider and evaluate an in-depth assessment on enhancing indoor air quality for pandemic situation in February 2021.

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 adequacy of resources and staff qualifications and

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experience in the Group's accounting, financial reporting and internal audit functions, as well as their training programmes and budget). No significant areas of concern that might affect financial, operational and compliance controls, ESG compliance, internal audit, risk management or internal control were identified.

External Auditor

- Review and consider the terms of engagement of the external auditor in respect of the Group's 2020 final results (including the 2020 annual audit, the related results announcement, and the annual review of continuing connected transactions) and the annual update regarding its MTN Programme.
- Review the audit progress report of the external auditor.
- Carry out the annual assessment of the auditor's qualifications, expertise, services and independence, and declared its satisfaction with the same. The assessment was performed by reviewing the management's detailed assessment of the external auditor's independence, service quality and remuneration level, as well as the 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 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 might 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

	2020 HK\$ million	2019 HK\$ million
Audit Services	2.6	2.9
Non-audit Services (Note)	3.8	2.5
Total	6.4	5.4

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 2021 audit service plan of the external auditor, and the terms of its engagement in respect of the 2021 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 2021.

Internal Audit

- Review the internal audit plan regarding the key risks and business strategy of the Group; all matters identified as the result of internal audits; management responses to audit reports issued during the year, and the progress made in implementing improvement actions.
- Consider and approve the three-year audit plan undertaken by the Internal Audit function. During 2021, it is expected that the internal audit plan will include reviews of the Group's leasing business, marketing, investment and development, etc.

Members' attendance records are disclosed in the table on page 41.

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 2020. For details, please refer to Corporate Governance Report – "Board Evaluation" (page 44).

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, 25 February 2021