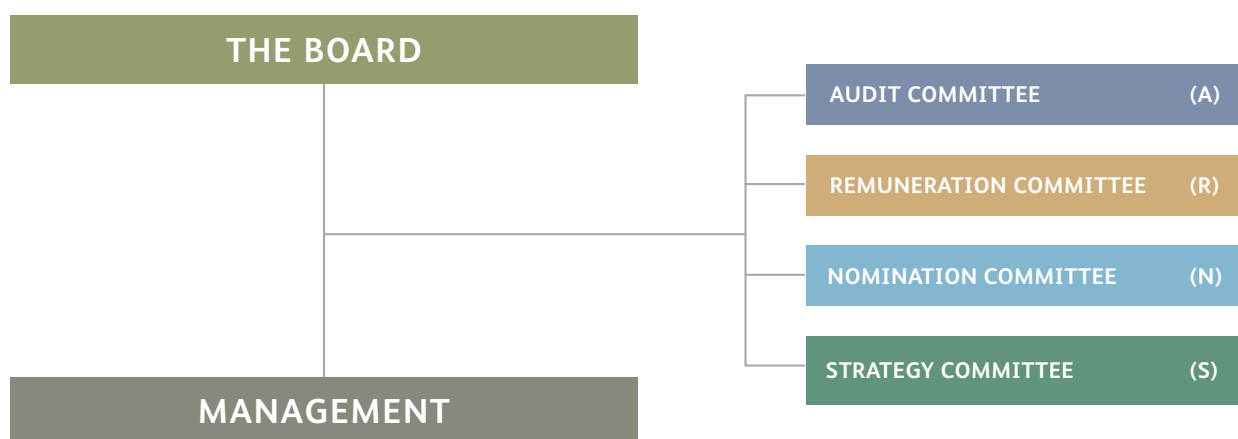


# 4 Corporate Governance

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# Board of Directors

Hysan believes that embracing strong governance is the foundation to delivering on its strategic objective of consistent and sustainable performance over the long term. At the heart of Hysan's governance structure is an effective Board that is committed to upholding strong governance principles and to reinforcing Hysan's long-established and deeply engrained corporate governance tradition and culture of accountability, transparency and integrity.



Chairman (chairing N, S)  
**Irene Yun Lien LEE**

Ms. Lee leads the Group in her executive Chairman role. Ms. Lee is an independent non-executive director of Cathay Pacific Airways Limited, CLP Holdings Limited, HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited and Noble Group Limited (listed on Singapore Exchange Limited). She has held senior positions in investment banking and fund management in a number of renowned international financial institutions. Previously, Ms. Lee was an executive director of Citicorp Investment Bank Limited in New York, London and Sydney; head of corporate finance at Commonwealth Bank of Australia and chief executive officer of Sealcorp Holdings Limited, both based in Sydney. She was also the non-executive chairman of Keybridge Capital Limited (listed on Australian Stock Exchange), a non-executive director of ING Bank (Australia) Limited, QBE Insurance Group Limited, and The Myer Family Company Pty Limited; and a member of the Advisory Council of JP Morgan Australia. Ms. Lee was formerly a member of the Australian Government Takeovers Panel. She is a member of the founding Lee family, sister of Mr. Anthony Hsien Pin LEE (Non-Executive Director) and his alternate on the Board. Ms. Lee holds a Bachelor of Arts Degree from Smith College, United States of America, and is a Barrister-at-Law in England and Wales and a member of the Honourable Society of Gray's Inn, United Kingdom. She was appointed a Non-Executive Director in March 2011, Non-Executive Chairman in May 2011, and executive Chairman in March 2012. She also serves as a director of certain subsidiaries of the Group. She is aged 63.



**Independent Non-Executive Director (A)**

**Frederick Peter  
CHURCHOUSE**

Mr. Churchouse has been involved in Asian securities and property investment markets for more than 30 years. Currently, he is a private investor including having his own private family office company, Portwood Company Ltd. He is an independent non-executive director of Longfor Properties Co. Ltd. He is also the publisher and author of “The Churchouse Letter”. In 2004, Mr. Churchouse set up an Asian investment fund under LIM Advisors. He acted as a director of LIM Advisors and as Responsible Officer until the end of 2009. Prior to this, Mr. Churchouse worked at Morgan Stanley as a managing director and advisory director from early 1988. He acted in a variety of roles including head of regional research, regional strategist and head of regional property research. He was also a board member of Macquarie Retail Management (Asia) Limited. Mr. Churchouse gained a Bachelor of Arts degree and a Master of Social Sciences degree from the University of Waikato in New Zealand. He was appointed an Independent Non-Executive Director in December 2012 and is aged 67.



**Independent Non-Executive Director (A, N, S, chairing R)**

**Philip Yan Hok FAN**

Mr. Fan is an independent non-executive director of China Everbright International Limited, First Pacific Company Limited, China Aircraft Leasing Group Holdings Limited and PFC Device Inc., and an independent director of Goodman Group. He is a member of the Asia Advisory Committee of AustralianSuper Pty Ltd (a pension fund in Australia). He was previously an independent non-executive director of HKC (Holdings) Limited and Guolian Securities Co., Ltd, and an independent director of Suntech Power Holdings Co., Ltd. (under official liquidation) and Zhuhai Zhongfu Enterprise Co. Ltd. Mr. Fan holds a Bachelor’s Degree in Industrial Engineering and a Master’s Degree in Operations Research from Stanford University, as well as a Master’s Degree in Management Science from Massachusetts Institute of Technology. He was appointed an Independent Non-Executive Director in January 2010. He is aged 67.



**Independent Non-Executive Director (N)**

**Lawrence Juen-Yee LAU**

Professor Lau is currently Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong. He serves as Chairman of the Board of Directors for The Chinese University of Hong Kong (Shenzhen) Finance Institute, aka Shenzhen Finance Institute. He is also an independent non-executive director of AIA Group Limited, CNOOC Limited and Far EasTone Telecommunications Co., Ltd. (listed on the Taiwan Stock Exchange).

Professor Lau received his B.S. degree (with Great Distinction) in Physics from Stanford University and his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley. He joined the faculty of the Department of Economics at Stanford University in 1966, and had a long and distinguished career there. Upon his retirement in 2006, he became Kwoh-Ting Li Professor in Economic Development, Emeritus, at Stanford University. From 2004 to 2010, Professor Lau served as Vice-Chancellor (President) of The Chinese University of Hong Kong. From September 2010 to September 2014, he served as Chairman of CIC International (Hong Kong) Co., Limited, a subsidiary of China Investment Corporation. Professor Lau was also a non-executive director of Semiconductor Manufacturing International Corporation.

Professor Lau is a member of the 12th National Committee of the Chinese People’s Political Consultative Conference and a Vice-Chairman of its Economics Sub-committee. He also serves as a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, Chairman of its Governance Sub-committee and member of its Currency Board Sub-committee and Investment Sub-committee, Vice-Chairman of Our Hong Kong Foundation and a member and Chairman of the Prize Recommendation Committee, LUI Che Woo Prize Company. He was appointed a Justice of the Peace in July 2007 and awarded the Gold Bauhinia Star in 2011 by the Government of the Hong Kong Special Administrative Region. He was appointed an Independent Non-Executive Director in December 2014. He is aged 72.

## Board of Directors



**Independent Non-Executive Director (R, N, S, chairing A)**  
**Joseph Chung Yin POON**

Mr. Poon is group managing director and deputy chief executive officer of a private company and an independent non-executive director of AAC Technologies Holdings Inc. He was formerly managing director and deputy chief executive of Hang Seng Bank Limited and had held senior management posts in HSBC Group and a number of international renowned financial institutions. Mr. Poon was the former chairman of Hang Seng Index Advisory Committee, Hang Seng Indexes Company Limited, a former member of the Board of Inland Revenue of Hong Kong Special Administrative Region and the Environment and Conservation Fund Investment Committee, and a former committee member of the Chinese General Chamber of Commerce. Mr. Poon holds a Bachelor of Commerce degree from the University of Western Australia, is a member of Chartered Accountants Australia and New Zealand, and the Hong Kong Institute of Certified Public Accountants. Mr. Poon is also a Fellow of the Hong Kong Institute of Directors. He was appointed an Independent Non-Executive Director in January 2010. He is aged 62.



**Non-Executive Director**  
**Siu Chuen LAU**

After serving as the Company's Deputy Chairman and Chief Executive Officer for 4 years (May 2012 – August 2016), Mr. Lau has been re-designated as Non-Executive Director with effect from the conclusion of the Board meeting of the Company held on 2 August 2016. Earlier, he has worked as the acting Head of Finance of the Company in 1999, was appointed a Non-Executive Director in May 2011 and Non-Executive Deputy Chairman in March 2012. He has also worked as a brand manager of French luxury products, management consultant at McKinsey & Company and consumer analyst at Morgan Stanley Asia. He subsequently co-founded and became a Responsible Officer of a SFC licensed investment advisory firm. Mr. Lau is a member of the founding Lee family and an alternate director of Lee Hysan Company Limited, a substantial shareholder of the Company. Mr. Lau holds a Bachelor of Social Sciences Degree in Management and Economics from The University of Hong Kong, and a Master of Business Administration Degree from INSEAD, France. He is aged 58.



**Non-Executive Director (S)**  
**Hans Michael JEBSEN**  
B.B.S.

Mr. Jebesen is chairman of Jebesen and Company Limited as well as a director of other Jebesen Group companies worldwide. He is also an independent non-executive director of The Wharf (Holdings) Limited. He was appointed a Non-Executive Director in 1994 and is aged 60.



**Non-Executive Director (A)**  
**Anthony Hsien Pin LEE**

Mr. Lee is a director and substantial shareholder of the Australian-listed Beyond International Limited, principally engaged in television programme production and international sales of television programmes and feature films. He is also a non-executive director of Television Broadcasts Limited. Mr. Lee is a member of the founding Lee family, a director of Lee Hysan Estate Company, Limited and a director of Lee Hysan Company Limited (Lee Hysan Estate Company, Limited, a wholly-owned subsidiary of Lee Hysan Company Limited, is a substantial shareholder of the Company). He is the brother of Ms. Irene Yun Lien LEE, Chairman. Mr. Lee received a Bachelor of Arts Degree from Princeton University and a Master of Business Administration Degree from The Chinese University of Hong Kong. He was appointed a Non-Executive Director in 1994 and is aged 59.



#### Non-Executive Director (N, S)

#### **Chien LEE**

Mr. Lee is a private investor and a non-executive director of Swire Pacific Limited and a number of private companies. He was previously an independent non-executive director of Television Broadcasts Limited. He is a member of the founding Lee family, a director of Lee Hysan Estate Company, Limited and a director of Lee Hysan Company Limited (Lee Hysan Estate Company, Limited, a wholly-owned subsidiary of Lee Hysan Company Limited, is a substantial shareholder of the Company). Mr. Lee received a Bachelor of Science Degree in Mathematical Science, a Master of Science Degree in Operations Research and a Master of Business Administration Degree from Stanford University. Mr. Lee was appointed a Non-Executive Director in 1988 and is aged 63.



#### Non-Executive Director (R)

#### **Michael Tze Hau LEE**

Mr. Lee is currently a director of Oxer Limited, a private investment company. He is also an independent non-executive director of Chen Hsong Holdings Limited, Trinity Limited; and a Steward of The Hong Kong Jockey Club. He was previously an independent non-executive director of Hong Kong Exchanges and Clearing Limited and an independent non-executive director and chairman of OTC Clearing Hong Kong Limited. Mr. Lee was also a member of the Main Board and Growth Enterprise Market Listing Committees of The Stock Exchange of Hong Kong Limited. Mr. Lee is a member of the founding Lee family, a director of Lee Hysan Estate Company, Limited and a director of Lee Hysan Company Limited (Lee Hysan Estate Company, Limited, a wholly-owned subsidiary of Lee Hysan Company Limited, is a substantial shareholder of the Company). He joined the Board in January 2010, having previously served as a Director from 1990 to 2007. Mr. Lee received his Bachelor of Arts Degree from Bowdoin College and his Master of Business Administration Degree from Boston University. He is aged 55.

### Senior Management

#### Chief Operating Officer

##### **Ricky Kon Wai LUI**

MBA, MCI OB

Mr. Lui joined Hysan as the Group's Chief Operating Officer in December 2016. He assists the Chairman in translating and executing the Group's strategy and vision into operational and financial attainment. Mr. Lui also drives the Group's business growth, development and investment and serves as a director of certain Hysan's subsidiaries. Mr. Lui has over 25 years of experience as a senior executive in the property industry globally, covering acquisitions, development and asset management for residential, office, retail and large scale mixed use developments in Hong Kong, mainland China and overseas. He is aged 51.

