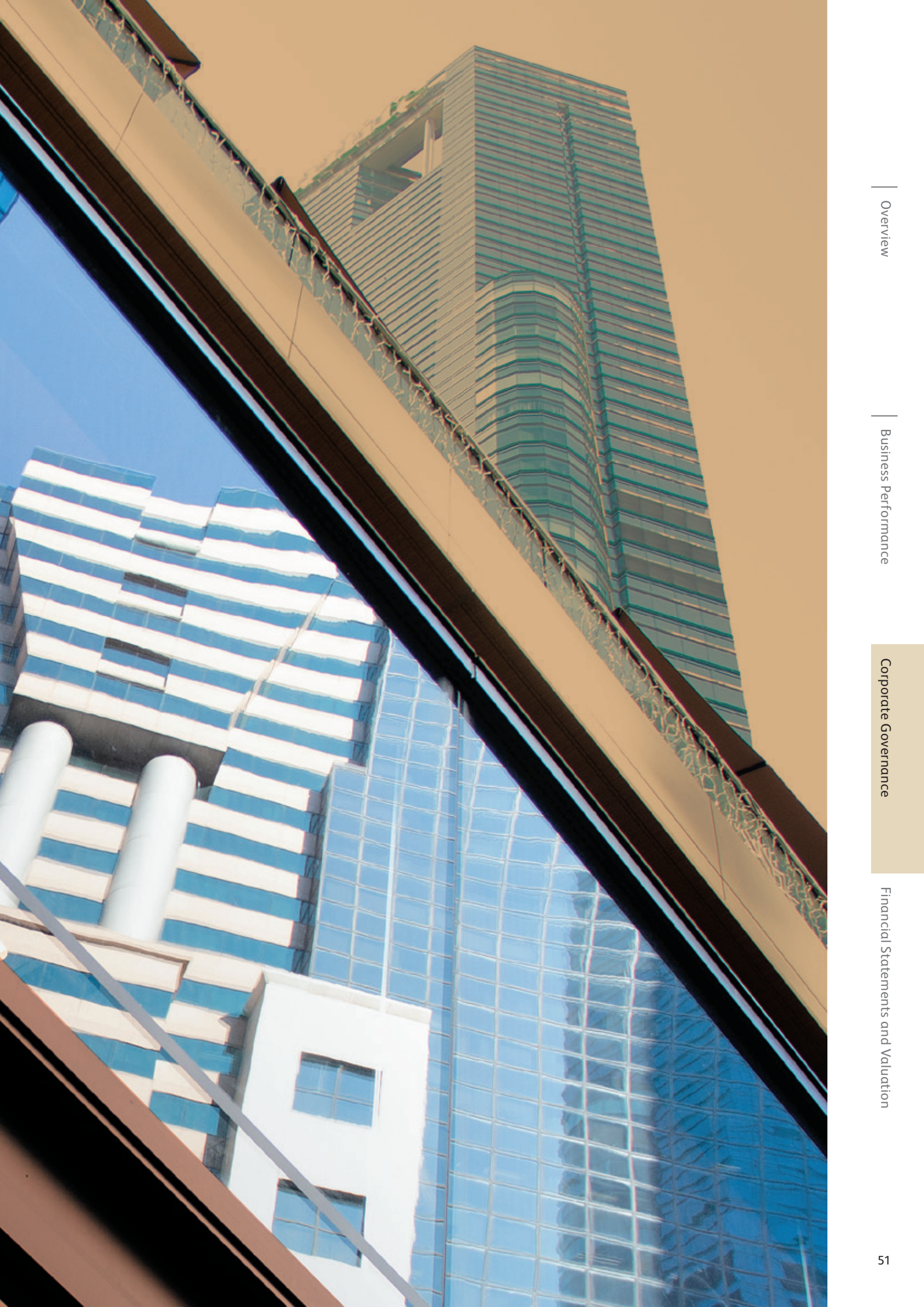


# 3

## Corporate Governance

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# Our People

## Executive Director



**Lee Irene Yun-Lien**  
Chairman of the Board



## Board of Directors

The Board is responsible for the stewardship of the Company, overseeing its conducts and affairs to create sustainable value for the benefit of its shareholders.

**Board appointment** Ms. Lee 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 65.

**Competencies and experience** Ms. Lee leads the Group in her executive Chairman role. Ms. Lee is an independent non-executive director of Cathay Pacific Airways Limited, HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. She is a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. 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, and 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 the Australian Stock Exchange), a non-executive director of ING Bank (Australia) Limited, QBE Insurance Group Limited and The Myer Family Company Pty Limited, an independent non-executive director of Noble Group Limited (listed on Singapore Exchange Limited) and CLP Holdings 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. Lee Anthony Hsien Pin (Non-Executive Director) and his alternate on the Board.

**Qualifications** 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.

**Committees** Ms. Lee is the Chairman of the Nomination Committee and was the Chairman of the Strategy Committee.

## Non-Executive Directors



**Churchouse Frederick Peter**

**Independent  
Non-Executive Director**



**Board appointment** Mr. Churchouse was appointed an Independent Non-Executive Director in December 2012 and is aged 69.

**Competencies and experience** 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 Group Holdings Limited (formerly known as 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.

**Qualifications** Mr. Churchouse gained a Bachelor of Arts degree and a Master of Social Sciences degree from the University of Waikato in New Zealand.

**Committee** Mr. Churchouse is a member of the Audit and Risk Management Committee.



**Fan Yan Hok Philip**

**Independent  
Non-Executive Director**



**Board appointment** Mr. Fan was appointed an Independent Non-Executive Director in January 2010. He is aged 69.

**Competencies and experience** 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. He was previously an independent non-executive director of Guolian Securities Co., Ltd. and an independent director of Goodman Group.

**Qualifications** 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 the Massachusetts Institute of Technology.

**Committees** Mr. Fan is the Chairman of the Remuneration Committee, a member of the Audit and Risk Management Committee and the Nomination Committee, and was a member of the Strategy Committee.

Non-Executive Directors (continued)



**Lau Lawrence Juen-Yee**

**Independent  
Non-Executive Director**



**Board appointment** Professor Lau was appointed an Independent Non-Executive Director in December 2014. He is aged 74.

**Competencies and experience** 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, Semiconductor Manufacturing International Corporation ("SMIC") and Far EasTone Telecommunications Co., Ltd. (listed on the Taiwan Stock Exchange). Professor Lau 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. From June 2011 to December 2014, Professor Lau was a non-executive director of SMIC. Professor Lau is 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, a member and Chairman of the Prize Recommendation Committee, LUI Che Woo Prize Company and a member of the Hong Kong Trade Development Council (HKTDC) Belt and Road Committee. He was appointed a Justice of the Peace in July 2007, awarded the Gold Bauhinia Star in 2011 by the Government of the Hong Kong Special Administrative Region and served as a member of the 11th and 12th National Committee of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Economics Sub-committee.

**Qualifications** 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.

**Committee** Professor Lau is a member of the Nomination Committee.



**Poon Chung Yin Joseph**

**Independent  
Non-Executive Director**



**Board appointment** Mr. Poon was appointed an Independent Non-Executive Director in January 2010. He is aged 64.

**Competencies and experience** Mr. Poon is an independent non-executive director of AAC Technologies Holdings Inc. He was formerly the group managing director and deputy chief executive officer of Tai Chong Cheang Group, 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.

**Qualifications** 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.

**Committees** Mr. Poon is the Chairman of the Audit and Risk Management Committee, a member of the Remuneration Committee and the Nomination Committee, and was a member of the Strategy Committee.



