

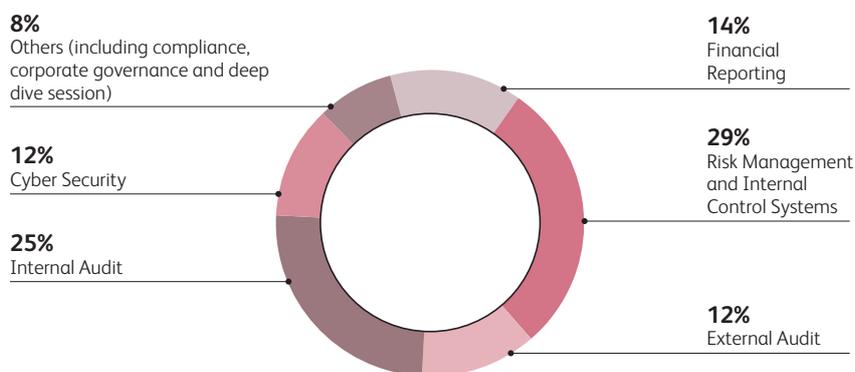
# Audit and Risk Management Committee Report

## Dear Shareholders,

We are pleased to present the report of the Audit and Risk Management Committee for 2022, which provides an overview of the works undertaken by the Committee during the year.

In 2022, the Committee continued to play a key oversight role for the Board in reviewing the Group's risk management and internal control systems, monitoring internal and external auditors, and overseeing the financial reporting process. The Committee further provided independent and impartial oversight in relation to the overall risk approach of the Group through consideration of significant topics that included rigorous assessment of the Group's enhanced risk management and internal control systems to meet the needs of new projects and operations, risks relating to COVID-19, cyber security and data privacy. Recommendations were also made on the Group's risk appetite, profile and tolerance.

## Committee activities and agenda time during the year



<b>Composition in 2022</b>	<p>Poon Chung Yin Joseph* (Chairman)</p> <p>Churchouse Frederick Peter*</p> <p>Fan Yan Hok Philip*</p> <p>Lee Anthony Hsien Pin</p> <p>* INED</p>
<b>Independence Weighting</b>	75 %
<b>Meeting Schedule</b>	<ul style="list-style-type: none"> <li>• Four meetings were held during the year, with two of those meetings specifically focused on addressing dynamic risks (including cyber security) and enhancing the risk management oversight function.</li> <li>• Two pre-meeting sessions were held with external and internal auditors, without the presence of the management, to further facilitate open dialogue and assurance.</li> </ul>
<b>Highlights in 2022 and 2023</b>	<ul style="list-style-type: none"> <li>• Strengthened corporate policies and procedures for risk management.</li> <li>• Conducted a procurement control review on development projects and major asset enhancement projects.</li> <li>• Enhanced the Group's data privacy management.</li> <li>• Ongoing monitoring and enhancement of internal controls in accordance with the Listing Rules' requirements.</li> <li>• Conducted a technical infrastructure security review.</li> <li>• Reviewed media policy and practices.</li> </ul>

## ROLES AND AUTHORITIES

The Audit and Risk Management Committee's main roles and authorities are to:

- Oversee the Group's financial management and reporting processes and monitor the work carried out by the external auditor;
- Review the Company's risk management and internal control systems;
- Assess and review the risk appetite of the Group;
- Review reports on major risks faced by the Group;
- Review resource adequacy and staff qualifications, skillsets and experience in the Group's internal audit, accounting, and financial reporting functions, as well as their training programmes and budget;
- Review and ensure adequacy of corporate policies and procedures and effectiveness of the Group's compliance framework;
- Review the effectiveness of the Company's internal audit function; and
- Oversee the Company's relationship with the external auditor and provision of non-audit services.

## ACTIVITIES

Details of the meeting held in February 2022 were set out in the 2021 Annual Report.

From March 2022 to February 2023, the Audit and Risk Management Committee held four meetings. The Board Chairman and management members (including the ED&COO, CFO&CS and Group Financial Controller), internal auditor, external auditor and independent professional valuer (as appropriate) presented updates and answered relevant questions to facilitate the Committee's decision-making process. Details of matters discussed in the meetings are given below.