#### Chief Financial Officer

##### **Roger Shu Yan HAO**

BBA (Hons), CPA, ACA, ACCA

Mr. Hao is responsible for the Group's financial control, treasury, information technology, legal and secretarial functions, and serves as a director of certain Hysan's subsidiaries. He joined the Group in 2008. Mr. Hao accumulated extensive experience in auditing, financial management and control while holding senior positions in multinational corporations. He is aged 51.

#### Director, Projects

##### **Sunny Wing Chung CHAN**

BEng (Hons), CEng, MCIBSE, MHKIE, LEED™ AP, BEAM Pro

Mr. Chan is responsible for the Group's development and project management function in regard to major property investments as well as significant refurbishment projects, and serves as a director of certain Hysan's subsidiaries. He joined the Group in 2008. Mr. Chan accumulated extensive experience in developing, designing and managing high-quality and sustainable building projects while holding senior positions in property development corporations. He is aged 51.

#### Director, Retail and Marketing

##### **Kitty Man Wai CHOY**

BEcon, MSc, MBA

Ms. Choy is responsible for the Group's retail portfolio and marketing strategies, and serves as a director of certain Hysan's subsidiaries. She joined the Group in 2000 and prior to joining Hysan, Ms. Choy held a supervisory position at a major property development company. She is aged 44.

#### Director, Office and Residential

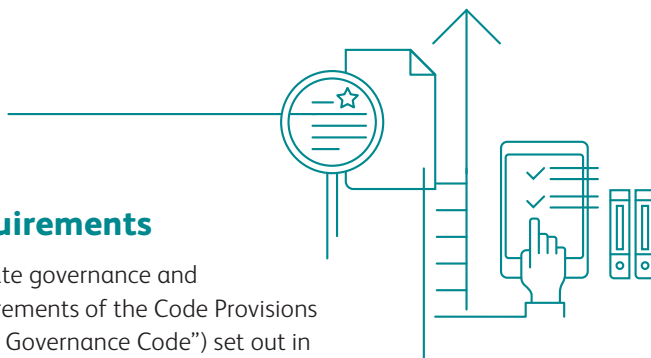
##### **Jessica Mo Ching YIP**

BSc (Surveying), MBA, MRICS, MHKIS, RPS

Ms. Yip is responsible for managing the office and residential portfolio of the Group, and serves as a director of certain Hysan's subsidiaries. Prior to joining the Group in 2012, Ms. Yip fulfilled various roles in international consultancies, occupiers and developers. She had extensive experience in the real estate industry. She is aged 40.



# Corporate Governance Report



## Meeting and Exceeding Compliance Requirements

Hysan is committed to maintaining high standards of corporate governance and transparency. Hysan has continued to fully comply with requirements of the Code Provisions contained in the Corporate Governance Code (the “Corporate Governance Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) during the year.

The following are the major areas in which Hysan’s system of corporate governance practices exceeds the Corporate Governance Code.

Exceed Corporate Governance Code Provisions	Best Practices in Corporate Governance at Hysan
✓	The Board has established formal Corporate Governance Guidelines* since 2004.
✓	The Board has established formal mandates and responsibilities*, with a clear division of roles with management. This sets out the Board’s responsibility for formulation of strategy and its monitoring role.
✓	The Board has established formal criteria and requirements* for Non-Executive Director appointments. All Non-Executive Directors are engaged by formal letters of appointment with a specific term of 3 years and which address the expected time commitment of the Non-Executive Directors and other matters.
✓	In order to retain control of key decisions and ensure there is a clear division of responsibilities for the Board and the running of the Company’s business, the Board has identified a list of “Matters Reserved for Board Decisions” *. The list covers all major policies and directions of the Group.
✓	Board evaluation: Since 2014, the Board evaluation process has been strengthened and enriched through completion of evaluation questionnaires. In 2016, the evaluation process was enhanced through an electronic platform. Directors’ feedback was analysed and discussed at the May Board Meeting. Our Corporate Governance Guidelines have been refined in the light of this to show the Board’s commitment.
✓	In 2016, a separate “Whistleblowing Policy” * has been adopted to allow employees and related parties who deal with the Group (e.g. consultants, contractors and suppliers) to raise concerns about misconduct, malpractice or irregularities in any matters related to the Group. The independence is further strengthened by inviting whistleblowers to raise concerns to a designated independent third party, who then reports to the Audit Committee. Records of whistle blowing are kept by Internal Audit Department.
✓	The Group has adopted a Code of Ethics* since 2005 which is applicable to all Directors, officers and employees of the Group. The Code of Ethics follows the guiding principles of “Respect for People”, “Ethics and Business Integrity” and “Meeting the Group’s Responsibility”. Under the Code of Ethics, the Directors, officers and employees are encouraged to report any existing or potential breaches of the Code of Ethics through the procedures set out in the Whistleblowing Policy.
✓	The Group has established a Corporate Disclosure Policy* to guide its stakeholder communications and the determination of inside information. This ensures consistent and timely disclosure and fulfilment of the Group’s continuous disclosure obligations.
✓	The Group has established an Auditor Services Policy* to set parameters for the engagement of the auditors. It also identifies areas of conflict, and prohibits the engagement of auditors in case of conflict to ensure independence.



## Corporate Governance Report

Exceed Corporate Governance Code Provisions	Best Practices in Corporate Governance at Hysan
✓	The Group has established a fraud handling policy and procedure to control and aid in the detection and prevention of fraud against the Group. This promotes consistent organisational behaviour by providing guidelines and assigning responsibility for the controls and investigations.
✓	The Group has demonstrated its commitment to transparency in shareholder reporting by publishing a separate Corporate Governance Report since 2001. It also publishes the following reports: (i) Audit Committee Report; (ii) Directors' Remuneration and Interests Report; and (iii) Risk Management and Internal Control Report.
✓	The Group has a formal Corporate Responsibility Policy and publishes a Corporate Responsibility Report. It has early-adopted the environmental, social and governance reporting guidelines under the Listing Rules. An "integrated" approach has been adopted since the 2014 Annual Report, to provide a more holistic view of the Group's financial as well as non-financial performance.
✓	The Group serves more than 20 clear business days' notice for the Annual General Meeting ("AGM").
✓	Since 2004, the Group has operated a new form of AGM that goes beyond discharging statutory business by including a detailed business review. All voting at AGMs has been conducted by poll since 2004.
✓	The Group publishes the terms of reference and membership of all its corporate governance related Board Committees on the websites of the Group and the Stock Exchange.
✓	In 2016, the Group announced the audited financial results within 2.5 months after the end of financial year and published the Annual Report on the Group's website within 3 months after the end of financial year. The Group sent the Annual Report to shareholders within 10 days after publication. The AGM notice, Annual Report, and the financial statements were dispatched to the shareholders more than 30 days prior to the AGM (statutory requirement: 21 days).  To further expedite dissemination of financial information to shareholders and investors, in 2017, the Group has further shortened the audited financial results announcement timeline to within 2 months after the financial year-end.
✓	The Group continually enhances its communications with shareholders. In December 2016, the Company held its first shareholders' visit which provided an opportunity for the shareholders to gain an insight into the Company's long established history, sustainability activities (e.g. Rooftop Urban Farm and Sky Wetland at Hysan Place) and other business areas.
✓	To further increase efficiency of communication, protection of the environment and to save costs for the Company, arrangements have been made since December 2015 to ascertain the shareholders' preference as to the means of receiving corporate communications. The aim is to continually enhance the use of the Group's corporate website as a means of shareholder communications.
✓	The Company has also initiated and invited major nominee companies to proactively forward communication materials to the ultimate beneficial shareholders at the Group's expense.

\* Detailed policies/terms of reference are available on the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk).

## Our Governance Framework

Hysan operates with a clear and effective governance structure.

The Board is collectively responsible for the long-term success of the Group, and for its leadership, strategy planning, control and risk management, culture, values, corporate governance and financial performance.

The Board has established an Audit Committee, Remuneration Committee, Nomination Committee and Strategy Committee to enable the Board to operate effectively and ensure a strong governance framework for decision-making. Each Committee has written terms of reference.

- Audit Committee Report – pages 121 to 124
- Risk Management and Internal Control Report – pages 44 to 49
- Directors' Remuneration and Interests Report – pages 111 to 120
- Nomination Committee – pages 98 to 99
- Strategy Committee – page 99



For effective leadership and management, the Board sets clear governance guidelines, policies, and procedures and review them periodically, normally on an annual basis. The Board also regularly assesses and enhances its governance framework, practices and principles in light of regulatory regimes, international best practices as well as Company's needs. The following are the key guidelines and components of Hysan's governance framework.

- Corporate Governance Guidelines
- Board of Directors Mandate
- Roles Requirements of Non-Executive Directors
- Matters Reserved for Board Decisions
- Terms of Reference of the various corporate governance related Board Committees
- Code of Ethics for Directors and Employees
- Auditor Services Policy
- Corporate Disclosure Policy
- Whistleblowing Policy
- Board Diversity Policy

They can be reviewed on the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk).

## Governance at a Glance

### 1 LEADERSHIP

#### THE ROLE OF THE BOARD

- Board of Directors Mandate
- Matters reserved for Board Decisions

#### COMPOSITION OF BOARD

- Balance of 4 INEDs and 5 NEDs
- All Directors are appointed with specific terms and subject to rotation

#### DIVISION OF RESPONSIBILITY

- Board of Directors Mandate
- Roles requirements of Non-Executive Directors

### 2 EFFECTIVENESS

#### BALANCE DIVERSITY OF SKILLS AND EXPERIENCE

- Diversity of Skills and experience (see “Balance, Diversity and Skills” section)

#### COMMITMENT

- All Directors are devoted with time commitment

#### INDEPENDENCE

- Meeting of Non-Executive Directors without the Executive Directors or Board members relating to the founding Lee family

#### EVALUATION

- Formal board evaluation process via an electronic platform. The Board discusses the findings in detail at meeting (see section on “Board Evaluation 2016”)

#### INFORMATION & SUPPORT

- Good information flow between the Board and the management
- Accesses to independent professional advice and company secretary

#### CONTINUOUS PROFESSIONAL DEVELOPMENT

- Directors attended trainings to refresh skills and knowledge

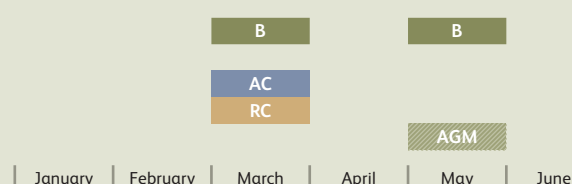
#### THE ROLE OF COMPANY SECRETARY

- Reviews and implements corporate governance practices
- Directors have direct access to the advice and support of Company Secretary
- Keep Directors updated on legislative, regulatory and governance matters

## The Board in 2016

The Board met formally throughout the year with meetings timed around the financial calendar, as well as frequent and open conversations and discussions within the Board. During the year, 4 Board meetings were held, including an off-site meeting held in an innovation lab followed by a training provided by the venue host. Full Board members attended a Strategy Committee meeting with in-depth presentation and discussion of the Group’s long-term directional strategy. Attendance at Board and Committee meetings held during 2016 is shown on page 88.