**Wong Ching Ying  
Belinda**  
Independent  
Non-Executive Director

**Board appointment** Ms. Wong was appointed an Independent Non-Executive Director in December 2018 and is aged 47.

**Competencies and experience** Ms. Wong is currently the chief executive officer of Starbucks China. Ms. Wong joined Starbucks Coffee Company in 2000 and held leadership positions across a variety of business units and geographies, including marketing director for the Asia Pacific region of Starbucks Coffee, managing director of Starbucks Singapore and general manager of Starbucks Hong Kong. Prior to joining Starbucks group in 2000, Ms. Wong was the marketing manager of McDonald's China Development Company. She has extensive experience in retail, food and beverage, people, brand development and growth strategy across the Greater China and Asia Pacific regions. She serves as a member on the Faculty Advisory Board for the University of British Columbia's Sauder School of Business.

**Qualifications** Ms. Wong holds a Bachelor of Commerce degree with a major in finance from the University of British Columbia in Canada.



**Jebsen Hans Michael  
B.B.S.**  
Non-Executive Director



**Board appointment** Mr. Jebsen was appointed a Non-Executive Director in 1994 and is aged 62.

**Competencies and experience** Mr. Jebsen is chairman of Jebsen and Company Limited as well as a director of other Jebsen Group companies worldwide. He is also an independent non-executive director of The Wharf (Holdings) Limited. Mr. Jebsen currently holds a number of public offices, namely, chairman of the Asian Cultural Council Hong Kong, chairman of the Advisory Council of the Business School of The Hong Kong University of Science and Technology, a trustee of World Wide Fund for Nature Hong Kong and a member of Board of Trustees of Asia Society Hong Kong Center, Hong Kong-Europe Business Council of the Hong Kong Trade Development Council as well as Advisory Board of the Hong Kong Red Cross. Since 2015, he has also been a member of the Operations Review Committee of the Independent Commission Against Corruption. Mr. Jebsen was awarded the Bronze Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2001, made a Knight of the Dannebrog by receiving the Silver Cross of the Order of Dannebrog by H. M. The Queen of Denmark in 2006, was awarded the Merit Cross of the Order of the Merit of the Federal Republic of Germany in 2009, received the title "Hofjægermester" by H. M. The Queen of Denmark in January 2011 and was awarded the Knight of 1st Class of the Order of Dannebrog, Denmark in 2014.

**Qualifications** Mr. Jebsen was awarded Doctor of Business Administration honoris causa of The Hong Kong University of Science and Technology.

**Committee** Mr. Jebsen was a member of the Strategy Committee.

## Non-Executive Directors (continued)



**Lee Anthony Hsien Pin**  
Non-Executive Director



**Board appointment** Mr. Lee was appointed a Non-Executive Director in 1994 and is aged 61.

**Competencies and experience** 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 and a director of Lee Hysan Company Limited, a substantial shareholder of the Company. He is the brother of Ms. Lee Irene Yun-Lien, Chairman.

**Qualifications** 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.

**Committee** Mr. Lee is a member of the Audit and Risk Management Committee.



**Lee Chien**  
Non-Executive Director



**Board appointment** Mr. Lee was appointed a Non-Executive Director in 1988 and is aged 65.

**Competencies and experience** Mr. Lee is a private investor and a non-executive director of Swire Pacific Limited and a number of private companies. He is a member of the founding Lee family and a director of Lee Hysan Company Limited, a substantial shareholder of the Company. Mr. Lee is a Council member of The Chinese University of Hong Kong and St. Paul's Co-educational College and a Trustee Emeritus of Stanford University. He is also a director of Stanford Health Care and CUHK Medical Centre.

**Qualifications** 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.

**Committees** Mr. Lee is a member of the Nomination Committee and was a member of the Strategy Committee.



**Lee Tze Hau Michael**  
Non-Executive Director



**Board appointment** Mr. Lee joined the Board in January 2010, having previously served as a Director from 1990 to 2007. He is aged 57.

**Competencies and experience** 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 and a director of Lee Hysan Company Limited, a substantial shareholder of the Company.

**Qualifications** Mr. Lee received his Bachelor of Arts Degree from Bowdoin College and his Master of Business Administration Degree from Boston University.

**Committee** Mr. Lee is a member of the Remuneration Committee.



Audit and Risk Management Committee



Remuneration Committee



Nomination Committee



Strategy Committee

## Senior Management



**Lui Kon Wai Ricky** MBA, MCIOB

### Chief Operating Officer

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 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 53.



**Hao Shu Yan Roger** BBA (Hons), CPA, ACA, ACCA

### Chief Financial Officer

Mr. Hao is responsible for the Group's financial control, treasury and information technology functions, and serves as a director of certain Hysan 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 53.



**Choy Man Wai Kitty** BEcon, MSc, MBA

### Director, Retail

Ms. Choy is responsible for the Group's retail portfolio and asset management strategies, and serves as a director of certain Hysan 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 46.



**Lam Tze Pon Tiffany** B.Soc.Sc. (Information Management)

### Director, Marketing and Customer Experience

Ms. Lam is responsible for formulation of the Group's marketing strategies and leads marketing and customer experience operations, and serves as a director of certain Hysan subsidiaries. She joined the Group in January 2018. Prior to joining the Group, Ms. Lam accumulated extensive experience in retail and brand management in the premium luxury sector and the hospitality industry while holding senior positions in international retail corporations. She is aged 47.



**Yip Mo Ching Jessica** BSc (Surveying), MBA, MRICS, MHKIS, RPS

### Director, Office and Residential

Ms. Yip is responsible for managing the office and residential portfolio of the Group, and serves as a director of certain Hysan subsidiaries. Prior to joining the Group in 2012, Ms. Yip fulfilled various roles in international consultancies, occupiers and developers. She has extensive experience in the real estate industry. She is aged 42.

# Corporate Governance Report

## Governance Overview

### Leadership

#### BOARD GOVERNANCE

- Governance structure (see “Governance Framework” section on page 62)
- Board of Directors Mandate
- List of Matters Reserved for the Board Decisions
- Roles and Responsibilities of Non-Executive Directors

#### BOARD COMPOSITION

- 5 INEDs and 4 NEDs
- All Directors are appointed with a specific term of 3 years and are subject to rotation
- Diverse skills, knowledge and experience

#### CORPORATE STRATEGY

- Set strategy
- Oversee overall governance, financial performance and sustainable development of the Group (see this “Governance Overview” section on pages 64 to 65)

### Effectiveness

#### EVALUATION

- Formal board evaluation process via an electronic platform. The Board discusses the findings in detail at its meetings (see “Board Evaluation 2018” section on page 69)

#### INFORMATION & SUPPORT

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

#### DIVERSITY

- Diversity Policy
- Diversity of skills and expertise (see “Balance, Diversity and Skills” section on page 69)

#### COMMITMENT

- All Directors are committed to devote sufficient time and attention to the Company’s affairs (see “Board Size, Composition and Appointments” on page 65)

#### INDEPENDENCE

- Meetings of Non-Executive Directors without the Executive Director(s) or Board members related to the founding Lee family

#### CONTINUOUS PROFESSIONAL DEVELOPMENT

- Directors receive various trainings and development programmes to refresh their skills and knowledge and to keep up to date with current developments

#### THE ROLE OF THE COMPANY SECRETARY

- Review and implement corporate governance practices
- Provide advice and support to Directors
- Keep Directors updated on legislative, regulatory and governance matters

## Accountability

### BOARD COMMITTEES

- 3 governance-related Board Committees have been established
- Board Committees report to the Board (see “Audit and Risk Management Committee Report” on pages 80 to 84, “Remuneration Committee Report” on pages 85 to 93 and “Nomination Committee Report” on pages 94 to 96)