### The Audit and Risk Management Committee Over the Past 12 Months

May 2022 meeting	August 2022 meeting	November 2022 meeting	February 2023 meeting
<ul style="list-style-type: none"> <li>• Internal Audit Report</li> <li>• Proposed Data Privacy Management Procedures</li> <li>• Property Valuations</li> <li>• Legal and Regulatory Update</li> </ul>	<ul style="list-style-type: none"> <li>• Interim Results</li> <li>• Internal Audit Report</li> <li>• External Auditor Report</li> <li>• Cyber Security</li> <li>• Legal and Regulatory Update</li> </ul>	<ul style="list-style-type: none"> <li>• External Audit Progress Report</li> <li>• Internal Audit Report</li> <li>• Review of Annual Risk Management Result</li> <li>• Cyber Security</li> <li>• Annual Review of Adequacy of Resources</li> <li>• Legal and Regulatory Update</li> </ul>	<ul style="list-style-type: none"> <li>• Annual Results</li> <li>• Internal Audit Report</li> <li>• Property Valuations</li> <li>• Annual Review of Risk Management and Internal Control Effectiveness</li> <li>• Effectiveness and Independence of External Auditor</li> <li>• External Audit Completion Report</li> <li>• External Audit Plan For 2023</li> <li>• Annual Review of Continuing Connected Transactions</li> <li>• Legal and Regulatory Update</li> </ul>

### FINANCIAL REPORTING

The Audit and Risk Management Committee reviewed and discussed with management and the external auditor, and recommended for approval to the Board, the unaudited financial statements for the first six months ended 30 June 2022, the audited financial statements for the year ended 31 December 2022, and the Independent Auditor's Report for the year ended 31 December 2022, prior to their publication.

Within this process, the management is responsible for the preparation of the Group's financial statements, including the selection and application of appropriate 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 the "Corporate Governance Report" of this Annual Report.

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 2022 and 31 December 2022 by the independent professional valuer, Knight Frank Petty Limited; and
- 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 2022.

### REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Key initiatives in relation to our review of risk management and internal control systems during the year are given below:

#### Corporate Policies and Procedures

We strengthened and set out clear guideline for policy owners for the establishment and ongoing review of corporate policies and procedures, in order to ensure these policies and procedures adequately address the business and strategic developments and mitigate the relevant emerging risks.

We adopted the Anti-Bribery and Corruption Policy, a new and separate policy to reinforce and expand Hysan's existing anti-corruption system and practices.

We reviewed 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.

We reviewed the Anti-Fraud Policy. This is a separate policy to further promote an ethical culture and emphasize our "zero tolerance" attitude to fraud.

#### Procurement Control Review

We strengthened the risk management approach for the procurement process of development projects as the Group continues to execute several strategic developments such as the Caroline Hill Road Site Project and major asset enhancement projects.

Reviews were conducted to strengthen the procurement control process of selected functions. Procurement policies were updated to address specific functional needs and with a fraud-risk focus.

#### Data Privacy

We established a Data Privacy Management Group to oversee the data privacy risks and control system of the Group.

We also enhanced the Group's data privacy management procedures, setting out clear guidelines on data collection, access, data inventory maintenance, internal and external communication, and incident response protocols.

A newly developed *Data Privacy Handbook* was circulated to all employees in order to build awareness of handling personal information and ensure data privacy management procedures are followed in all functional areas.

We conducted a Personal Data Privacy Compliance Review to evaluate our compliance with relevant privacy laws in respect of the personal data collected through the Group's operations.

### Internal Controls

With the acquisition of Lee Gardens Shanghai, the Group extended and implemented our corporate policies and financial and operational controls in our Shanghai office to ensure it complies with the Group's policies on corporate governance, risk management and internal controls, while also addressing risks specific to the local operations in Shanghai.

We continued our ongoing monitoring and enhancement of internal controls in accordance with Listing Rules' requirements.

### Technical Infrastructure Security Review

We engaged a professional service provider to conduct an in-depth security review and penetration tests of the Group's technical infrastructure. Potential vulnerability issues were highlighted to guide the strengthening of network protections.

### Media Policy and Practices

We reviewed the Group's Corporate Communications operation, strengthening awareness and practices with regard to dissemination of information to the public via traditional and social media.