## Board and Committee meetings in 2016



## 3 ACCOUNTABILITY

### BOARD COMMITTEES

- 3 governance-related Board Committees have been established
- Board Committees report to the Board (see “Audit Committee Report” pages 121 to 124 and “Directors’ Remuneration and Interests Report” pages 111 to 120)

### RISK MANAGEMENT AND INTERNAL CONTROL

- reviewed and monitored management’s risk management process and assessed effectiveness of financial controls, and other internal controls. (see “Risk Management and Internal Control Report” pages 44 to 49 and “Audit Committee Report”)

### FINANCIAL REPORTING

- Independent Auditor’s Report (see pages 127 to 130)

### AUDIT COMMITTEE AND AUDITORS

- Audit Committee Report (see pages 121 to 124)
- Internal Audit function
- External Auditor appointment

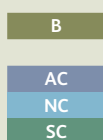
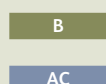
## 4 RELATIONS WITH SHAREHOLDERS

### CONSTRUCTIVE USE OF GENERAL MEETINGS

- Accessible AGM
- Committee Chairmen available at AGM to answer questions (in person or via dial-in)
- Notice sent out more than 20 workings days before meeting (exceeds requirement under Corporate Governance Code)

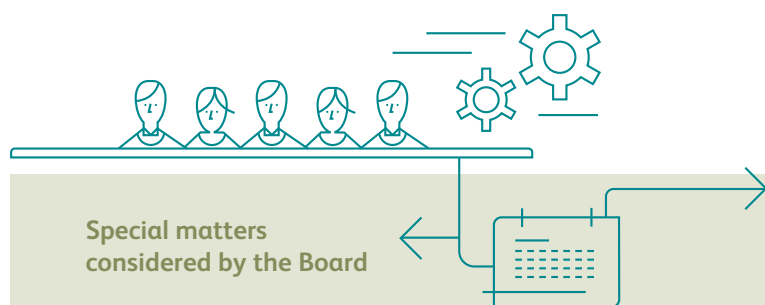
### DIALOGUE WITH SHAREHOLDERS

- enhance shareholder communications by electronic channels
- shareholders’ visit for more understanding of the Group, its portfolio, history and sustainability activities and other business areas



B	Board Meeting	see page 84
AC	Audit Committee Meeting	see page 121
AGM	Annual General Meeting	
RC	Remuneration Committee Meeting	see page 111
NC	Nomination Committee Meeting	see page 98
SC	Strategy Committee Meeting	see page 99

## Corporate Governance Report



**Special matters considered by the Board**

### March

**Review of reports from:**

- Remuneration Committee
- Audit Committee; and review of risk management and internal control effectiveness

**Review and approval of 2015 annual results, including:**

- Preliminary announcement
- Declaration of 2015 2nd interim dividend
- Other key reports
  - Corporate Governance Report
  - Risk Management and Internal Control Report
  - Audit Committee Report
  - Directors' Remuneration and Interests Report
  - Directors' Report

**Approval of proposals to be submitted to the AGM**

**Annual review of corporate governance matters**

**Review of I.T. objectives and focus**

**Review and assess risk appetites and principal risks (including safeguards against terrorist attack etc.)**

### May

**Analysis of feedback and discussions of:**

- Board and Board Committees' evaluation questionnaires

**Approval of the Whistleblowing Policy**

### August

**Review of reports from:**

- Audit Committee; and review of risk management and internal control effectiveness

**Review and approval of 2016 interim results, including**

- Interim results announcement
- Interim report
- Declaration of 2016 1st interim dividend

**Approval of re-designation of a Director**

### 2016 was an active and effective year. The key features at the Hysan Board during 2016 are:

- The Board held 4 meetings. Hysan's Directors have a strong commitment to the Company, which was reflected in the high attendance record at the Board and its Committee meetings.
- All Directors are entitled to seek independent professional advice regarding their duties at the Company's expense.
- Directors' and Officers' liability insurance has been arranged. The terms and extent covering 2016 was reviewed and renewed.
- Declarations of interest are recorded and records are accessible by each director.
- Financial plans, including budgets and forecasts, are regularly discussed at Board meetings. Monthly reports to the full Board are issued, covering financial and operational highlights.
- Non-Executive Directors are invited to attend Company events. Such events include the annual "Company Day" when the management team shares management objectives for the coming year with all Head Office staff and supervisors of the building offices.

## November

### Review of reports from:

- Nomination Committee; and review of Board size and composition, as well as “independence” of Directors and the Board Diversity Policy
- Audit Committee; discussions of risk management and internal control matters

### Approval of the Board Diversity Policy

### Review and discussions of 2017 budget

**Review of corporate governance matters** – annual review of Matters Reserved for Board Decisions (relating to the 2017 budget and business plan)

**Approval of sale project** for two Tai Po residential sites partnering HKR International Limited

## Regular matters considered by the Board

## March, May, August and November

### Review and discussions of reports on:

- Operating results and regular updates for the Group’s core leasing business (Office, Retail and Residential segments)
- Current development and asset enhancement projects’ update (including the redevelopment of Lee Garden Three)

### Review and discussions of: Financial forecasts

### Update on:

- Analysts’ feedback
- Legal and regulatory updates

### Review and approval of: Minutes of previous meeting

- Since 2012, the Board has moved to electronic Board papers via iPad – an initiative to reduce the use of printed paper across our business and to enhance effective and timely communication. This electronic platform allows the Directors to access information and meeting records relevant to the execution of their duties.
- To supplement the formal Board meetings and to further strengthen the independence of the Non-Executive Directors, the Independent Non-Executive Directors and Non-Executive Directors also held 2 separate discussion sessions during 2016 without the presence of Executive Directors or Board members relating to the founding Lee family. This enables them to discuss more freely the evaluation of performance of the Board as well as the Group’s management
- In 2016, the Board evaluation process and efficiency was enhanced via an electronic platform. Directors’ evaluation is collected on anonymous basis and the evaluation results are electronically auto-generated and discussed at the Board meeting.

## Corporate Governance Report

### Attendance at Meetings

The following table shows Directors attendance at Board, Committee and general meetings held in 2016 :

- Attended
- Attended by alternate
- ☎ Attended by tele-conference
- ◆ Attended the meetings (or part of meetings) as invitee
- Already resigned from the Board

Directors	Meetings Held/Attended					
	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	STRATEGY COMMITTEE	ANNUAL GENERAL MEETING
	(Total: 4) (Note 1)	(Total: 3)	(Total: 1)	(Total: 1)	(Total: 1)	(Annually)
<b>Executive Director</b>						
Irene Yun Lien LEE	● ● ☎ ●	◆ ◆ ◆	◆ (Note 7)	●	●	●
<b>Independent Non-Executive Directors</b>						
Nicholas Charles ALLEN (Note 2)	● ● □ □	● □ □	N/A	N/A	□	●
Frederick Peter CHURCHOUSE	● ● ☎ ●	● ● ●	N/A	N/A	◆	●
Philip Yan Hok FAN	● ☎ ☎ ●	● ● ●	●	●	●	☎
Lawrence Juen-Yee LAU (Note 3)	☎ ☎ ●	N/A	N/A	●	◆	●
Joseph Chung Yin POON (Note 4)	● ● ☎ ●	● ●	●	●	◆	●
<b>Non-Executive Directors</b>						
Hans Michael JEBSEN (Note 5)	● ● ○ ●	N/A	N/A	N/A	●	●
Siu Chuen LAU (Note 6)	● ● ☎ ●	◆ ◆	◆ (Note 7)	N/A	◆	●
Anthony Hsien Pin LEE	● ● ☎ ●	● ● ●	N/A	N/A	◆	●
Chien LEE	● ● ☎ ●	N/A	N/A	●	●	●
Michael Tze Hau LEE	● ● ☎ ●	N/A	●	N/A	◆	●

Notes:

- The August 2016 Board meeting was held through tele-conference due to Typhoon Signal No.8 to discuss and approve the 2016 unaudited interim results.
- Nicholas Charles ALLEN retired as Independent Non-Executive Director and ceased as the chairman of the Audit Committee, a member of the Nomination Committee and a member of the Strategy Committee with effect from the conclusion of the AGM held on 13 May 2016 (the "2016 AGM").
- Lawrence Juen-Yee LAU was appointed a member of the Nomination Committee with effect from the conclusion of the 2016 AGM.
- Joseph Chung Yin POON was appointed the chairman of the Audit Committee with effect from the conclusion of the 2016 AGM, and a member of Strategy Committee with effect from 22 February 2017.
- Hans Michael JEBSEN was appointed a member of the Strategy Committee with effect from the conclusion of the 2016 AGM.
- Siu Chuen LAU stepped down from the position as Deputy Chairman and Chief Executive Officer and ceased as a member of the Strategy Committee. He was also re-designated as Non-Executive Director. All with effect from the conclusion of the August 2016 Board Meeting.
- Excused from the session to discuss the executive directors' own compensation package.





## Leadership

### FORMAL BOARD MANDATE

The role of the Board is governed by a formal **Board of Directors Mandate** (details on the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk)). It sets out the Board's stewardship role and shows how the Board is collectively responsible for strategic planning, risk management and internal control, setting the Group's culture and values, capital management, corporate governance, and Board succession.

Day-to-day management of the Group is delegated to the Executive Directors and the Executive Committee, subject to formal delegated authority limits and certain matters that have been reserved for Board approval. These matters are "**Matters Reserved for Board Decisions**" (where applicable, with a "materiality" threshold) and are reviewed annually (details on the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk)). Executive Committee members include all Executive Directors, Chief Operating Officer, Chief Financial Officer, and other members as may be appointed by the Board.

### BOARD SIZE, COMPOSITION, AND APPOINTMENTS

As at 31 December 2016, there were 10 Directors on the Board: the Chairman and 9 Non-Executive Directors (including 4 Independent Non-Executive Directors). Irene Yun Lien LEE is currently the executive Chairman. In addition to her role in leading the Board, she advises, supports and coaches the management team, particularly regarding the long-term strategic development of the Group and management matters that drive shareholder value.

The Board reviews its size and composition from time to time, and the last review was in November 2016.

Non-Executive Directors are appointed for a specific term of 3 years, and are subject to re-election at the first AGM following their appointment. Every Director will be subject to retirement by rotation at least once every 3 years under the Company's Articles of Association. Retiring Directors are eligible for re-election at the AGM at which they retire. There is no cumulative voting in Director elections. The election of each candidate is executed through a separate resolution.

Irene Yun Lien LEE, Philip Yan Hok FAN, Hans Michael JEBSEN and Siu Chuen LAU will retire at the forthcoming AGM to be held on 15 May 2017.

Siu Chuen LAU stepped down from his position as Deputy Chairman and Chief Executive Officer of the Company and was re-designated as Non-Executive Director with effect from conclusion of the Board Meeting of the Company held on 2 August 2016 (the "August 2016 Board Meeting"). He has informed the Board that he will not offer himself for re-election and accordingly will retire as Director after the conclusion of the forthcoming AGM. Save for Siu Chuen LAU, the other retiring Directors, being eligible, offer themselves for re-election. Details with respect to the candidates standing for election as Directors are set out in the AGM circular to shareholders.

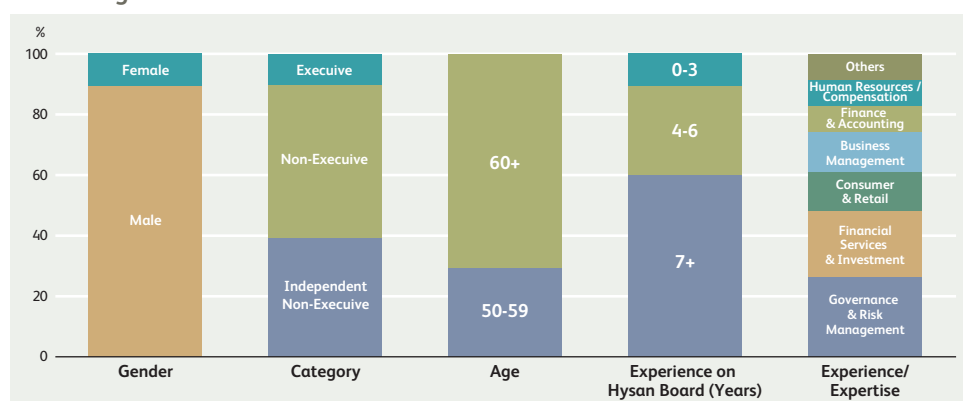
## Effectiveness

### BALANCE, DIVERSITY AND SKILLS

Hysan continues to promote and support diversity within the Board and the business. We strongly believe that diversity in all aspects, not just gender, provides the business with a better collective decision-making capacity, and for better anticipating the risks and opportunities in building a sustainable business.

Our Non-Executive Directors (including 4 Independent Non-Executive Directors) are of diverse backgrounds in the areas of economics, finance, business management, professional practices, and property investment. Biographies of each Director can be found in pages 76 to 79 and are also available on the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk).

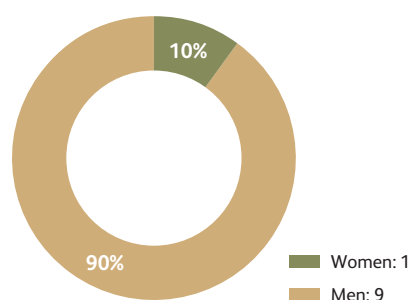
### Percentage of Directors on the Board



The Board believes that diversity is vital for Board effectiveness and adopted a separate Board Diversity Policy in 2016. Under this policy, selection of candidates for Board appointment will be based on a range of diversity perspectives including gender, age, cultural / educational and professional background, skills and experience, and the ultimate decision will be based on merit against objective criteria and contribution that the candidate will bring to the Board. This philosophy of diversity extends from the Board level to the key operational management throughout the Group. The Company has taken, and continues to take steps to promote diversity, including gender diversity, at operational management levels. The Company respects a working environment that is free from discrimination and has policies against discrimination with regard to gender, age, cultural/educational and professional backgrounds, skills and experience while promoting diversity in recruitment and promotion.