### MANAGEMENT PROCESS

- Day-to-day management by Executive Committee
- Governance framework includes a number of executive and advisory groups (see this “Governance Overview” section on pages 64 to 65)

### RISK MANAGEMENT AND INTERNAL CONTROL

- Review and monitor risk management process
- Assess effectiveness of internal controls
- Risk Management and Internal Control Report (see pages 98 to 105)

### FINANCIAL REPORT AND AUDITORS

- Independent Auditor’s Report (see pages 117 to 120)
- Internal Audit function
- External Auditor appointment

## Engagement

### CONSTRUCTIVE USE OF GENERAL MEETINGS

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

### DIALOGUE WITH SHAREHOLDERS

- Enhance shareholder communication by electronic channels
- Organise shareholders’ visits for understanding the Group, its portfolio, history and sustainability activities and other business areas

### COMMUNICATION CHANNELS WITH STAKEHOLDERS

- Teleconferences and webcasts for analysts and media briefing
- Investment community communications including roadshow
- Publication of financial reports, announcements, circulars and press releases
- Company’s website

## Beyond Corporate Governance Compliance

Hysan embraces strong governance as the foundation for delivering its strategic objective of achieving consistent and sustainable performance. During the year of 2018, Hysan continued to comply fully with the requirements of the provisions contained in the Corporate Governance Code (the “Corporate Governance Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Furthermore, Hysan remained committed to the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules.

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

Exceed Corporate Governance Code Provisions	Best Practices in Corporate Governance at Hysan
✓	Formal Corporate Governance Guidelines* since 2004 and further enhanced in 2018
✓	Formal Board of Directors Mandate* and a detailed List of Matters reserved for the Board Decisions* provide a clear division of roles established between the Board and management
✓	Formal criteria and requirements* established for Non-Executive Director appointments with expected time commitment. We issue formal appointment letter for Non-Executive Directors
✓	Board evaluation of its own performance and that of its committees by completion of questionnaires through an electronic platform. Directors’ feedback was analysed and discussed in meetings
✓	Code of Ethics* applicable to all staff and Directors since 2005
✓	A separate Whistleblowing Policy* since 2016; an independent third party is engaged as the whistleblowing channel, which directly reports to the Audit and Risk Management Committee
✓	Corporate Disclosure Policy* since 2013 and further enhanced in 2019. A Disclosure Committee conducts regular assessment of inside information, guides and promotes timely and accurately disseminated disclosure of inside information and stakeholder communications
✓	Auditor Services Policy* for the engagement of auditors and further enhanced in 2018 and 2019
✓	Fraud handling policy and procedures to control and aid in the detection and prevention of fraud

## Exceed Corporate Governance Code Provisions

### Best Practices in Corporate Governance at Hysan

✓	Publication of separate Corporate Governance Report, Audit and Risk Management Committee Report, Remuneration Committee Report, Nomination Committee Report, Strategy Committee Report and Risk Management and Internal Control Report
✓	More than 20 clear business days' notice for the AGMs, which include a detailed business review
✓	All voting at AGMs conducted by poll since 2004
✓	Early announcement of audited financial results within 2 months and publication of Annual Report within 3 months after the financial year-end
✓	Continuous enhancement of shareholder communications, including introduction of shareholder visits since 2016
✓	Adopted 10 % limit of and a discount of not more than 10 % on the share issue price to issue additional shares under general mandate in 2018 AGM
✓	Arrangements have been made since December 2015 to ascertain shareholders' preferences as to the means of receiving corporate communications, with the aim of protecting the environment and enhancing the use of the Group's corporate website as a means of shareholder communications
✓	Proactive invitation to major nominee companies by Hysan to forward communication materials to the ultimate beneficial shareholders at the Group's expense
✓	Confirmation from senior management to the Audit and Risk Management Committee as verification compliance
✓	Additional assurance from Internal Audit on the review of continuing connected transactions

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

In an effort to reduce consumption of resources from printing and distributing hard copies, the Hysan Sustainability Report has been prepared for electronic distribution and is made available for public viewing on Hysan's website: [www.hysan.com.hk](http://www.hysan.com.hk). Limited copies are printed and distributed, primarily to our shareholders. A summary of the Sustainability Report is provided on pages 106 to 107 of this Annual Report.

### Governance Framework

Hysan operates within a clear and effective governance structure.

The Board regularly assesses and enhances its governance framework, practices and principles according to developments in regulatory regimes and international best practices, as well as the Company's needs.

The following are Hysan's key governance-related guidelines:

- Corporate Governance Guidelines
- Board of Directors Mandate
- Roles and Responsibilities of Non-Executive Directors
- List of Matters Reserved for the Board Decisions
- Terms of Reference of the various corporate governance-related Board Committees
- Diversity Policy
- Nomination Policy
- Auditor Services Policy
- Code of Ethics for Directors and Employees
- Corporate Disclosure Policy
- Whistleblowing Policy
- Procedures for Shareholders to Convene General Meetings/Put Forward Proposals
- Shareholders Communications Policy

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



Hysan's senior management and other department heads attending Lee Garden Three grand opening

# Leadership

## Governance and Management 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. It is governed by a formal **Board of Directors Mandate** (see the Company's website at [www.hysan.com.hk/governance](http://www.hysan.com.hk/governance) for details).

The Board has an Audit and Risk Management Committee, Remuneration Committee and Nomination Committee. The Committees enable the Board to operate effectively and ensure a strong governance framework for decision-making. The Audit Committee was renamed as Audit and Risk Management Committee with effect from 21 February 2019 to reflect and emphasise its important role of assessing and making recommendations on the Group's risk appetite, profile and tolerance. The Board had also resolved to assume the role of the Strategy Committee and incorporate the Company's strategy discussions as an integral part of the Board meetings. Accordingly, the Strategy Committee was discontinued and assumed by the Board with effect from 1 January 2019. This further facilitates and enables the full Board to actively involve and participate in setting and reviewing longer-term directional strategy for the growth of the Group.

Day-to-day management of the Group is delegated to the Executive Committee. The Board retains control of the key decisions and has identified certain "reserved matters" that only it can approve. The **List of Matters Reserved for the Board Decisions** is reviewed annually. Executive Committee members include the Executive Director(s), the Chief Operating Officer, Chief Financial Officer, and other members as may be appointed by the Board from time to time.