In addition, the Audit and Risk Management Committee

- Evaluated the financial aspects of the Group's strategy implementation;
- Considered the Group's key corporate risks, including the overall business environment, operational risks, ESG risks and compliance, with the overall approach set by senior management;
- Considered the key imminent risks and risk registers presented by the management;
- Reviewed all legal and regulatory updates and trends that may affect the Group and their implications;
- Reviewed the methodology used by the Group's independent professional valuer, Knight Frank Petty Limited, in the valuation of its investment properties and discussed the key judgements made by the valuer;
- Reviewed resource adequacy and staff qualifications and experience in the Group's internal audit, accounting and financial reporting functions, as well as their training programmes and budget; and
- Reviewed the annual risk management and internal control systems performance for 2022, based on the following:
  - Reports from the GIA on the review of the Company's continuing connected transactions for the year ended 31 December 2022, as well as the adequacy and effectiveness of the related internal control procedures;
  - Regular reports from management regarding major risks, movements in risk levels and mitigating actions, as well as special reports on major risk items identified (as detailed above);
  - Regular reports from the GIA, 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; and
  - Confirmation from the external auditor that it had not identified any control weaknesses in respect of the Group's financial reporting cycle during its audit.

## CYBER SECURITY

The Audit and Risk Management Committee recognizes the importance of cyber security and was particularly focused on understanding and monitoring the progress of various initiatives, including the key enhancement, gap analysis and effectiveness of measures during the year.

The topic of cyber security has been a regular item on the Committee's meeting agenda, and the Committee dedicated substantial time in numerous discussions on this issue in the August and November Committee meetings. After considering the update from management, the Committee was satisfied that the current cyber security system is adequate and fit for purpose as assessed by external professional experts. It also emphasized the importance of raising staff awareness and alertness of cyber security with more targeted training.

## Audit and Risk Management Committee Report

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 resource adequacy and staff qualifications and 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, cyber security, internal audit, risk management or internal control were identified.

### THE FOLLOWING MEASURES ARE IN PLACE TO ENSURE THE INDEPENDENCE OF EXTERNAL AUDITORS:

- Detailed assessment of the external auditor's independence, service quality and remuneration level;
- Annual confirmation of the auditor's independence issued by the external auditor;
- A rotation arrangement for the lead audit partner was established and implemented by the external auditor;
- The lead audit partner is required to comply with professional ethical standards and independence policies and requirements applicable to the work performed;
- All non-audit 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. The external auditor confirmed its independence with regard to the non-audit services provided.

A summary of external auditor's services and fees for the years ended 31 December 2022 and 2021 is as follows:

	2022 HK\$ million	2021 HK\$ million
Audit Services	3.1	2.8
Non-audit Services		
– Recurring (Note a)	1.0	1.0
– One-time transactional		
• Technology services (Note b)	6.2	–
• Other services (Note c)	0.4	0.9
Total	10.7	4.7

Notes:

(a) Recurring services include review, statutory compliance, regulatory or government procedures required to comply with financial, accounting or regulatory report matters.

(b) Technology services include system integration and application management services for the customer relationship management platform.

(c) Other services include major transaction compliance and compliance of proposed offering of guaranteed note.

## EXTERNAL AUDITOR

The Group engages Deloitte Touche Tohmatsu as the external auditor of the Company and regards their independence as crucial to the effectiveness of our corporate governance. In overseeing the Group's relationship with the external auditor and ensuring its independence, the Audit and Risk Management Committee:

- Reviewed and considered the terms of engagement of the external auditor in respect of the Group's 2022 results (including the 2022 annual audit, the related results announcement, and the annual review of continuing connected transactions) and the annual update regarding its MTN Programme;
- Reviewed the audit progress report of the external auditor;
- Reviewed the annual assessment of the auditor's independence, qualifications, expertise, and services, and remained satisfied with the same.

- Reviewed and considered the 2023 audit service plan of the external auditor and the terms of its engagement in respect of the 2023 interim results review; and
- Recommended to the Board that the Shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditor for 2023.

The Audit and Risk Management Committee and the Group were satisfied that the auditor's independence and objectivity were not in any way impaired by the provision of non-audit services.

## INTERNAL AUDIT

The Audit and Risk Management Committee reviewed the internal audit plan regarding the key risks and business strategy of the Group, details of specific significant internal audit findings, management responses to audit reports issued during the year, and regular reports on implementation status. Following the Group's three-year audit plan, Internal Audit continuously conducted projects that highlighted control gaps for management rectification. Audit findings were presented via audit reports, including management responses regarding the status of subsequent follow-up and implementation.

## 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 2022. For details, please refer to the "Board Evaluation" section of the Corporate Governance Report (pages 68 to 70).

Members' attendance records are disclosed in the table on page 67.

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, 17 February 2023