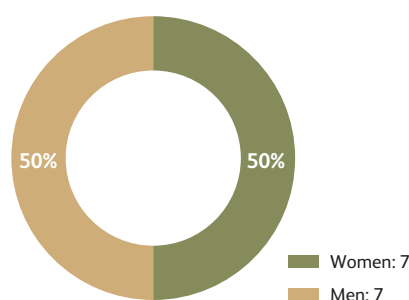
### Board Diversity by Gender

31 December 2016



### Gender Diversity of Key Operational Management\*

31 December 2016



\* Key operational management is defined as the 14 heads of departments/units of the Group, but does not include the Executive Director, who also maintains a management/supervisory role for operations.

During 2016, there were 9 Non-Executive Directors drawn from diverse and complementary backgrounds. They bring valuable experience and insight including but not limited to, the following areas of experience and expertise, driving the corporate strategy and growth of the Group:

Experience / Expertise	Director(s)
1. <b>Business Management</b> Considerable business experience and knowledge through senior management roles in other major companies.	Philip Yan Hok FAN Hans Michael JEBSEN Joseph Chung Yin POON
2. <b>Property Investment</b> Experience as a senior executive in another major company in property investment, development or facilities management; or related industry.	Frederick Peter CHURCHOUSE
3. <b>Financial Services and Investment</b> Experience in the financial services industry or experience in overseeing financial transactions and investment management.	Anthony Hsien Pin LEE Chien LEE Michael Tze Hau LEE Joseph Chung Yin POON Siu Chuen LAU <sup>(Note 1)</sup>
4. <b>Customer and Retail</b> Experience as a senior executive in a major retail, customer products, services or distribution company.	Frederick Peter CHURCHOUSE Hans Michael JEBSEN Siu Chuen LAU <sup>(Note 1)</sup>
5. <b>Macro-environment affecting the Group</b> Expertise in the economic, political or social environment affecting the Group and its operations, with a focus on Hong Kong and China.	Lawrence Juen-Yee LAU
6. <b>Finance and Accounting</b> Expertise based on the definition of “Audit Committee accounting expertise” under the Listing Rules.	Nicholas Charles ALLEN <sup>(Note 2)</sup> Joseph Chung Yin POON
7. <b>Governance and Risk Management</b> Experience in control, governance and risk management that has been gained through extensive experience on other public and private companies’ board committees.	Nicholas Charles ALLEN <sup>(Note 2)</sup> Philip Yan Hok FAN Lawrence Juen-Yee LAU Chien LEE Michael Tze Hau LEE Joseph Chung Yin POON
8. <b>Human Resources / Compensation</b> Broad knowledge of the principles and practices relating to Human Resources and extensive experience in overseeing Human Resources in other major companies.	Philip Yan Hok FAN Joseph Chung Yin POON

Notes:

1. Siu Chuen LAU was re-designated as Non-Executive Director with effect from the conclusion of the August 2016 Board Meeting
2. Nicholas Charles ALLEN retired as Independent Non-Executive Director with effect from the conclusion of the 2016 AGM.

(Directors’ full biographies, including relationships among members of the Board, are set out in pages 76 to 79 and are also available on the Company’s website: [www.hysan.com.hk](http://www.hysan.com.hk))

## INDEPENDENCE

As a listed company with the presence of a major shareholder family, the Board has put in place appropriate policies and processes to avoid conflicts of interest or perception of the same. This is also been safeguarded under Hong Kong Companies Ordinance which requires a director to disclose the nature and extent to the board of any material interest of entities connected with him when such entities are involved in any transaction or arrangement with the company. The Board is reminded half yearly of this requirement through receiving an explanatory note from the Company.

Non-Executive Directors held discussion sessions without presence of Executive Directors or Board members relating to founding Lee family.

“Connected transactions” with persons and entities regarded as connected with the Group under the Listing Rules are subject to the approval of the full Board, as provided under the **List of Matters Reserved for Board Decisions**. In addition, “exempted transactions” that are exempt from the Listing Rules’ disclosure requirements are also subject to reporting to the full Board after management approval, with full particulars of key terms and conditions as well as justification.

The Board has established “independence” standards for individual Directors in our **Corporate Governance Guidelines**. It considers “independence” is not only a regulatory requirement, but also to be a matter of judgment and conscience. A Director is considered to be independent only where he or she is free from any business or other relationship that might interfere with the exercise of his or her independent judgment.

The Nomination Committee carried out a detailed review of director independence. It concluded that each of the 4 Independent Non-Executive Directors was independent at the time of review. Independent Non-Executive Directors are identified in our Annual and Interim Reports and other communications with shareholders.

To strengthen the independence of the Non-Executive Directors and to enable them to discuss more freely the performance of the Board as well as the Group’s management, the Non-Executive Directors held 2 discussion sessions during 2016, without the presence of Executive Directors or Board members relating to the founding Lee family.

## Checks and Balances

### “Connected Transactions” with related persons subject to full Board decision

This is expressly provided in our **List of Matters Reserved for Board Decisions**. The relevant requirements are more stringent than those under the Listing Rules.

### Appointment of 4 Independent Non-Executive Directors with a diverse background

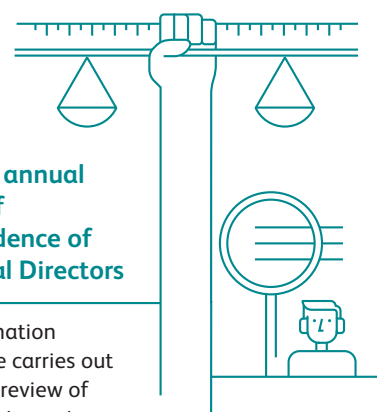
We have 4 Independent Non-Executive Directors drawn from a diverse background, spanning economics, financial services and investment, business management, professional (accounting), and property investment.

### Clear “independence” standards for individual Directors

This is laid down in our **Corporate Governance Guidelines**.

### Detailed annual review of independence of individual Directors

The Nomination Committee carries out a detailed review of Director independence annually.



## Independence Status

Name	Management	Independent	Not Independent	November 2016 Review – Reason for Independence Status
Frederick Peter CHURCHHOUSE		✓		No business or other relationships with the Group or management that will affect independence
Philip Yan Hok FAN		✓		No business or other relationships with the Group or management that will affect independence
Hans Michael JEBSEN			✓	
Siu Chuen LAU			✓	
Lawrence Juen-Yee LAU		✓		No business or other relationships with the Group or management that will affect independence (Note 1)
Anthony Hsien Pin LEE			✓	
Chien LEE			✓	
Irene Yun Lien LEE	✓			
Michael Tze Hau LEE			✓	
Joseph Chung Yin POON		✓		No business or other relationships with the Group or management that will affect independence

Note:

1. Professor Lau's spouse is Partner in-charge, Tax, Hong Kong, at KPMG China, and a board member of KPMG China. KPMG is a tenant of the Group and provides taxation services principally as tax representative of the Company and certain subsidiaries, which are routine services in nature. Mrs. Lau has not been involved in any business negotiations with the Group, or in the provision of any services, and will refrain from doing so. The Board and its Nomination Committee had assessed the independence of Professor Lau in light of the circumstances, including (i) Professor Lau's background, experience, achievements, as well as character; (ii) the nature of the Company's relationship with KPMG and Mrs. Lau's roles as described above; and concluded that his independence would not be affected.

### BOARD EVALUATION 2016

Traditionally, Hysan evaluates the performance of the Board and members of management at meetings between the Chairman and Non-Executive Directors without the presence of management.

Since 2014, the board evaluation process was strengthened and enriched through completion of evaluation questionnaires for the full Board as well as Board Committees. In 2016, the efficiency of evaluation process was further enhanced through an electronic platform.

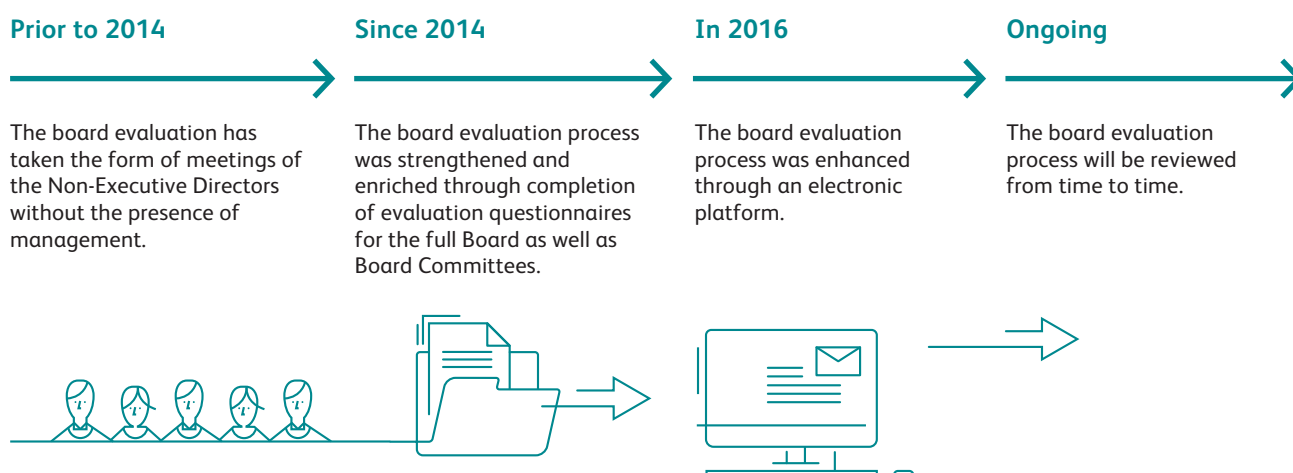
The evaluation in 2016 included the (i) Board's roles (including Director responsibilities, relationship with the Board Committees); (ii) Board composition (size; balance of knowledge, experience and skills; independence); (iii) Board meetings and processes (including satisfaction with integrity of financial statements and accounting policies; risk management process); Board in actions (including strengths and weaknesses); and (iv) training.

The report on the evaluation was presented and discussed at the Board meeting held in May 2016. The overall conclusion from this year's evaluation was that the Directors are highly satisfied with the Board and its Committees operate to a high standard, work well and effectively.

All responses received had a high average score at or above 4 ("Agree"), according to a scale of 1 ("Strongly Disagree") to 5 ("Strongly Agree"). The Directors were highly satisfied with commitment of the Board and its Committees. The Directors were satisfied with integrity of financial statements and accounting policies/practices and management reports. The Board was pleased with the open and constructive environment which enabled everyone to participate fully in discussions and exchange of opinions.

As with every high performing Board, the Directors continue to look for areas of improvement. The Board will continue to review its composition, balance of knowledge and experience. On risk management and internal control aspects, Directors will use a combination of experience to approach the global and local risks and uncertainties facing the business. The Chairman will lead the Group going forward with support from the Board and the management.

### Evolution of Hysan's Board Evaluation



## BOARD AND MANAGEMENT

The Board and management fully appreciate their respective roles and support the development and upkeep of a healthy corporate governance culture.

The Board works closely with management in thinking through the Group's direction and long-term plans, as well as the various opportunities and associated risks that are facing the Group generally. The Non-Executive Directors provide independent challenge and review, bringing a wide range of experiences, specific expertise, and fresh objective perspectives to the Board and the management.

## HOW MANAGEMENT SUPPORTS THE EFFECTIVE WORKINGS OF THE BOARD

### Supply of Information

There is good information flow between the Board and the management. The Board receives detailed quarterly reports and presentations from management in regard to business performance. Appropriate key performance indicators are used to facilitate benchmarking and peer group comparison. Monthly reports to the full Board are issued, covering financial and operational highlights. Financial plans, including budgets and forecasts, are regularly discussed at Board meetings.

Non-Executive Directors are also invited to attend Company events. Such events include the annual "Company Day" when the management shares management objectives for the coming year with the staff. All these measures facilitate the build-up of constructive relations and dialogue between the Board and the management team, and also understanding of our people and culture.

Since 2012, the Board has moved to electronic Board papers via iPad – a contribution, albeit small, towards supporting our objective of reducing the use of printed paper across our business in light of sustainability awareness.