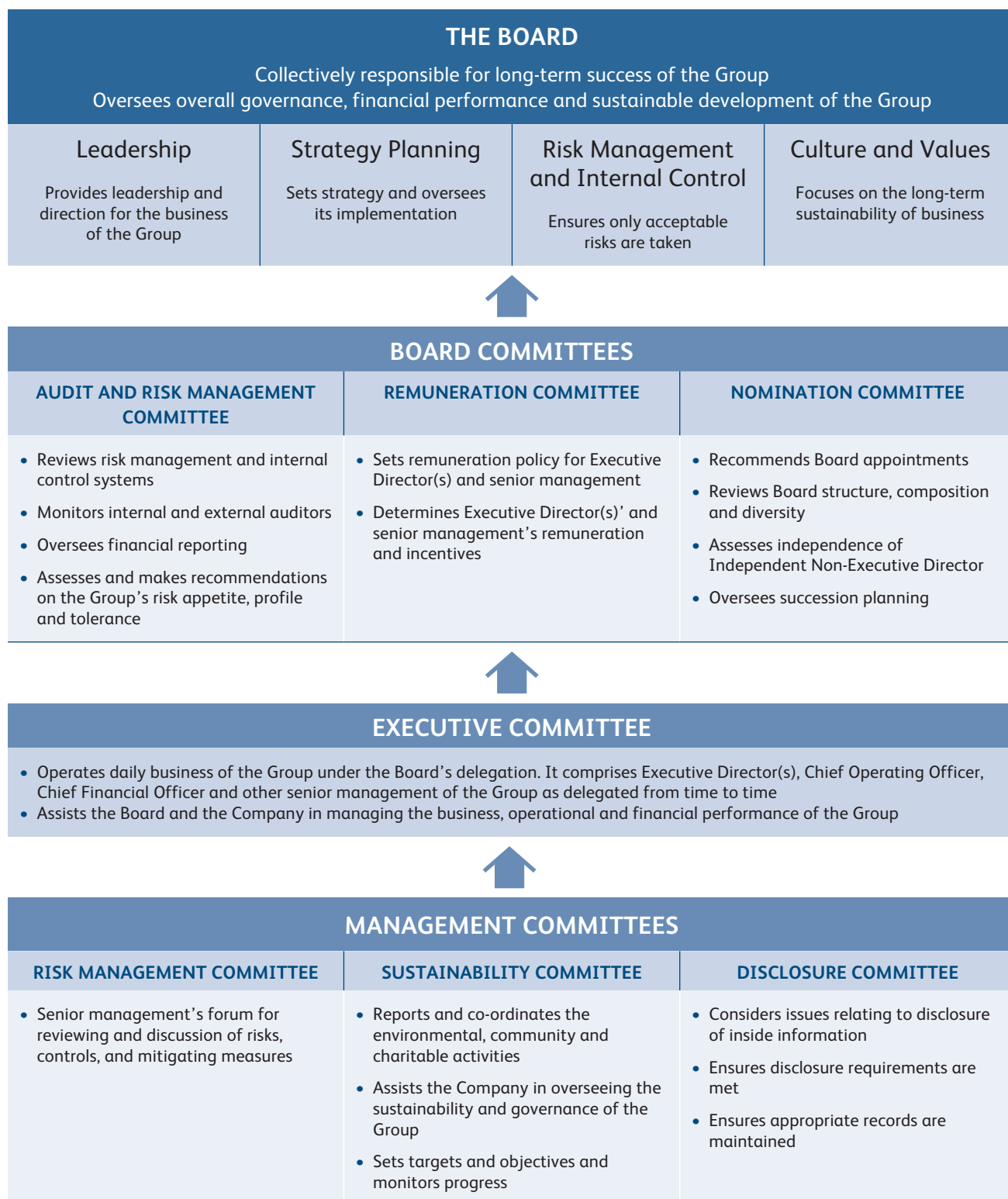


*"I worked at the Lee Gardens Hotel group after graduating from university. When the hotel was about to close, I started to gather things here and there. People call me the Lee Gardens historian because I have all this memorabilia. This love and appreciation of artefacts and preserving the past were inherited from my father, who founded the Bei Shan Tang Foundation, and was an ardent supporter of Chinese culture, heritage and the arts. The Foundation is named after The Bei Shan Poets Society, a group of literary and art scholars who were invited by my grandfather, Lee Hysan to host their intellectual gatherings at Lee Gardens in the 1920s. The view from Lee Gardens offered sweeping views of the harbour, which was often a source of inspiration for the poets."*

### Chien Lee

Non-Executive Director of Hysan and  
Chairman of Bei Shan Tang Foundation

Hysan's strong management governance framework includes a number of executive and advisory groups, amongst others, 3 governance-related management level committees, namely the Risk Management Committee, the Sustainability Committee and the Disclosure Committee. To refresh the Group's strategy and overall capabilities to address the business trends and next generational shifts, the Board has appointed Li Xinzhe Jennifer as an Advisor to the Board and a Next Generation Innovation Panel to advise the Board accordingly.



## ADVISOR TO THE BOARD

- Invited to advise the Board since 2018
- Provides advice and guidance on the Group's overall capabilities and strategic directions
- Helps the Company to capitalise on opportunities arising from fast-changing customer/tenant behavior

## NEXT GENERATION INNOVATION PANEL

- Invited to advise the Board in 2019
- Informs and refreshes the Group's overall capabilities to address, incorporate and/or manage the trends, key innovations, revolutions and generational shifts that may influence and disrupt the Company's operations and development
- Members of the Panel will be young international entrepreneurs and accomplished next generation leaders in the fields of retail, mainland China business, media, technology, etc

## Board Size, Composition and Appointments

The Board reviews its structure, size, composition and diversity from time to time; the last review was conducted in November 2018. Through the annual evaluation process in which the Board reviews the performance of the Directors to ensure they are contributing to the Board in a manner that allows them to perform their responsibilities to the Company and that they are spending sufficient time doing so, the Board was satisfied that the Directors had a strong commitment to the Company and positively contributed to the Board through their participation in the Company's affairs and the Board's discussions and decisions, as reflected in their high attendance record on the Board and Committee meetings during the year. To ensure that our Directors have spent sufficient time on the affairs of the Company, the Directors disclose to the Company once a year the details of the offices held in Hong Kong or overseas listed public companies and other significant commitments, as well as an indication of the time involved.

As at 31 December 2018, there were 10 Directors on the Board: the Chairman and 9 Non-Executive Directors (including 5 Independent Non-Executive Directors). Lee Irene Yun-Lien 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.

Wong Ching Ying Belinda was added as an Independent Non-Executive Director, effective from 18 December 2018 in accordance with the Company's Diversity Policy and Nomination Policy. Wong Ching Ying Belinda is the chief executive officer of Starbucks China and has extensive experience leading different organisations across the Greater China and the Asia Pacific regions. The appointment will further strengthen the Board.

Non-Executive Directors are engaged by formal letters of appointment with a specific term of 3 years, and they commit to Hysan that they will be able to give sufficient time and attention to meeting the high expectations placed upon them. They 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.

Churchouse Frederick Peter, Jebesen Hans Michael, Lee Anthony Hsien Pin, Lee Chien and Wong Ching Ying Belinda will retire at the forthcoming AGM to be held on 16 May 2019. All of them being eligible, they would offer themselves for re-election. Details with respect to the candidates standing for re-election as Directors are set out in the AGM circular to shareholders. None of these Directors 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).

## Board Activities during 2018

### Key activities

#### STRATEGY

- Discussed the Group's strategies and emphasised the continuity of the Company's vision and mission, focusing on the impact of global and Hong Kong changes and developments, and how the Group's business model may be affected
- Reviewed the Group's position and all the challenges the Group will be facing, the Company's culture, the impact of technology, changes in consumer behaviours as well as the resources and skills the business may require in future
- Discussed business plans, as well as longer-term directional strategy for the growth of the Group
- Reviewed the Group's performance versus budgets
- Considered and approved the Group's investment and funding strategy

#### RISK MANAGEMENT AND INTERNAL CONTROL

- Reviewed the Group's risk registers and assessed the risks with action plans
- Reviewed the effectiveness of Hysan's risk management and internal control framework
- Reviewed an enhanced company-wide regulatory compliance and governance framework and policy
- Reviewed group-wide privacy compliance
- Considered and evaluated the enterprise-wide cyber security assessment carried out by Deloitte

#### ACCOUNTABILITY

- Considered and evaluated the enterprise-wide cyber security assessment carried out by Deloitte
- Discussed the outcome of the Board evaluation and effectiveness review, and agreed improvement opportunities
- Reviewed key corporate governance related reports
- Received and considered regular meeting reports from Chairmen of the Audit and Risk Management Committee, Remuneration Committee, Nomination Committee and Strategy Committee

