

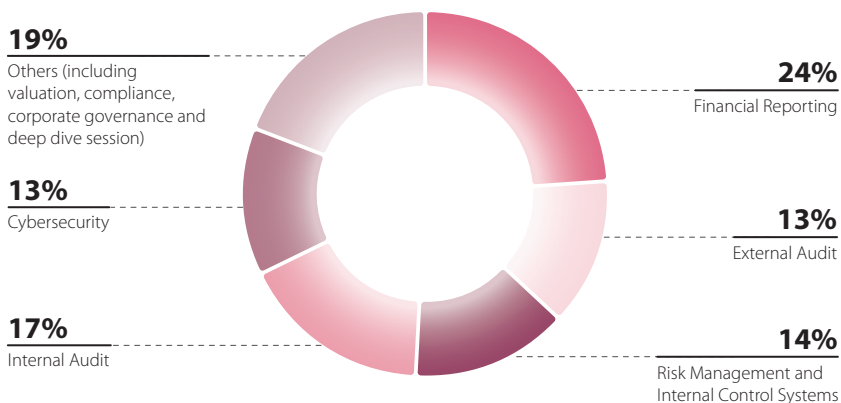
# Audit and Risk Management Committee Report

## Dear Shareholders,

We are pleased to present the report of the Audit and Risk Management Committee for 2023, which provides an overview of the works undertaken by the Committee during the year.

In 2023, 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. Recommendations were also made on the Group's risk appetite, profile and tolerance.

### Committee activities and agenda time during the year



<b>Composition in 2023</b>	Poon Chung Yin Joseph* (Chairman) Churchouse Frederick Peter* Fan Yan Hok Philip* Lee Anthony Hsien Pin  * INED
<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 cybersecurity) 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 2023 and 2024</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 risk management and internal control systems in accordance with the Listing Rules requirements.</li> <li>Strengthened governance and monitoring of capital and financial management.</li> <li>Reviewed and updated Anti-Fraud Policy.</li> <li>Reviewed and updated its terms of reference.</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 and assess 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 2023 were set out in the 2022 Annual Report.

From March 2023 to February 2024, the Audit and Risk Management Committee held four meetings. The Board Chairman and senior management (including the ED & COO, CFO and Group Financial Controller), internal auditor, external auditor and independent professional valuer presented updates and answered relevant questions to facilitate the Committee’s decision-making process. Details of matters discussed in the meetings are given below.

### Meeting of the Audit and Risk Management Committee Over the Past 12 Months

May 2023	August 2023	November 2023	February 2024
<ul style="list-style-type: none"> <li>• Internal Audit Report</li> <li>• Cybersecurity</li> <li>• Deep-dive on business risks and challenges</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>• Legal and Regulatory Update</li> </ul>	<ul style="list-style-type: none"> <li>• External Audit Progress Report</li> <li>• Property Valuations</li> <li>• Internal Audit Report</li> <li>• Annual Review of Risk Assessment and Results</li> <li>• Cybersecurity</li> <li>• Annual Review of Adequacy of Resources</li> <li>• Review and update of Anti-Fraud Policy</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 2024</li> <li>• Annual Review of Continuing Connected Transactions</li> <li>• Review and update of its terms of reference</li> <li>• Legal and Regulatory Update</li> </ul>

# Audit and Risk Management Committee Report

## FINANCIAL REPORTING

The Audit and Risk Management Committee reviewed and discussed with management and the external auditor, and recommended to the Board for approval, the unaudited financial statements for the first six months ended 30 June 2023, the audited financial statements for the year ended 31 December 2023, and the Independent Auditor's Report for the year ended 31 December 2023, prior to their publication.

Within this process, 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 2023 and 31 December 2023 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 2023.

## 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 guidelines for policy owners regarding the establishment and ongoing review of corporate policies and procedures. This ensures these policies and procedures adequately address the business and strategic developments and mitigate the relevant emerging risks.

The Anti-Fraud Policy, as a separate policy designed to further promote an ethical culture and emphasize Hysan's "zero tolerance" attitude towards fraud, has been reviewed and updated in 2023. The Anti-Bribery and Corruption Policy, adopted in 2022, is another distinct policy that reinforces and expands our existing anti-corruption systems and practices.

We also conducted an annual review of 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 appropriately.

### Procurement Control Review

We strengthened the risk management approach to 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 initiatives.

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 prevention 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 in order to build awareness of handling personal information and ensure data privacy management procedures are followed in all functional areas.

The Company also conducted a comprehensive data privacy compliance review across major business and supporting units (including the newly established Shanghai operation) on their compliance with the applicable privacy laws as well as our relevant corporate policies and statements in the collection, use, storage and retention of personal data. All employees were also required to complete mandatory annual training in data privacy to refresh their knowledge and understanding of data privacy practices and regulations. The Company's unwavering commitment and efforts in data privacy protection were honoured with a Gold Award at the "Privacy-Friendly Awards 2023" organized by the Office of the Privacy Commissioner for Personal Data.