### Induction, Business Awareness and Development

Newly appointed Directors receive a comprehensive induction briefing designed to provide a general understanding of the Group, its businesses and operations (including the major risks it faces), and an overview of the additional responsibilities of Non-Executive Directors.

Continuous professional development and training of Directors help them to keep abreast of issues facing the Group, and equip them to refresh their skills and knowledge.



### Directors' continuous professional development in 2016

Directors	Attending trainings organised by Hysan	Attending expert briefings / seminars / conferences organised by third parties relating to the business or directors' duties	Perusing legal and regulatory updates prepared by Hysan quarterly
<b>Executive Director</b>			
Irene Yun Lien LEE	✓	✓	✓
<b>Independent Non-Executive Directors</b>			
Nicholas Charles ALLEN (retired at the conclusion of 2016 AGM)	✓	✓	✓
Frederick Peter CHURCHOUSE	✓	✓	✓
Philip Yan Hok FAN	✓	✓	✓
Lawrence Juen-Yee LAU		✓	✓
Joseph Chung Yin POON	✓	✓	✓
<b>Non-Executive Directors</b>			
Hans Michael JEBSEN	✓	✓	✓
Siu Chuen LAU (re-designated as Non-Executive Director at conclusion of the August 2016 Board Meeting)	✓	✓	✓
Anthony Hsien Pin LEE	✓	✓	✓
Chien LEE	✓	✓	✓
Michael Tze Hau LEE	✓	✓	✓

### Independent Advice

It is recognised that there may be occasions when Directors feel that it is necessary to obtain independent professional advice for fulfilling their obligations. Such advice may be obtained at the Company's expense as stated in our Corporate Governance Guidelines.

## Accountability

### BOARD COMMITTEES IN 2016

In order to provide effective oversight and leadership and pursuant to its Corporate Governance Guidelines, the Board has established 3 governance-related Board Committees. Like the Board, each Committee has access to independent professional advice and counsel as required, and each is supported by the Company Secretary. These committees report to the Board. Their terms of reference are available on the Company's website.

#### AUDIT COMMITTEE

<b>Composition</b>	There is a majority of Independent Non-Executive Directors.
Chairman	Joseph Chung Yin POON (Independent Non-Executive Director)
Other members	Frederick Peter CHURCHOUSE (Independent Non-Executive Director) Philip Yan Hok FAN (Independent Non-Executive Director) Anthony Hsien Pin LEE (Non-Executive Director)

#### Meetings Schedule

The Audit Committee held 3 meetings during the year. At the invitation of the Audit Committee, such meetings were also attended by the Board Chairman and members of management (including the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer).

#### Roles and Authority

Hysan believes a clear appreciation of the separate roles of management, the external auditors and Audit Committee members is crucial to the effective functioning of an audit committee. Management of Hysan is responsible for selecting appropriate accounting policies and the preparation of the financial statements. Formal statements of Directors' Responsibility for the Financial Statements are contained in "Financial Statements, Valuation and Other Information" of this Annual Report. The external auditors are responsible for auditing and attesting to the Group's financial statements and evaluating the Group's system of internal controls, to the extent that they consider necessary to support their audit report. The Audit Committee is responsible for overseeing the entire process.

The Audit Committee also has the responsibility of reviewing the Group's Whistleblowing Policy. Pursuant to the Whistleblowing Policy, employees and related third parties who deal with the Group (eg. consultants, contractors and suppliers) can raise concerns, in confidence or anonymously, about misconduct, malpractice or irregularities in any matters related to the Group. The Audit Committee ensures that these arrangements allow proportionate and independent investigation of possible breaches and related matters and there is appropriate follow up action.

Pre-meeting sessions with external and internal auditors held without management's presence

### Activities and Report in 2016 and to date

Full details of the activities of the Audit Committee are also set out in the “Audit Committee Report” on pages 121 to 124. 3 meetings were held during the year. Attendance at Audit Committee meetings is set out in the table on page 88. In addition to reviewing and approving annual and interim financial statements, the Committee held a separate meeting that substantially focused on risk management and internal control.

### REMUNERATION COMMITTEE

**Composition** There is a majority of Independent Non-Executive Directors.

Chairman Philip Yan Hok FAN  
(Independent Non-Executive Director)

Other members Michael Tze Hau LEE  
(Non-Executive Director)  
Joseph Chung Yin POON  
(Independent Non-Executive Director)

### Meetings Schedule

The Remuneration Committee generally meets at least once every year.

### Roles and Authority

Management makes recommendations to the Remuneration Committee on Hysan’s framework or broad policy for the remuneration of the Executive Directors and senior management. The Committee then reviews these, and makes recommendations to the Board. The Remuneration Committee also reviews the fees payable to Non-Executive Directors and Board Committee members prior to approval at the AGM. In addition, it also reviews new share option plans, changes to key terms of pension plans, and key terms of new compensation and benefits plans with material financial, reputational, and strategic impact. No Director is involved in deciding his or her own remuneration.

### Activities and Report in 2016 and to date

Full details of the activities of the Remuneration Committee are set out in the “Directors’ Remuneration and Interests Report” on pages 111 to 120. A meeting was held during the year. Attendance at the Remuneration Committee meeting is set out in the table on page 88.

### NOMINATION COMMITTEE

#### Composition

Chairman Irene Yun Lien LEE  
(Chairman)

Other members Philip Yan Hok FAN  
(Independent Non-Executive Director)  
Lawrence Juen-Yee LAU  
(Independent Non-Executive Director)  
Chien LEE  
(Non-Executive Director)  
Joseph Chung Yin POON  
(Independent Non-Executive Director)

## Meetings Schedule

The Nomination Committee generally meets at least once every year.

## Roles and Authority

The Nomination Committee is responsible for nominating candidates, for Board approval, to fill Board vacancies as and when they arise, evaluating the balance of skills, knowledge and experience of the Board and reviewing the Board Diversity Policy. The Committee also reviews the independence of Directors pursuant to the Listing Rules requirements. The terms of reference of the Nomination Committee clearly set out that the Chairman of the Board shall not chair the Nomination Committee when it is dealing with the matter of succession of the chairmanship.

## Activities and Report in 2016 and to date

A meeting was held during the year to (i) review the structure, size, and composition of the Board; (ii) assess the independence of Independent Non-Executive Directors; and (iii) adopt a Board Diversity Policy. Attendance at the Nomination Committee meeting is set out in the table on page 88.

## STRATEGY COMMITTEE

### Composition

Chairman	Irene Yun Lien LEE (Chairman)
Other members	Philip Yan Hok FAN (Independent Non-Executive Director)
	Hans Michael JEBSEN (Non-Executive Director)
	Chien LEE (Non-Executive Director)
	Joseph Chung Yin POON (Independent Non-Executive Director)

### Meeting Schedule

The Strategy Committee generally meets at least once every year and full Board members are also invited.

### Roles and Authority

Strategy planning is vital for the sustainability of the Company. The Strategy Committee is responsible for reviewing and making recommendations to the Board on the Group's strategy matters.

### Activities and Report in 2016 and to date

A meeting was held during the year to discuss business plan, as well as longer-term directional strategy for the growth of the Group. Such meeting was also attended by full Board members.

### Relations with Shareholders

Hysan are committed to maintaining an open dialogue with shareholders. We recognise a good governance framework that protects shareholder rights.

#### COMMUNICATION WITH SHAREHOLDERS

##### Accountability to Shareholders and Corporate Reporting

- Annual Report, Interim Report, press releases and announcements are disclosed in a timely manner.
- Shareholders enquiries: Investor Relations function by email to [investor@hysan.com.hk](mailto:investor@hysan.com.hk).

##### Information via Internet

- Key corporate governance policies, terms of reference of Board Committees, Group's financial reports, press releases and announcements are available on the website.
- Shareholders have the option to receive corporate communications by electronic means. Hard copies of the Hysan website information are also available free of charge upon request to the Company Secretary.

##### Institutional Shareholders

- Ongoing dialogue and meetings between Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and institutional investors, fund managers and analysts.
- Regular presentations to or conference calls with analysts and investors.
- Results announcement presentations to analysts are disseminated by webcasts.

##### Constructive Use of AGM

- AGMs as a means of having a dialogue with private shareholders.
- Individual shareholders can put questions to the Chairman at the AGM.
- Board Committees Chairmen attend AGMs to respond to shareholders' questions.
- Since 2004, a "business review" session has been included in our AGMs. Topics in last AGM included: business environment in 2015, a review of business activities, and the Company's outlook for 2016.

##### Shareholders' Visit

- In December 2016, the Company held its first shareholders' visit.
- A good opportunity for the management to communicate with the shareholders. Also, for the shareholders to gain an insight into the Company's long established history, sustainable activities and other business areas.

##### Corporate Disclosure Policy

- The Group's Corporate Disclosure Policy guides the disclosure of material information to investors, analysts and media.
- This policy also identifies who may speak on Hysan's behalf and outlines the responsibilities for communications with various stakeholders groups.
- Details are available at the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk).



### Proactively Forward Shareholder Communication Materials via Nominee Companies

- Since 2005, we have initiated and invited major nominee companies to proactively forward communication materials to shareholders at our expense.

### Electronic Communication

- Since December 2015 shareholders can receive corporate communications via electronic means.
- Greater publicity of the Group's website is being made.

### Provision of Sufficient and Timely Information

- AGM notice, Annual Report, and financial statements are dispatched to shareholders more than 30 days prior to the AGM (statutory requirement: 21 days).
- Comprehensive information on each resolution to be proposed.



## SHAREHOLDER RIGHTS

### Voting

- Since 2004, we have conducted all voting at its AGMs by poll.
- The poll is conducted by the Company's Registrar and scrutinised by the Group's auditors.
- Procedures for conducting a poll are explained at the general meeting prior to the taking of the poll.
- Poll results are announced and posted on the websites of both the Stock Exchange and the Company.

### Relevant Provisions in Articles of Association and Hong Kong Law

- Pursuant to our Articles of Association and Hong Kong Companies Ordinance, a general meeting of shareholders can be convened by the Board or a written request signed by shareholders holding at least 5 % of the total voting rights of all the shareholders ("5 % Shareholder").
- 5 % Shareholder may request for passing resolutions by way of written resolution.
- Shareholders may put forward proposals for consideration at a general meeting according to the Hong Kong Companies Ordinance and the Articles of Association.
- All of the above requests shall state the general nature of the business to be dealt with at the meeting, and deposited at the Company's registered office (49/F, Lee Garden One, 33 Hysan Avenue, Hong Kong. Attention: The Company Secretary).
- There are no limitations imposed by Hong Kong law or our Articles of Association on the right of non-residents or foreign persons to hold or vote on the Company's shares other than those that would generally apply to all shareholders.
- No changes have been made to our Articles of Association during the year.
- Changes to allow Directors to signify agreement to a director's written resolution by electronic means will be proposed at the AGM to be held in May 2017.

# Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2016, which were approved by the Board of Directors on 22 February 2017.

## PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2016 to be property investment, management, and development. Details of the Group's principal subsidiaries, associates and joint ventures as at 31 December 2016 are set out in notes 17 to 19 respectively to the consolidated financial statements.

The turnover and results of the Group are principally derived from leasing of investment properties located in Hong Kong. The Group's turnover and results by operating segment are set out in note 5 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement on page 131.

The first interim dividend of HK26 cents per share, amounting to approximately HK\$272 million, was paid to shareholders during the year.

The Board declared a second interim dividend of HK109 cents per share to the shareholders on the register of members on 9 March 2017, absorbing approximately HK\$1,139 million. The dividends declared and paid for ordinary shares in respect of the full year 2016 will absorb approximately HK\$1,411 million, the balance of the profit will be retained.

## BUSINESS REVIEW AND PERFORMANCE

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year, the material factors underlying its results and financial position and material attributable factors of the development and likely future developments of the Group's business, are provided throughout this Annual Report, particularly in the following separate sections:

- (a) Review of the Company's business – "Management's Discussion and Analysis";
- (b) The Company's risk management framework, the principal risks the Company is facing and the controls in place – "Risk Management and Internal Control Report";
- (c) Future development in the Company's business – "Key Facts" and "Chairman's Statement";
- (d) Analysis using financial key performance indicators – "Management's Discussion and Analysis";
- (e) Discussion on the Company's environmental policies and performance – "Responsible Business";
- (f) Discussion on the Company's compliance with the relevant laws and regulations – "Corporate Governance Report", "Independent Auditor's Report" and "The Stock Exchange of Hong Kong Limited's Environmental, Social and Governance Reporting Guide"; and
- (g) An account of the Company's key relationships with its employees, customers and suppliers and others – "Responsible Business" and "Directors' Report".



## RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on pages 134 and 135 and note 29 to the consolidated financial statements respectively.

## INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer as at 31 December 2016 using the fair value model. Details of movements during the year in the investment properties of the Group are set out in note 15 to the consolidated financial statements.

Details of the major investment properties of the Group as at 31 December 2016 are set out in the section under Schedule of Principal Properties of this Annual Report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 16 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and meets the requirements of the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

Further information on the Company's corporate governance practices is set out in the following separate reports:

- (a) "Corporate Governance Report" (pages 81 to 101) – it gives detailed information on the Company's compliance with the Corporate Governance Code, and adoption of local and international best practices;
- (b) "Directors' Remuneration and Interests Report" (pages 111 to 120) – it gives detailed information on Directors' remuneration and interests (including information on Directors' compensation, service contracts, Directors' interests in shares, contracts and competing business);
- (c) "Audit Committee Report" (pages 121 and 124) – it sets out the terms of reference, work performed and findings of the Audit Committee for the year;
- (d) "Risk Management and Internal Control Report" (pages 44 to 49) – it sets out the Company's framework on risk assessment and internal control (including control environment, control activities and work done during the year); and
- (e) "Responsible Business" section (pages 51 to 73) – it sets out the Company's corporate responsibility policies and practices reflecting its commitment to maintaining a high standard of corporate governance.

## THE BOARD

The Board is currently chaired by Irene Yun Lien LEE, Chairman. There are 9 other Non-Executive Directors.

Siu Chuen LAU stepped down as Deputy Chairman and Chief Executive Officer and was re-designated as Non-Executive Director with effect from the conclusion of the August 2016 Board Meeting.

Nicholas Charles ALLEN retired as an Independent Non-Executive Director with effect from the conclusion of the 2016 AGM.

Irene Yun Lien LEE and Trevor Chi-Hsin YANG served as alternate Directors to Anthony Hsien Pin LEE and Hans Michael JEBSEN respectively throughout the year.

Save as otherwise mentioned, other Directors whose names and biographies appear on pages 76 to 79 have been Directors of the Company throughout the year.

Under Article 114 of the Company's current Articles of Association, one-third (or such other number as may be required under applicable legislation) of the Directors; and where the applicable number is not an integral number, to be rounded upwards, who have been longest in office shall retire from office by rotation at each AGM. A retiring Director is eligible for re-election.

Particulars of Directors seeking for re-election at the forthcoming AGM are set out in the related circular to shareholders.

The Company has received from each Independent Non-Executive Director an annual confirmation of his independence as regard each of the factors referred to in Rule 3.13 (1) to (8) of the Listing Rules and the Company considered all of them to be independent. The Nomination Committee also reviewed director independence in a meeting held in November 2016. (see "Corporate Governance Report")

The names of directors who have served on the boards of the subsidiaries of the Company during the year and upto the date of this report are available on the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk).

## DIRECTORS' INTERESTS IN SHARES

Details of the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations are set out in "Directors' Remuneration and Interests Report" on pages 111 to 120.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2016, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

### Aggregate long positions in shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	% of the total no. of issued shares (Note a)
Lee Hysan Estate Company, Limited	Beneficial owner and interests of a controlled corporation	433,130,735 (Note b)	41.43
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 (Note b)	41.43
Silchester International Investors LLP	Investment manager	95,187,000	9.11

Notes:

- (a) The percentage was compiled based on the total number of shares of the Company in issue as at 31 December 2016 (i.e. 1,045,328,359 ordinary shares).
- (b) These interests represented the same block of shares of the Company. 393,321,734 shares were held by Lee Hysan Estate Company, Limited ("LHE") and 39,809,001 shares were held by a subsidiary of LHE. LHE is a wholly-owned subsidiary of Lee Hysan Company Limited.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register that is required to be kept under section 336 of the SFO as at 31 December 2016.

## RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 33 to the consolidated financial statements.

Some of these transactions also constituted "Continuing Connected Transactions" under the Listing Rules, as identified below.

## CONTINUING CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted continuing connected transactions (the "Transactions") under Rule 14A.76(2) of the Listing Rules during the year. Details of the Transactions required to be disclosed are set out as follows:

### I. Leases granted by the Group

#### (a) Lee Garden Two, 28 Yun Ping Road, Hong Kong ("Lee Garden Two")

The following lease arrangements were entered into by Barrowgate Limited ("Barrowgate"), a 65.36 % subsidiary of the Company and property owner of Lee Garden Two, as landlord, with the following connected persons:

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note a)
(i) Jebson and Company Limited (Note b)	28 March 2013 (Lease and Carpark Licence Agreement) (as amended – Note c)	5 years commencing from 1 September 2013 (Note d)	Office units on the 28th, 30th and 31st Floors and 3 carparking spaces	2016: HK\$31,966,216 2017: HK\$37,212,720 2018: HK\$24,808,480 (on pro-rata basis) (Note j)
(ii) Hang Seng Bank Limited (Note b)	16 August 2013 (Lease and Licence Agreement) (as amended – Note e)	2 years, 4 months and 15 days commencing from 15 October 2013	Shop G13A on the Ground Floor and Shops 2-10 and 11-12 on the Lower Ground Floor and certain areas on the Lower Ground Floor and Ground Floor	2016: HK\$24,023,216 (Note j)
(iii) Treasure Matrix Limited (Notes f & g)	28 March 2014 (Lease and Licence Agreements)	5 years commencing from 28 March 2014 (Note d)	Shop Nos. 308 & 311 on the 3rd Floor (connected to an outdoor garden)	2016: HK\$6,514,818 2017: HK\$7,922,400 2018: HK\$7,922,400 2019: HK\$1,895,413 (on pro-rata basis) (Notes h to k)

## CONTINUING CONNECTED TRANSACTIONS continued

### I. Leases granted by the Group continued

#### (b) One Hysan Avenue, Causeway Bay, Hong Kong ("One Hysan Avenue")

The following lease arrangement was entered into by OHA Property Company Limited, a wholly-owned subsidiary of the Company and property owner of One Hysan Avenue, as landlord, with Atlas Corporate Management Limited, a wholly-owned subsidiary of LHE, a substantial shareholder of the Company (holding 41.43 % interest). Details of the lease are set out below:

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note a)
Atlas Corporate Management Limited	21 August 2014	3 years commencing from 1 November 2014	Whole of 21st Floor	2016: HK\$3,025,344 2017: HK\$2,526,440 (on pro-rata basis) (Notes j & l)

### II. Provision of leasing and property management services to a non wholly-owned subsidiary regarding Lee Garden Two

(a) The following management agreements were entered into by Hysan Leasing Company Limited, a wholly-owned subsidiary of the Company, with Barrowgate for the provision of leasing marketing and lease administration services to Lee Garden Two:

Connected person	Date of agreement	Terms	Premises	Consideration received during the year
Barrowgate Limited	(1) 28 March 2013	3 years commencing from 1 April 2013	Whole premises of Lee Garden Two	HK\$7,659,068 (Note m)
	(2) 22 March 2016	3 years commencing from 1 April 2016	Whole premises of Lee Garden Two	HK\$22,142,533 (Note n)

(b) The following management agreements were entered into by Hysan Property Management Limited, a wholly-owned subsidiary of the Company, with Barrowgate for the provision of property management services to Lee Garden Two:

Connected person	Date of agreement	Terms	Premises	Consideration received during the year
Barrowgate Limited	(1) 28 March 2013	3 years commencing from 1 April 2013	Whole premises of Lee Garden Two	HK\$926,927 (Note m)
	(2) 22 March 2016	3 years commencing from 1 April 2016	Whole premises of Lee Garden Two	HK\$2,746,755 (Note n)

## CONTINUING CONNECTED TRANSACTIONS continued

Notes:

- (a) The annual considerations are based on current rates of rental (including estimated turnover rent, where applicable), operating charges, (for retail premises) promotion levies and (for carparking spaces) licence fees for each of the relevant financial years as provided in the relevant agreements. The rental, operating charges, promotion levies and licence fees (as the case may be) are payable monthly in advance.
- (b) Jebesen and Company Limited ("Jebesen and Company") and Hang Seng Bank Limited are beneficial substantial shareholders of Barrowgate and having equity interest of 10% and 24.64% respectively in Barrowgate. Hans Michael JEBSEN, Non-Executive Director of the Company, is a controlling shareholder of Jebesen and Company.
- (c) On 16 August 2016, a memorandum had been entered into and pursuant to which the rent for the period from 1 September 2016 to 31 August 2018 were reviewed and revised to the then prevailing market rent.
- (d) The term of the agreements mentioned under I(a)(i) and I(a)(iii) above exceeds 3 years. According to Listing Rules requirement, an independent financial adviser to the Board was engaged in each case. It formed the view, in each case, that the term with duration longer than 3 years was required and it was normal business practice for leases of this type to be of such duration.
- (e) On 1 December 2014, a partial surrender agreement had been entered into and pursuant to which the lease for Shop G13A on the Ground Floor at Lee Garden Two had been early surrendered effective 31 October 2015. On 15 December 2014, a new lease and licence agreement had been entered into and pursuant to which the remaining spaces had been renewed for a further term of 3 years commencing from 1 March 2016 to 28 February 2019. As the annual consideration under the renewed lease and licence agreement falls below the applicable de minimis threshold under the Listing Rules, it constitutes an exempted continuing connected transaction of the Company.
- (f) Treasure Matrix Limited ("Treasure Matrix") is a non wholly-owned subsidiary of the Company.
- (g) Under this transaction, Barrowgate was considered a connected person of the Company under the Listing Rules by virtue of its being a non wholly-owned subsidiary of the Company and also having a substantial shareholder which is an associate of Hans Michael JEBSEN, Non-Executive Director of the Company.
- (h) Annual consideration for 2016 included actual turnover rent received for the year under review.
- (i) The rent for the period from 28 March 2017 to 27 March 2019 will be reviewed at the then prevailing market rent and to be agreed by Barrowgate and Treasure Matrix.
- (j) Office and retail monthly operating charges and carpark licence fee for Lee Garden Two were revised with effect from 1 January 2016. Office monthly operating charges for One Hysan Avenue were revised with effect from 1 January 2016.
- (k) Retail monthly operating charges and promotion levies for Lee Garden Two were revised with effect from 1 January 2017.
- (l) Office extra air-conditioning operating charges for One Hysan Avenue were revised with effect from 1 January 2017.
- (m) These represent the actual consideration received for the period from 1 January 2016 to 31 March 2016, calculated on the basis of the fee schedules as prescribed in the respective management agreements.
- (n) These represent the actual consideration received for the period from 1 April 2016 to 31 December 2016, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

All the Transactions were entered in the ordinary and usual course of business of the respective companies after due negotiations on an arm's length basis with reference to the prevailing market conditions.

Announcements were published regarding the Transactions in accordance with the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in so far as they are applicable.

## CONTINUING CONNECTED TRANSACTIONS continued

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 106 to 108 of the Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

All Independent Non-Executive Directors of the Company have reviewed the Transactions and the report of the auditor and confirmed that the respective contracts and terms of the Transactions are:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms; and
3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

## INTEREST IN CONTRACTS OF SIGNIFICANCE

No agreement is considered a contract of significance under paragraph 15 of Appendix 16 of the Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, 31.78 % of the aggregate amount of purchases were attributable to the Group's 5 largest suppliers with the largest supplier accounting for 15.14 % of the Group's total purchases. The aggregate amount of turnover attributable to the Group's 5 largest customers was less than 30 % (being the Listing Rule disclosure threshold) of total turnover of the Group.

None of the Directors, their close associates or any shareholder (which to the knowledge of the Directors owns more than 5 % of the Company's issued share capital) had any interest in the Group's 5 largest suppliers.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company was authorised at its AGMs to repurchase its own ordinary shares not exceeding 10 % of the total number of its issued shares as at the dates of the resolutions being passed. During the year, the Company repurchased its ordinary shares on the Stock Exchange when they were trading at a significant discount to the Company's net asset value in order to enhance shareholder value.

During the year, the Company repurchased an aggregate of 12.59 million ordinary shares for a total consideration of approximately HK\$393 million (excluding relevant trading costs directly attributable to share repurchase) on the Stock Exchange. The repurchased shares were cancelled during the year. Details of the shares repurchased are as follows:

Month of repurchase in 2016	Number of shares repurchased	Consideration per share		Aggregate consideration paid HK\$ million
		Highest HK\$	Lowest HK\$	
January	8,560,000	31.85	28.95	262
February	325,000	30.60	29.75	10
March	299,000	32.50	32.05	10
April	304,000	31.70	31.30	9
May	2,180,000	33.60	31.60	70
June	65,000	33.20	32.45	2
November	861,000	34.90	33.55	30
	<u>12,594,000</u>			<u>393</u>

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.