#### GOVERNANCE AND IMPROVEMENTS

- Reviewed and approved an enhanced "Corporate Governance Guidelines"
- Reviewed and approved an enhanced "Diversity Policy"
- Reviewed and approved an enhanced "Auditor Services Policy"
- Reviewed and approved an enhanced "Nomination Policy"
- Reviewed the recent developments in corporate governance and received and considered key legal and regulatory updates
- Reviewed and evaluated the fees for Directors with an independent external consultant
- Reviewed the List of Matters Reserved for the Board Decisions

## PEOPLE AND LEADERSHIP

- Added a new Independent Non-Executive Director, Wong Ching Ying Belinda, which was strong addition to the Board
- Reviewed the Board structure, size, composition and diversity, as well as the “independence” of Directors
- Enhanced Terms of Reference of Nomination Committee, Remuneration Committee and Audit and Risk Management Committee
- Reviewed the development of people and compensation for the senior management and other department heads
- Considered the set up and composition of the Next Generation Innovation Panel, which was established to refresh capabilities and support the strategic directions of the Board
- Sought to record, more formally, the Sustainability Committee at management level, which was set up to support the Company’s sustainability matters

## FINANCIAL AND OPERATIONAL PERFORMANCE

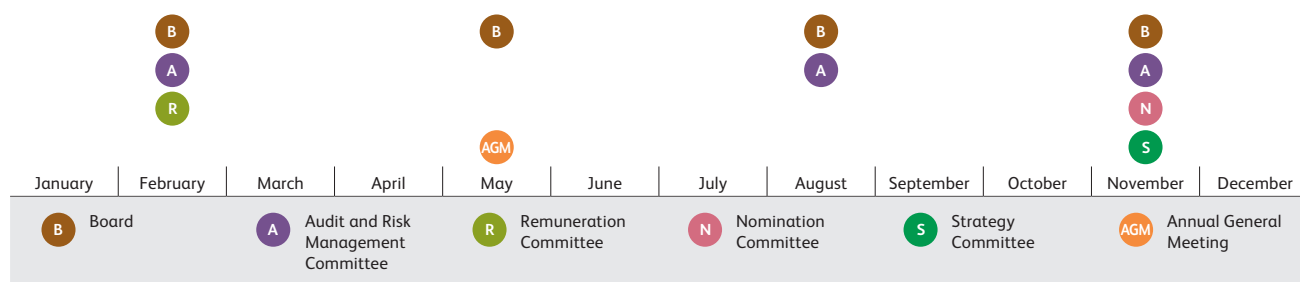
- Considered the financial performance of the business and approved the annual budget
- Reviewed the interim and annual results, approved the interim and annual reports
- Reviewed and approved the funding and treasury investment plan
- Reviewed and discussed financial forecasts and analyst feedback
- Declared dividends
- Reviewed operating results and regular updates for the Group’s core business (Office, Retail, Residential and Property Development segments)
- Formalised the “Dividend Policy”

## Meetings

The Board meets regularly and there is an annual cycle of topics to be considered, including business and financial updates. Each Committee provides a summary of business discussed to the Board.

Employees below Board level are invited to present to the Board on operational topics during the year. Non-Executive Directors have direct and open access to employees below Board level.

### BOARD AND COMMITTEE MEETINGS IN 2018



### ATTENDANCE AT MEETINGS

The following table shows Directors' attendance at the meetings:

	Attended	Attended by tele-conference	Attended by alternate	Attended the meetings (or part of meetings) as invitee	
	Meetings Held / Attended				
Directors	Board (Total: 4) (Note 1)	Audit and Risk Management Committee (Total: 3) (Note 4)	Remuneration Committee (Total: 1)	Nomination Committee (Total: 1)	Annual General Meeting (Annually) (Note 4)
<b>Executive Director</b>					
Lee Irene Yun-Lien			(Note 3)		
<b>Independent Non-Executive Directors</b>					
Churchouse Frederick Peter			N/A	N/A	
Fan Yan Hok Philip					
Lau Lawrence Juen-Yee		N/A	N/A		
Poon Chung Yin Joseph					
Wong Ching Ying Belinda (Note 2)	N/A	N/A	N/A	N/A	N/A
<b>Non-Executive Directors</b>					
Jebsen Hans Michael		N/A	N/A	N/A	
Lee Anthony Hsien Pin			N/A	N/A	
Lee Chien		N/A	N/A		
Lee Tze Hau Michael		N/A		N/A	

Notes:

- 1 In November 2018, a Board and Strategy Committee meeting was held to discuss the Group's business plan and long-term directional strategy.
- 2 Wong Ching Ying Belinda was appointed as a new Independent Non-Executive Director with effect from 18 December 2018.
- 3 Excused from the session to discuss the Executive Director's own compensation package.
- 4 Representatives of the external auditor participated in every Audit and Risk Management Committee meeting and the AGM.

# Effectiveness

## Board Evaluation 2018

This year's review of the Board's effectiveness was conducted internally and was led by the Chairman with the support of the Company Secretary. The evaluation required each Director to complete anonymously an online questionnaire that focused on matters such as Board's performance, the nature and content of Board meetings. The survey encouraged the Directors to provide comments or enabled them to raise any concerns.

The Chairman, supported by the Company Secretary, collated the output of the questionnaires and formulated a detailed report. The report was prepared based on the collective comments from all the Directors, and reports from the Audit and Risk Management Committee, Remuneration Committee, Nomination Committee and the then Strategy Committee. These reports were considered and discussed by the Board.

The conclusion from this year's evaluation was that the Board and its Committees continued to operate to a high standard, and worked effectively. The results overall ranged from positive to very positive, and there were no specific concerns raised by any of the Directors to the Chairman or anonymously through the online questionnaires. This year, the evaluation also addressed the level of strategic debates and oversight of the Group's performance and its management, and was also highly rated. Other areas that were assessed as being particularly strong included the Board dynamics, culture and integrity in the Board room, the Board's collective judgement and overall performance, Board information and the involvement of Directors in the discussions.

As with every high performing Board, the Directors continue to look for areas of improvement. The Board will ensure that its meeting agendas are forward-looking in terms of investment opportunities and strategic development. The Chairman will continue to lead the process of building on current strengths of the Board and innovating further to build on the points outlined above, with the support from the Directors.

## Independent Advice

When occasions arise where Directors feel that they require independent professional advice in order to fulfil their obligations as Board members, this advice may be obtained at the Company's expense as stated in our Corporate Governance Guidelines.

## Balance, Diversity and Skills

Hysan recognises the importance of diversity among its Board members, which not only contributes to the effectiveness of the Board but also to the success of the Group's business.

Our Non-Executive Directors (including 5 Independent Non-Executive Directors) have diverse backgrounds in areas such as economics, finance, business management, professional practices, and property investment. Biographies of the Directors can be found on pages 52 to 56 as well as on the Company's website at [www.hysan.com.hk/about-us](http://www.hysan.com.hk/about-us).

## Corporate Governance Report

Recognising the vitality of diversity of the Company, the Board has adopted a separate Board Diversity Policy in 2016, which was strengthened and enhanced as the Diversity Policy applying to the Group in 2018. The Board remains committed to ensure that the selection of candidates for Board appointments is based on a range of diverse perspectives, including gender, age, cultural/ educational and professional background, skills, knowledge and experience. Decisions with regard to Board appointments are based on merit balanced against the contributions that a prospective candidate will bring to the Board. During the year, the Board adopted a separate Nomination Policy to emphasise our commitment on transparent nomination process.