## Internal Controls

With the acquisition of Lee Gardens Shanghai, the Group extended and implemented our corporate policies, as well as financial and operational controls in our Shanghai office to ensure compliance 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.

## Capital and Financial Management

To address the heightened risks associated with a weak economic environment, the Group's capital commitment to major construction projects and the elevated interest rate environment, we enhanced our monitoring and control process for managing our capital and financing structures. The management (i) continuously monitors the Company's credit metrics, cash deployment, funding plan, liquidity buffers, and funding costs, (ii) takes appropriate action in view of the market environment and outlook, and (iii) provides quarterly and ad hoc reports to the Board.

## Media Policy and Practices

We regularly 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 and 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

# Audit and Risk Management Committee Report

- Reviewed the annual risk management and internal control systems performance for 2023, based on the following:
  - Reports from the GIA on the review of the Company's continuing connected transactions for the year ended 31 December 2023, 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.

## INFORMATION SECURITY

The Audit and Risk Management Committee places great emphasis on information security and has a primary oversight responsibility for cybersecurity risks. The topic of information security has been a regular item on the Committee's meeting agenda in the May and November Committee meetings. During the meetings, senior management provided regular updates on matters relating to information security of the Group, including regular reviews and assurance on the security of the infrastructure and updates on system enhancements. The Committee dedicated substantial time in numerous discussions on this issue.

### 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 to identify and mitigate cybersecurity risks. Potential vulnerability issues were highlighted to guide the strengthening of network protections.

During the year, the Committee also undertook ongoing review of the information system to ensure that the current cybersecurity system meets the necessary standards and requirements to effectively safeguard the Group against cyber threats. After considering the update from management, the Committee was satisfied that the current information security system is adequate and fit for purpose as assessed by external professional experts.

To enhance understanding of the importance of cybersecurity and strengthen the Company's overall security posture, all employees were mandated to attend "Cybersecurity Awareness Training" on an annual basis. A tailored Cybersecurity Awareness Training Program consisting of a series of courses covering a wide range of related topics was also provided to all employees in 2023.

### Third-Party Information Security

The Group has implemented a security policy to govern third-party suppliers who support and maintain our systems. These suppliers undergo an evaluation process and where necessary, additional security controls are implemented to safeguard our systems and user data. Furthermore, the Group conducts regular reviews to ensure that suppliers consistently adhere to our security standards. Various controls have been enforced to authorize login access during specific time slots and for legitimate reasons. Each support request is meticulously recorded to prevent any unauthorized actions during support sessions. All control processes are periodically reviewed and updated for ongoing effectiveness.

The Audit and Risk Management Committee was satisfied with 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, cybersecurity, 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;
- The award of any non-audit services provided by the Group's external auditors (and their affiliates) is subject to the Group's procurement policy which is consistent with all other third-party vendor relationships;
- All non-audit services were pre-approved by the Audit and Risk Management Committee; and
- 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 2023 and 2022 is as follows:

	2023 HK\$ million	2022 HK\$ million
Audit services	3.5	3.5
Non-audit services		
– Recurring (Note a)	0.6	0.6
– One-time transactional		
• Technology services (Note b)	7.0	6.2
• Other services (Note c)	–	0.4
<b>Total</b>	<b>11.1</b>	<b>10.7</b>

Notes:

- Recurring services include statutory compliance and regulatory or government procedures required to comply with financial, accounting or regulatory report matters.
- Deloitte Advisory (Hong Kong) Limited ("Deloitte Consulting") was appointed to provide technology services, system integration and application management for our customer relationship management ("CRM") platforms based on their demonstrated subject matter expertise in implementing similar CRM solutions, proven track record from past projects and competitive pricing presented through a rigorous tender process. To maintain Auditor's independence, the External Auditor confirmed that such technology services are provided by professionals from Deloitte Consulting who are not audit engagement team members and Deloitte Consulting did not assume any management responsibility during the provision of such services.
- Other services include assurance services required for transaction compliance (e.g. major transactions as defined by the Listing Rules and offering of guaranteed notes). Leveraging the external auditors ensures efficiency and consistent quality of the assurance exercises. It also reduces onboarding costs by utilizing the external auditors' existing institutional knowledge of the Company.

# Audit and Risk Management Committee Report

## EXTERNAL AUDITOR

The Group engaged 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 2023 results (including the 2023 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 their implementation status. Following the Group's three-year audit plan, Internal Audit continually 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 Board Committee evaluation process, which took place during the year, concluded that the Audit and Risk Management Committee was effective in fulfilling its roles in 2023. For details, please refer to the "Board Evaluation" section of the Corporate Governance Report (pages 73 to 74).

Members' attendance records are disclosed in the table on page 71.

Members of the Audit and Risk Management Committee

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

Hong Kong, 22 February 2024

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**“Led by experienced, diligent, probing chair; members are engaged.”**

Directors' comments received in Board Evaluation 2023

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