### **ISSUANCE OF SECURITIES**

In October 2016, Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, established the US\$1.5 billion Medium Term Note Programme ("MTN Programme"), which was listed on the Stock Exchange. Notes issued under the MTN Programme are unconditionally and irrevocably guaranteed by the Company. No notes have been issued under the MTN Programme for the year under review.

### **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

### **DONATIONS**

During the year, the Group made donations of approximately HK\$0.6 million to charitable and non-profit-making organisations.

### **AUDITOR**

A resolution for the re-appointment of Messrs. Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the 2017 AGM.

By Order of the Board  
**Irene Yun Lien LEE**  
*Chairman*

Hong Kong, 22 February 2017

# Directors' Remuneration and Interests Report

## COMPENSATION REVIEW

### Remuneration Committee

The Board recognises the significance of having in place a transparent and objective process for determining Executive Director and senior management compensation. The Remuneration Committee (first established in 1987) reviews and determines the remuneration of Executive Directors as well as recommends fees payable to Non-Executive Directors for shareholders' approval. Its terms of reference have been expanded to cover review of remuneration of senior management, new share option plans, changes to key terms of pension plans, and key terms of new compensation and benefits plans with material financial, reputational, and strategic impact.

The Remuneration Committee currently comprises of 3 members (with a majority of Independent Non-Executive Directors). It is chaired by Philip Yan Hok FAN (Independent Non-Executive Director) and the other members are Joseph Chung Yin POON (Independent Non-Executive Director) and Michael Tze Hau LEE (Non-Executive Director).

Management makes recommendations to the Committee on the Company's framework for, and cost of, Executive Director and senior management remuneration and the Committee then reviews these recommendations. Fees payable to other Non-Executive Directors are reviewed from time to time. Independent professional advice will be sought where appropriate. On matters other than those concerning them, the Chairman and Chief Executive Officer may be invited to the Committee meetings. No Director is involved in deciding his own remuneration.

### Executive Director Remuneration Policy

The Group's remuneration policy aims to provide a fair market remuneration to attract, retain and motivate high quality staff. At the same time, such awards must be aligned with the shareholders' interests.

The following principles have been established:

- Remuneration package will consist of several components: (i) fixed part (base salary and benefits); (ii) performance-based (bonus); and (iii) long-term incentives (executive share options). The structure will reflect a fair system of reward for all the participants, emphasising performance.
- Remuneration packages are set at levels to ensure comparability and competitiveness with Hong Kong-based companies competing within a similar talent pool, with particular emphasis on the property industry. Independent professional advice will be sought to supplement internal resources where appropriate.
- The Committee will determine the overall amount of each component of remuneration, taking into account both quantitative and qualitative assessment of performance.
- Remuneration policy and practice will be as transparent as possible.
- Executive Directors will develop significant personal shareholdings pursuant to the executive share options in order to align their interests with those of shareholders.
- Pay and employment conditions elsewhere in the Group will be taken into account.
- The remuneration policy for Executive Directors will be reviewed regularly, independently of executive management.

Details of Director (including individual Executive Director) emoluments for the year 2016 and option movements during the year are set out in notes 11 and 34 respectively to the consolidated financial statements.

### COMPENSATION REVIEW continued

#### Non-Executive Director Remuneration Policy

Key elements of our Non-Executive Director remuneration policy include:

- Remuneration should be sufficient to attract and retain first class non-executive talent.
- Remuneration of Non-Executive Directors is (subject to shareholders' approval) set by the Board and should be proportional to their contribution towards the interests of the Company.
- Remuneration practice should be consistent with the recognised best practice standards for Non-Executive Director remuneration.
- Remuneration should be in the form of cash fees, payable semi-annually.
- Non-Executive Directors do not receive share options from the Company.

Non-Executive Directors received no other compensation from the Group except for the fees disclosed below. None of the Non-Executive Directors receives any pension benefits from the Company, nor do they participate in any bonus or incentive schemes.

Non-Executive Directors (including the Independent Non-Executive Directors) received fees totalling HK\$2,501,739 for the year 2016.

#### 2016 Review

The Committee met in March 2016 with all members present to (i) approve 2016 Executive Director compensation packages and 2015 performance-based bonus; (ii) review the fees for Non-Executive Directors and Board Committee members; and (iii) refine its terms of reference to extend its responsibility to the determination of compensation at Executive Director-level and senior management, among other matters.

The executive packages were set at levels to ensure comparability and competitiveness with Hong Kong based companies competing within a similar talent pool, with particular emphasis on the property industry. Clear performance targets were set.

#### February 2017 Review

The Committee met in February 2017 to (i) approve 2017 Executive Director compensation package and 2016 performance-based bonus; (ii) review the fees for Non-Executive Directors and Board Committee members; and (iii) review compensation of department heads. All members attended the meeting.

## COMPENSATION REVIEW continued

### Director Fee Levels

Director fees are subject to shareholders' approval at general meetings. Revision to fees of Non-Executive Directors, Chairman and member of Audit Committee, and member of Strategy Committee were proposed, and approved, at the AGM held on 13 May 2016. The current fee scale for Non-Executive Directors and Board Committee members are set out below. Executive Directors will not receive any Director Fee.

	Per annum HK\$
<b>Board of Directors</b>	
Non-Executive Director	225,000 (Note 3)
<b>Audit Committee</b>	
Chairman	135,000 (Note 3)
Member	70,000 (Note 3)
<b>Remuneration Committee</b>	
Chairman	60,000 (Note 2)
Member	40,000 (Note 1)
<b>Strategy Committee</b>	
Chairman	30,000
Member	30,000 (Note 3)
<b>Other Committees</b>	
Chairman	30,000
Member	20,000

Notes:

1. Approved by shareholders in 2011 AGM.
2. Approved by shareholders in 2014 AGM.
3. Approved by shareholders in 2016 AGM.

### Long-term incentives: Share Option Schemes

The Company can grant options under the executive share option schemes as adopted from time to time. The purpose of the schemes was to strengthen the link between individual staff and shareholders' interests. The power of grant to Executive Directors is vested in the Remuneration Committee and endorsed by all Independent Non-Executive Directors as required under the Listing Rules. The Chairman or the Chief Executive Officer may make grants to management staff below Executive Director level.

Key terms of the share option schemes of the Company are summarised as follows:

#### The 2005 Share Option Scheme (the "2005 Scheme")

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005, which has a term of 10 years and expired on 9 May 2015. All outstanding options granted under the 2005 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2005 Scheme. No further option will be granted under the 2005 Scheme.

Under the 2005 Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any wholly-owned subsidiaries (including Executive Directors) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed such number of shares as required under the Listing Rules, being 10% of the shares in issue as at 10 May 2005, the date of the AGM approving the 2005 Scheme (being 104,996,365 shares).

### COMPENSATION REVIEW continued

#### Long-term incentives: Share Option Schemes continued

##### The 2005 Share Option Scheme (the "2005 Scheme") continued

The maximum entitlement of each participant under the 2005 Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1 % of the total shares in issue as at the date of shareholders' approval, being 10,499,636 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration on each grant of option is HK\$1 and is required to be paid within 30 days from the date of grant of options, with full payment for exercise price to be made on exercise of the relevant options.

##### The 2015 Share Option Scheme (the "New Scheme")

The Company adopted the New Scheme (together with the 2005 Scheme are referred to as the "Schemes") at its AGM held on 15 May 2015, which has a term of 10 years and will expire on 14 May 2025. Terms of the New Scheme are substantially the same as those under the 2005 Scheme.

Under the New Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any subsidiaries (including Executive Directors) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed such number of shares as required under the Listing Rules, currently being 10 % of the shares in issue as at 15 May 2015, the date of the AGM approving the New Scheme (being 106,389,669 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meeting for "refreshing" the 10 % limit under the New Scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30 % of the shares in issue from time to time (or such number of shares as required under the Listing Rules). No options may be granted if such grant will result in this 30 % limit being exceeded.

The maximum entitlement of each participant under the New Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1 % of the total shares in issue as at the date of shareholders' approval, being 10,638,966 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration on each grant of option is HK\$1 and is required to be paid within 30 days from the date of grant of options, with full payment for exercise price to be made on exercise of the relevant options.

##### Grant and vesting structures

Under the Company's current policy, grants will be made on a periodic basis. Exercise period is 10 years. Vesting period is 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

## COMPENSATION REVIEW continued

### Long-term incentives: Share Option Schemes continued

#### Movement of share options

During the year, a total of 1,397,000 shares options were granted under the New Scheme. The 2005 Scheme expired on 9 May 2015 and no further option will be granted under the 2005 Scheme.

As at the date of this Annual Report:

- (i) 2,360,335 share options granted (including 1,723,323 fully-vested share options) under the 2005 Scheme remained outstanding, representing approximately 0.23 % of the total number of issued shares of the Company;
- (ii) 940,000 share options granted (none of which were vested) under the New Scheme remained outstanding, representing approximately 0.09 % of the total number of issued shares of the Company; and
- (iii) 105,449,669 shares are issuable under the New Scheme representing approximately 10 % of the total number of issued shares of the Company.

Details of options granted, exercised, cancelled/lapsed and outstanding under the Schemes during the year are as follows:

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2016	Changes during the year			Balance as at 31.12.2016
					Granted	Exercised	Cancelled/ lapsed (Note b)	
<b>2005 Scheme</b>								
<b>Executive Directors</b>								
Irene Yun Lien LEE	14.5.2012	33.50	14.5.2013 – 13.5.2022	261,000	–	(174,000) (Note c)	–	87,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	–	300,000
Siu Chuen LAU (Note d)	14.5.2012	33.50	14.5.2013 – 13.5.2022	161,334	–	(161,334) (Note c)	–	–
	7.3.2013	39.92	7.3.2014 – 6.3.2023	246,000	–	–	(246,000)	–
	10.3.2014	32.84	10.3.2015 – 9.3.2024	302,000	–	(201,333) (Note e)	(100,667)	–
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	(300,000)	–

**COMPENSATION REVIEW** continued

**Long-term incentives: Share Option Schemes** continued

**Movement of share options** continued

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2016	Changes during the year			Balance as at 31.12.2016
					Granted	Exercised	Cancelled/ lapsed (Note b)	
<b>Eligible employees</b> (Note f)	31.3.2008	21.96	31.3.2009 – 30.3.2018	17,000	–	(6,000) (Note g)	–	11,000
	31.3.2009	13.30	31.3.2010 – 30.3.2019	134,000	–	(6,000) (Note g)	–	128,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	152,334	–	(26,000) (Note h)	–	126,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	172,001	–	(40,667) (Note i)	(6,334)	125,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	250,335	–	(76,334) (Note j)	(14,000)	160,001
	28.3.2013	39.20	28.3.2014 – 27.3.2023	288,000	–	–	(12,000)	276,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	396,000	–	(36,666) (Note k)	(21,334)	338,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	404,000	–	(16,333) (Note l)	(28,667)	359,000
				3,974,004	–	(744,667)	(729,002)	2,500,335

## COMPENSATION REVIEW *continued*

### Long-term incentives: Share Option Schemes *continued*

#### Movement of share options *continued*

Movement of share options continued					Changes during the year			Balance as at 31.12.2016	
Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2016	Granted	Exercised	Cancelled/ lapsed (Note b)		
<b>New Scheme</b>									
<b>Executive Directors</b>									
Irene Yun Lien LEE	9.3.2016	33.15 (Note m)	9.3.2017 – 8.3.2026	–	375,000	–	–	375,000	
Siu Chuen LAU (Note d)	9.3.2016	33.15 (Note m)	9.3.2017 – 8.3.2026	–	375,000	–	(375,000)	–	
<b>Eligible employees</b> (Note f)	31.3.2016	33.05 (Note n)	31.3.2017 – 30.3.2026	–	647,000	–	(37,000)	610,000	
					–	1,397,000	–	(412,000)	985,000

#### Notes:

- All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, “exercise period” begins with the 1st anniversary of the grant date.
- The options lapsed during the year upon re-designation of an Executive Director and resignations of certain eligible employees.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.35.
- Siu Chuen LAU stepped down as Deputy Chairman and Chief Executive Officer and was re-designated as Non-Executive Director with effect from the conclusion of the August 2016 Board Meeting. All the options granted to Siu Chuen LAU have been lapsed at the date following the re-designation.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.30.
- Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$33.25.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.27.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.95.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$35.88.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.78.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.84.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 8 March 2016) was HK\$33.70.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2016) was HK\$32.85.