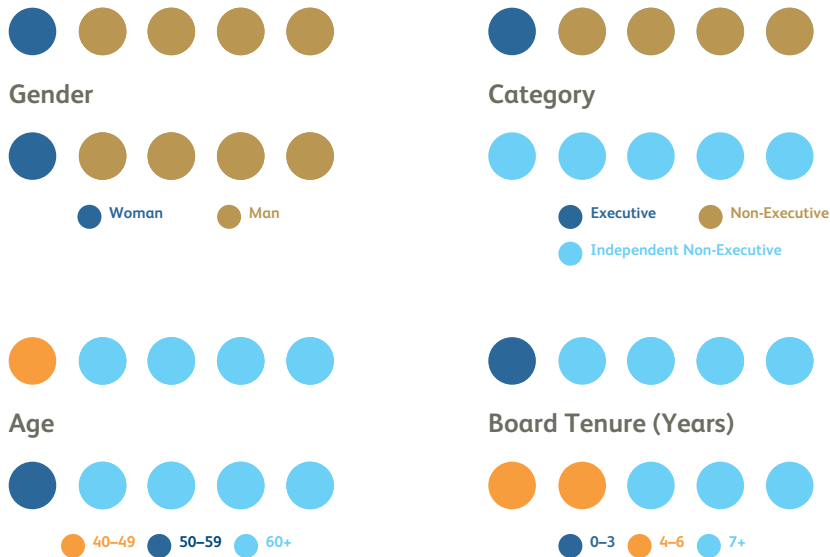
The Board is also committed to strengthening diversity across the Group. Similar considerations are used when recruiting and selecting key management and other personnel across the Group's operations. For details on our hiring practices, please refer to our Sustainability Report.

Our 9 Non-Executive Directors are from diverse and complementary backgrounds. The valuable experience and expertise they bring to our business are critical for the long-term growth of the Group:

Skills/ Experience	Summary	Combined
<b>Strategy</b>	Experience in defining strategic objectives, assessing business plans and driving execution in large and complex organisations.	
<b>Risk Management</b>	Experience in anticipating and identifying key risks to the organisation and monitoring the effectiveness of risk management frameworks and controls.	
<b>Financial Services and Investment</b>	Experience in the financial services industry or experience in overseeing financial transactions and investment management.	
<b>Financial Acumen</b>	Understand financial drivers of the business, and experience in implementing or overseeing financial accounting, reporting and internal controls.	
<b>Property Investment</b>	Experience as a senior executive in another major company in property investment, development or facilities management, or related industry.	
<b>Customer and Retail</b>	Experience as a senior executive in a major retail, customer products, services or distribution company.	
<b>Governance</b>	Experience in and commitment to adhere to exceptional corporate governance standards.	
<b>People and Culture</b>	Experience in monitoring a company's culture, overseeing people management and succession planning, and setting remuneration frameworks.	
<b>International and China</b>	Experience in international and mainland China economics and relations.	

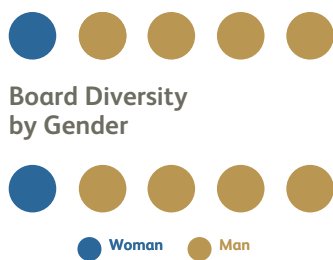
Legend      ● Extensive      ● Moderate

## The Board | 10 |



(Directors' full biographies, including relationships among members of the Board, are set out in pages 52 to 56 and are also available on the Company's website: [www.hysan.com.hk/about-us](http://www.hysan.com.hk/about-us))

## The Board | 10 |



## Key Operational Management | 12 |



\* Key operational management is defined as the 12 heads of departments/units of the Group, but does not include the Executive Director who also maintains a management/supervisory role for operations.

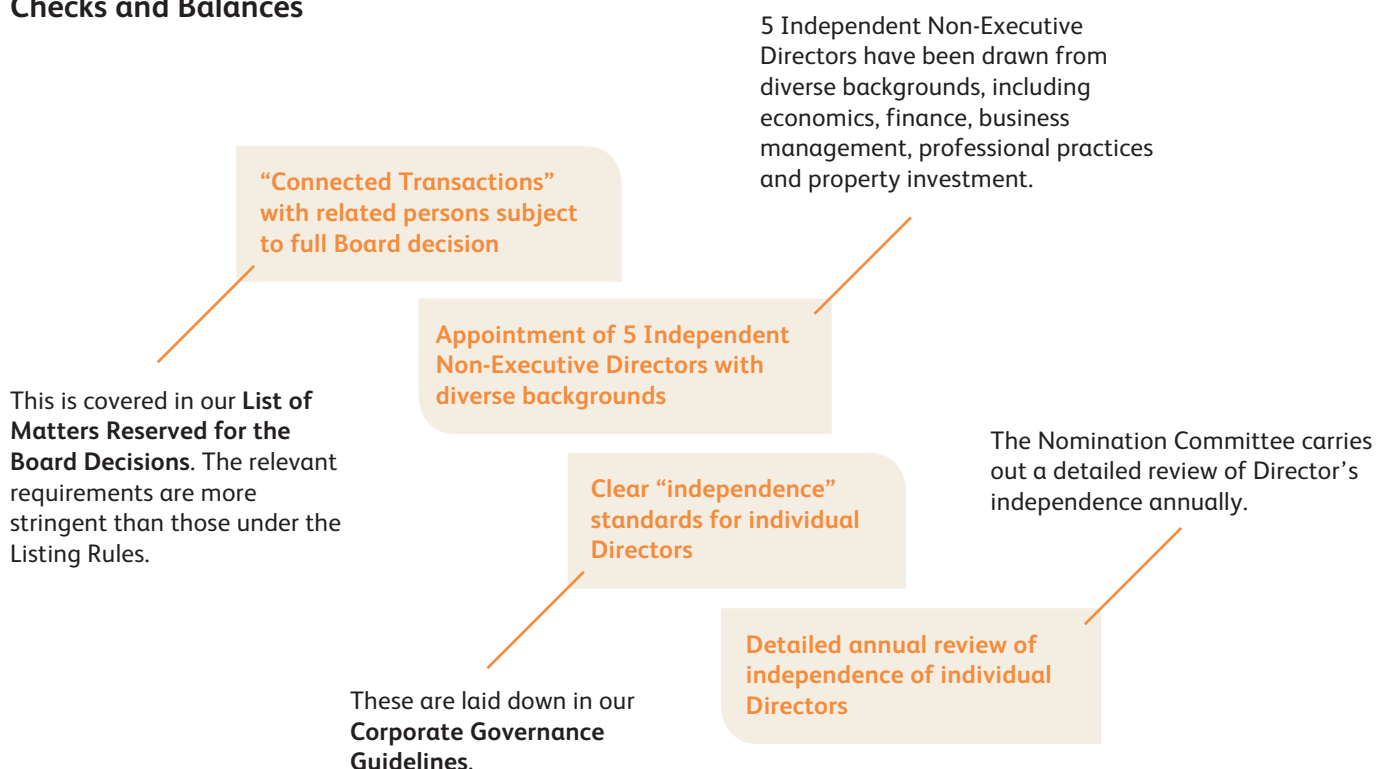
### Independence of Directors

Hysan is a listed company with a major shareholder family. The Board remains committed to maintaining independence.

- The Board has policies and processes in place to avoid conflicts of interest or perception of conflicts of interest in compliance with the Hong Kong Companies Ordinance. Board members are reminded every half year of this requirement through an explanatory note from the Company Secretary.
- Non-Executive Directors hold separate discussion sessions every year, **without** the presence of Executive Director(s) or Board members related to the founding Lee family. There were 2 separate discussions in 2018.
- Any dealings with persons and entities regarded as “connected transactions” with the Group under the Listing Rules are subject to the approval of the full Board, as described in the **List of Matters Reserved for the Board Decisions**. “Exempted transactions” as defined by the Listing Rules’ disclosure requirements must also be reported to the full Board after management approval.
- The Company has clear **Corporate Governance Guidelines**, Directors are considered to be independent only if they are free from any business or other relationship that may interfere with the exercise of their independent judgment.

During the reporting year, the Nomination Committee carried out a detailed review of the directors’ independence and was satisfied that each of the 5 Independent Non-Executive Directors was independent at the time of review.

### Checks and Balances



## Independence Status

Name	Management	Independent	Not Independent	November 2018 Review – Reason for Independence Status
Churchouse Frederick Peter		✓		No business or other relationships with the Group or management that will affect independence
Fan Yan Hok Philip		✓		No business or other relationships with the Group or management that will affect independence
Jebsen Hans Michael			✓	
Lau Lawrence Juen-Yee		✓		No business or other relationships with the Group or management that will affect independence (Notes 1 & 3)
Lee Anthony Hsien Pin			✓	
Lee Chien			✓	
Lee Irene Yun-Lien	✓			
Lee Tze Hau Michael			✓	
Poon Chung Yin Joseph		✓		No business or other relationships with the Group or management that will affect independence
Wong Ching Ying Belinda		✓		No business or other relationships with the Group or management that will affect independence (Notes 2 & 3)

### Notes:

- 1 Lau Lawrence Juen-Yee's spouse is a partner with KPMG China and the Managing Partner in Hong Kong. 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.
- 2 Wong Ching Ying Belinda was appointed an Independent Non-Executive Director, effective 18 December 2018. Ms. Wong is also a director of certain entities of Starbucks Coffee Company. Starbucks Hong Kong is a tenant of the Group. Starbucks China is also a tenant of a commercial complex located in Shanghai, the People's Republic of China owned by an associate of the Company. The revenue or profit derived from those leases, either directly as retail sector revenue or indirectly as share of results of an associate, are immaterial to the Group. During her term as Independent Non-Executive Director of the Company, Ms. Wong will abstain from voting on any Board resolution in relation to any business dealings with Starbucks group.
- 3 The Board and its Nomination Committee had assessed the independence of Professor Lau and Ms. Wong in light of the circumstances, including (i) their respective backgrounds, experiences, achievements, as well as characters; (ii) the nature of the Company's relationship with KPMG and Starbucks group and Mrs. Lau's and Ms. Wong's roles as described above; and concluded that their independence would not be affected.

## Professional Development, Support and Training

The Board held several specific knowledge development sessions during the year, including a sharing session on the integration of commercial properties and the internet in China (presented by Li Xinzhe Jennifer, the Advisor to the Board), an interactive workshop on social media marketing and applications presented by a senior executive of a reputable pay-television and entertainment conglomerate, and a portfolio tour of our new Lee Garden Three led by senior management. One of the Board meetings was held off site at a co-working space for a lively exchange of ideas. Directors continued to receive regular reports facilitating greater awareness and understanding of the Group's business and the compliance regulatory updates.

## Corporate Governance Report

Directors have expressed the view that the past year's trainings have been stimulating and very relevant. Directors have also indicated that there were adequate training opportunities.

When newly-appointed Directors join the Group, they would receive an induction briefing that would give them an understanding of the Group, its businesses and operations (including the major risks it faces). The induction briefing would include individual meetings with the Board Chairman, the Company Secretary and senior management, portfolio visits, and meetings with the Company's external advisers. Individual briefings would be arranged on topics such as Directors' responsibilities and overview of the Group's business. The Company has provided the new director Wong Ching Ying Belinda with a full and comprehensive induction on her appointment.

### Directors' continuous professional development in 2018

Directors	Attending trainings organised by Hysan	Attending expert briefings / seminars / conferences organised by third parties relating to the business or directors' duties	Perusing legal, regulatory and industry related updates prepared by Hysan quarterly
<b>Executive Director</b>			
Lee Irene Yun-Lien	✓	✓	✓
<b>Independent Non-Executive Directors</b>			
Churchouse Frederick Peter	✓	✓	✓
Fan Yan Hok Philip	✓	✓	✓
Lau Lawrence Juen-Yee	✓	✓	✓
Poon Chung Yin Joseph	✓	✓	✓
Wong Ching Ying Belinda (Note)	N/A	N/A	N/A
<b>Non-Executive Directors</b>			
Jebsen Hans Michael	✓	✓	✓
Lee Anthony Hsien Pin	✓	✓	✓
Lee Chien	✓	✓	✓
Lee Tze Hau Michael	✓	✓	✓

Note: Wong Ching Ying Belinda was appointed an Independent Non-Executive Director, effective from 18 December 2018.

Ongoing development sessions were also arranged for the senior management and subsidiaries' directors to update their skills and knowledge as appropriate. Throughout the year, various seminars on regulatory obligations, compliance requirements and best practices and procedures were provided to the senior management and subsidiaries' directors. During the year, the Company Secretary also undertook appropriate professional training to update relevant skills and knowledge.

Hysan has a management trainee programme launched since 2017 to cultivate our future leaders, with the aim of developing our talent pipelines to meet our long-term business needs. More management trainees were recruited in 2018 to continue the pipeline.

# Accountability

## Board Committees in 2018

The Board has 3 governance-related Board Committees that provide effective oversight and leadership in accordance with the Group's Corporate Governance Guidelines, namely the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee. 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.

The terms of reference of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee have been updated, the highlights are set out in the respective reports of the Committees. Terms of reference and membership of all Board Committees are disclosed in full on the websites of the Company and the Stock Exchange. They are also available upon request to the Company Secretary.

Full details of the Committees' activities during the year are set out in their respective reports:

### Audit and Risk Management Committee Report

on pages 80 to 84

### Remuneration Committee Report

on pages 85 to 93

### Nomination Committee Report

on pages 94 to 96

### Strategy Committee Report

on page 97



*Bjorn: "We've lived in Causeway Bay just across from the Lee Gardens for about 10 years, it's easy to get anywhere from here. There are shops, restaurants and people all the time – it feels like real Hong Kong. Everything for us revolves around the district. My kids go to the Football Club, Hong Kong Stadium, South China Athletic Club and it's all within walking distance."*

*Neena: "Causeway Bay is home."*

**Bjorn and Neena**  
Causeway Bay's residents

# Engagement

Hysan is committed to maintaining an open dialogue with shareholders and providing them with the information they require to make sound investment decisions.

## Accountability to Shareholders and Corporate Reporting

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

## Information online

- Key corporate governance policies, terms of reference of Board Committees, Group's financial reports, press releases and announcements are available on the Company's 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.

## Dynamic engagement with Shareholders

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

## Electronic Communication

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

## Shareholders' Communication

- The Shareholders' Communication Policy recognises our commitment to provide our shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company.

## Provision of Sufficient and Timely Information

- The AGM notice, Annual Report, and financial statements are dispatched to shareholders more than 30 days prior to the AGM, exceeding the statutory requirement of 21 days.
- Comprehensive information is sent on each resolution to be proposed.

## Voting

- Since 2004, we have conducted all voting at AGMs by poll.
- The poll is conducted by the Company's Registrar and scrutinised by the Group's auditors.
- Procedures for conducting the 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.

### Constructive Use of AGM

- AGMs act as a means of conducting 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 at the last AGM included: the business environment in 2017, a review of business activities, and the Company's outlook for 2018.

### Shareholders' Visits

- The shareholders' visits are opportunities every year for the management to communicate with the shareholders, who gain insights into the Company's history, sustainable activities and other business areas.