Apart from the above, the Company did not grant any share option under the Schemes to any other persons during the year that is required to be disclosed under Rule 17.07 of the Listing Rules.

Particulars of the Schemes are set out in note 34 to the consolidated financial statements.



## COMPENSATION REVIEW continued

### Long-term incentives: Share Option Schemes continued

#### Value of share options

Pursuant to Rule 17.08 of the Listing Rules, the value of the share options granted during the year is to be expensed through the Group's income statement over the three-year vesting period of the options.

The fair values of share options granted by the Company were determined by using Black-Scholes option pricing model (the "Model"). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The inputs into the Model were as follows:

Date of grant	31.3.2016	9.3.2016
Closing share price at the date of grant	HK\$33.050	HK\$33.150
Exercise price	HK\$33.050	HK\$33.150
Risk free rate ( <i>Note a</i> )	0.931%	1.019%
Expected life of option ( <i>Note b</i> )	5 years	5 years
Expected volatility ( <i>Note c</i> )	27.323%	27.339%
Expected dividend per annum ( <i>Note d</i> )	HK\$1.092	HK\$1.092
Estimated fair values per share option	HK\$6.127	HK\$6.190

Notes:

- (a) Risk free rate: being the approximate yields of 5-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
- (b) Expected life of option: being the period of 5 years commencing on the date of grant, based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.
- (c) Expected volatility: being the approximate historical volatility of closing prices of the shares of the Company in the past 5 years immediately before the date of grant.
- (d) Expected dividend per annum: being the approximate average annual cash dividend for the past 5 financial years.

#### SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries that is not determinable by the Group within 1 year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2016, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

### Aggregate long positions in shares and underlying shares of the Company

Name	Number of ordinary shares held				Total	% of the total no. of issued shares (Note a)
	Personal interests	Family interests	Corporate interests	Other interests		
Hans Michael JEBSEN	60,984	–	2,473,316 (Note b)	–	2,534,300	0.242
Irene Yun Lien LEE	304,000	–	–	–	304,000	0.029
Chien LEE	800,000	–	–	–	800,000	0.077

Notes:

- (a) This percentage was compiled based on the total number of shares of the Company in issue (i.e. 1,045,328,359 ordinary shares) as at 31 December 2016.
- (b) Such shares were held through a corporation in which Hans Michael JEBSEN was a member entitled to exercise no less than one-third of the voting power at general meeting.

Executive Director(s) of the Company have been granted share options under the 2005 Scheme and the New Scheme (details are set out in the section headed "Long-term incentives: Share Option Schemes" above). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

### Aggregate long positions in shares of associated corporations

Listed below is a Director's interest in the shares of Barrowgate, a 65.36 % subsidiary of the Company:

Name	Number of ordinary shares held		Total	% of the total no. of issued shares
	Corporate interests	Other interests		
Hans Michael JEBSEN	1,000	–	1,000	10 (Note)

Note:

Jebsen and Company held a 10 % interest in the total number of issued shares in Barrowgate through a wholly-owned subsidiary. Hans Michael JEBSEN was deemed to be interested in the shares of Barrowgate by virtue of being a controlling shareholder of Jebsen and Company.

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2016 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### DIRECTORS' INTERESTS IN SHARES continued

#### Compliance of the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the year.

### DIRECTORS' INTERESTS IN CONTRACTS

During the year, certain Directors have interests, directly or indirectly, in contracts with the Group. These contracts constitute Related Party Transactions, Connected Transactions or Contracts of Significance under applicable accounting or regulatory rules (details are disclosed in the "Directors' Report").

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Group is engaged principally in the property investment, development and management of high quality investment properties in Hong Kong. The following Directors (excluding Independent Non-Executive Directors, in accordance with Listing Rules disclosure requirements) are considered to have interests in other activities (the "Deemed Competing Business") that compete or are likely to compete with the said core business of the Group, all within the meaning of the Listing Rules:

- (i) Irene Yun Lien LEE, Siu Chuen LAU, Anthony Hsien Pin LEE, Chien LEE and Michael Tze Hau LEE are members of the founding Lee family whose range of general investment activities include property investments in Hong Kong and overseas. In light of the size and dominance of the portfolio of the Group, such disclosed Deemed Competing Business is considered immaterial.
- (ii) Hans Michael JEBSEN and his alternate, Trevor Chi-Hsin YANG, hold the offices of directors in Jebesen and Company. Business activities of some of its subsidiaries include, inter alia, investment holding and property investment in both the People's Republic of China and Hong Kong. Mr. Jebesen is also a substantial shareholder of the companies.  
  
Mr. Jebesen is an independent non-executive director of The Wharf (Holdings) Limited whose business includes, inter alia, property investment, development and management in both the People's Republic of China and Hong Kong.
- (iii) Chien LEE is a non-executive director of Swire Pacific Limited whose business includes, inter alia, property investment and trading in Hong Kong, the People's Republic of China and the United States of America.

The Company's management team is separate and independent from that of the companies identified above. In addition, save and except Irene Yun Lien LEE and Siu Chuen LAU (redesignated as Non-Executive Director with effect from conclusion of the August 2016 Board Meeting), the relevant Directors have non-executive roles and are not involved in the Company's day-to-day operations and management.

For the reasons stated above, and coupled with the diligence of the Group's Independent Non-Executive Directors and the Audit Committee, the Group is capable of carrying on its business independent of and at arm's length from the Deemed Competing Business.

The Board also has a process in place to regularly review and resolve situations where a Director may have a conflict of interest.

By Order of the Board  
**Irene Yun Lien LEE**  
Chairman

Hong Kong, 22 February 2017

# Audit Committee Report

The Audit Committee has 4 members (with a majority of Independent Non-Executive Directors). Currently, it is chaired by Joseph Chung Yin POON (Independent Non-Executive Director, appointed as the Chairman of Audit Committee with effect from the conclusion of the May 2016 AGM), and the other members are Frederick Peter CHURCHHOUSE (Independent Non-Executive Director), Philip Yan Hok FAN (Independent Non-Executive Director) and Anthony Hsien Pin LEE (Non-Executive Director). Nicholas Charles ALLEN ceased to be the Chairman of Audit Committee with effect from the conclusion of the May 2016 AGM.

Under its terms of reference, the Committee oversees the Company's financial reporting process; it also reviews the Company's risk management and internal control systems and its relationship with external auditor. The Committee also has the responsibility to review the adequacy of resources, qualifications and experience of staff of the Group's internal audit, accounting and financial reporting functions, and their training programmes and budget. The Committee reports to the Board on its findings after each Committee meeting.

The Committee held 3 meetings during the year, on 7 March, 1 August and 28 November 2016. The meetings in March 2016 and August 2016 held to consider the financial statements for 2015 final results and 2016 interim results respectively. The meeting held in November reviewed the Group's risk management and internal control systems, report on major risks which the Group was facing and miscellaneous issues not relating to the approval of financial statements and results announcements. The Committee last met on 21 February 2017 to consider the financial statements for the year ended 31 December 2016.

At the invitation of the Audit Committee, meetings are also attended by the Chairman and other members of the management (including the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer). Pre-meeting sessions with external and internal auditors are held without management's presence.

Details on the meeting held in March 2016 were set out in the 2015 Annual Report. Significant matters, as reviewed and discussed in the other meetings, include the following:

## FINANCIAL REPORTING

In the process of financial reporting, 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. The Committee oversees the respective work of management and the external auditor to endorse the processes and safeguards employed by them.

- August 2016 : The Committee reviewed and recommended to the Board for approval of the unaudited financial statements for the first 6 months of 2016, prior to announcement. The Committee received reports from and met with the external auditor and internal auditor to discuss the scope of their respective review and findings.

Judgmental issues considered: The Committee had discussions with management on significant judgments affecting the Group's financial statements. These included valuation of investment properties as at 30 June 2016, and valuation of investment under redevelopment as at 30 June 2016. In particular, there were discussions on residual valuation approach adopted by the independent professional valuer, Knight Frank Petty Limited, for Lee Garden Three.

The Group's independent professional valuer was also present at the meeting to answer the Committee's questions.

For valuation of investment properties, the Committee also noted that the external auditor had performed various procedures before relying on the valuation prepared by the Group's independent professional valuer.

Based on such review and discussions, and the external auditor's review work, the Audit Committee recommended to the Board for approval of the financial statements for the first 6 months ended 30 June 2016.

**FINANCIAL REPORTING** continued

- February 2017 : The Committee reviewed and discussed with the management and external auditor the audited financial statements for the year ended 31 December 2016, prior to announcement. The Committee received reports from and met with the external auditor and internal auditor and discussed the general scope of their respective work and findings.

Judgmental issues considered: The Committee had discussions with management on significant judgments affecting the Group's financial statements. These included valuation of investment properties as at 31 December 2016.

The Group's independent professional valuer, Knight Frank Petty Limited, was also present at the meeting to answer the Committee's questions.

For valuation of investment properties, the Committee also noted that the external auditor had performed various procedures before relying on the valuation prepared by the Group's independent professional valuer.

Based on these review and discussions, and the report of the external auditor, the Audit Committee recommended to the Board for approval of the financial statements for the year ended 31 December 2016, together with the Independent Auditor's Report.

**RELATIONSHIP WITH EXTERNAL AUDITOR**

- August 2016 : The Committee reviewed and considered the terms of engagement of the external auditor in respect of: 2016 final results (including 2016 annual audit, the related results announcement, and annual review of continuing connected transactions); and annual update of the Group's MTN Programme.
- November 2016 : The Committee reviewed the audit progress report of the external auditor.
- February 2017 : Annual Assessment: The Committee assessed and was satisfied as to the auditor's qualification, expertise and services and independence. In particular, it was satisfied that the auditor's independence and objectivity has not been impaired by reason of the provision of non-audit services. An arrangement for lead audit partner rotation was also in place by the auditor.

**External Auditor's Services and Fees**

	2016 HK\$ million	2015 HK\$ million
Audit Services	2.50	2.35
Non-audit Services ( <i>Note</i> )	0.94	0.87
Total	3.44	3.22

Note: "Non-audit services" referred to agreed-upon-procedure reports or statutory compliance, regulatory or government procedures required to comply with financial, accounting or regulatory report matters. Specifically, these included reviews of interim financial statements, issue of assurance reports for continuing connected transactions, and reviews of financial information in connection with the annual updates of the Group's MTN Programmes in 2016 and 2015 respectively.

The Committee also reviewed and considered the 2017 audit service plan of the external auditor, and the terms of its engagement in respect of the 2017 interim results review.

The Committee recommended to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditor for 2017.

## REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

- August and November 2016 : The Committee received from, and discussed with, management (i) an update report on major risks the Group was facing; (ii) review of IT operation framework; (iii) mapping of legal and regulatory compliance framework; (iv) risk management presentation on project management of Lee Garden Three construction; and (v) review on whistleblowing reports.

The Committee considered the reports of the Internal Audit, including status in implementing its recommendations.

At the November 2016 meeting, the Committee also reviewed the adequacy of resources, qualifications and experience of staff of the internal audit, accounting and financial reporting functions, and their training programmes and budget.

- February 2017 : The Committee reviewed 2016 annual risk management and internal control systems based on:
  - regular reports by management of major risks, and special reports on selected major risk items
  - regular reports of the Internal Audit, including status in implementing its recommendations
  - certification of controls effectiveness by management, covering financial, operational, and compliance 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 during the course of its audit

The Committee was satisfied as to the 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 internal audit, accounting and financial reporting functions, and their training programmes and budget). No significant areas of concern which might affect financial, operational, compliance controls and risk management functions were identified.

## INTERNAL AUDIT

- August and November 2016, February 2017 : The Committee reviewed the management responses to audit reports issued during the year; and progress made in implementing improvement actions.
- November 2016 : The Committee considered and approved the scope of work to be undertaken by the Internal Audit function in 2017.

## **EVALUATION**

The Board and Committee evaluation process which took place during the year concluded that the Committee was effective in fulfilling its roles in 2016. (For details, please refer to Corporate Governance Report – “Board Evaluation 2016” (page 94)).

Members of the Audit Committee

**Joseph Chung Yin POON** (*Chairman*)

**Frederick Peter CHURCHOUSE**

**Philip Yan Hok FAN**

**Anthony Hsien Pin LEE**

Hong Kong, 22 February 2017