### Corporate Disclosure Policy

- The Group's Corporate Disclosure Policy provides guidance on the disclosure of material information to investors, analysts and media.
- This policy identifies the spokespersons and clearly outlines the responsibilities for communication with each stakeholder group.
- Details are available at the Company's website: [www.hysan.com.hk/governance](http://www.hysan.com.hk/governance).

### Shareholder Communication via Nominee Companies

- Since 2005, we have been inviting major nominee companies to forward communication materials to shareholders at our expense.

### Shareholders' Rights under Articles of Association and Hong Kong Law

- A general meeting of shareholders can be convened by the Board or with a written request signed by shareholders holding at least 5% of the total voting rights of all the shareholders ("5% Shareholder").
- A 5% Shareholder may request to have resolutions passed by way of written resolution.
- Shareholders may put forward proposals for consideration at a general meeting.
- All 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 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.
- Details of Procedures for Shareholders to Convene General Meetings/Put Forward Proposals are available on the Company's website.
- No changes have been made to our Articles of Association during the year.

### Dividend Policy

- Hysan's longstanding policy is to provide stable ordinary dividends to shareholders.
- The ultimate pay out decision will be based on the Group's financial performance, future capital requirements, general economic and business conditions, etc.

## Directors' Interests in Shares

As at 31 December 2018, 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 Securities and Futures Ordinance (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		
Jebsen Hans Michael	60,984	–	2,473,316 (Note b)	–	2,534,300	0.242
Lee Chien	800,000	–	–	–	800,000	0.076
Lee Irene Yun-Lien	304,000	–	–	–	304,000	0.029

Notes:

(a) This percentage was compiled based on the total number of issued shares of the Company (i.e. 1,046,501,891 ordinary shares) as at 31 December 2018.

(b) Such shares were held through a corporation in which Jebsen Hans Michael 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 Company's share option schemes adopted on 10 May 2005 (the "2005 Scheme") and 15 May 2015 (the "New Scheme") (details are set out in the section headed "Long-term incentives: Share Option Schemes" below). 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 Limited ("Barrowgate"), a 65.36% subsidiary of the Company:

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

Note:

Jebsen and Company Limited ("Jebsen and Company") held a 10% interest in the total number of issued shares in Barrowgate through a wholly-owned subsidiary. Jebsen Hans Michael 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 associated corporations as at 31 December 2018 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.

## Compliance with 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 had interests, directly or indirectly, in contracts with the Group. These contracts constituted 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) Lee Irene Yun-Lien, Lee Anthony Hsien Pin, Lee Chien and Lee Tze Hau Michael 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) Jebsen Hans Michael and his alternate, Yang Chi Hsin Trevor, hold the offices of directors in Jebsen 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. Jebsen is also a substantial shareholder of the companies.

Mr. Jebsen 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) Lee Chien is an independent 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 Lee Irene Yun-Lien, 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 and Risk Management 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

**Lee Irene Yun-Lien**

*Chairman*

Hong Kong, 21 February 2019

# Audit and Risk Management Committee Report

## Composition

Majority are Independent  
Non-Executive Directors

## Committee Members

Poon Chung Yin Joseph\*  
(Chairman)

Churchouse Frederick Peter\*

Fan Yan Hok Philip\*

Lee Anthony Hsien Pin

\*Independent Non-Executive Director

## Dear shareholder,

“ The primary roles of the Audit and Risk Management Committee are to assist the Board in reviewing the risk management and internal control systems, monitoring internal and external auditors and overseeing the financial reporting process, as part of the overall strategy-setting of the Group. The Committee was renamed the “Audit and Risk Management Committee” instead of the “Audit Committee” in 2019 to reflect and emphasise its ongoing role of evaluating, overseeing and monitoring the Group’s risk appetite, profile and tolerance.

## Highlights

- Reviewed the adequacy and effectiveness of the Company’s risk management and internal control systems
- Reviewed the Group’s enterprise-wide cyber security assessment report and enhanced the Group’s enterprise-wide cyber security compliance, policies and practices
- Assisted the Board in its oversight of the Group’s risk management framework, through its functional implementation of the “three lines of defence” model
- Reviewed the Terms of Reference of the Audit and Risk Management Committee and Auditor Services Policy

## Key responsibilities

- Overseeing the integrity of the Group’s financial management and reporting processes
- Reviewing the major risks identified and ensuring that effective risk management and internal control systems are in place
- Reviewing the risk management and internal control framework
- Reviewing the relationship with the external auditor

## Meetings Schedule

The Audit and Risk Management Committee held 3 meetings during the year. At the invitation of the Audit and Risk Management Committee, these meetings were also attended by the Board Chairman and members of management (including the Chief Operating Officer and the Chief Financial Officer). Pre-meeting sessions with external and internal auditors were held without management’s presence. In 2019, the Audit and Risk Management Committee will hold an additional meeting (making a total of 4 meetings) to address the dynamic risks and enhance the risk management oversight function.

## Roles and Authorities

- Oversee the Company's financial management and reporting processes and monitor the works carried out by the external auditor. In this process, management is responsible for the preparation of the Group's financial statements including the selection of suitable accounting policies. The external auditor is responsible for auditing and attesting to the Group's financial statements and evaluating the Group's system of internal controls in such regard. Formal statements of Directors' Responsibility for the Financial Statements are contained in "Financial Statements, Valuation and Other Information" of this Annual Report.
- Review the Company's risk management and internal control systems.
- Review reports on major risks the Group is facing.
- Review the adequacy of resources, qualifications and experience of staff of the Group's internal audit, accounting and financial reporting functions, as well as their training programmes and budget.
- Review the Group's Whistleblowing Policy. Under this policy, employees and related third parties who deal with the Group (e.g. 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 and Risk Management Committee ensures that the concerns raised are investigated and followed up as appropriate.
- Review the effectiveness of the Company's internal audit function.
- Review the Company's relationship with the external auditor.
- Report to the Board on its findings after each Audit and Risk Management Committee meeting.

## Activities

Details on the meeting held in February 2018 were set out in the 2017 Annual Report.

From March 2018 to February 2019, the Audit and Risk Management Committee held 3 meetings to:

## Financial Reporting

- Review and discuss with management and the external auditor, and recommend to the Board to approve, the unaudited financial statements for the first 6 months ended 30 June 2018; the audited financial statements for the year ended 31 December 2018 and the Independent Auditor's Report for the year ended 31 December 2018, prior to their publication based on the external auditor's review work and the following:
  - Discuss with the external auditor and internal auditor the scope of their respective review and findings.
  - Discuss with management significant parameters and judgments affecting the Group's financial statements, including valuation of investment properties as at 30 June 2018 and 31 December 2018 with the independent professional valuer, Knight Frank Petty Limited.
  - Review with both management and the external auditor the Key Audit Matters included in the Independent Auditor's Report for the year ended 31 December 2018.

### Relationship with the External Auditor

- Review and consider the terms of engagement of the external auditor in respect of the 2018 final results (including 2018 annual audit, the related results announcement, and annual review of continuing connected transactions) and the annual update of the Group's MTN Programme.
- Review the audit progress report of the external auditor.
- Annually assess and declare satisfaction with the auditor's qualifications, expertise and services, including independence. In particular, it was satisfied that the auditor's independence and objectivity have not been impaired by reason of the provision of non-audit services. All services were pre-approved by the Audit and Risk Management Committee. Appropriate policies and procedures have been established to identify audit and non-audit services as well as prohibited non-audit services that impair the independence of the auditor. A rotation arrangement for the lead audit partner was also established and implemented by the auditor. The lead audit partner is required to comply with professional ethics and independence policies and requirements applicable to the work performed, as well as to issue an annual confirmation on the auditor's independence.

### EXTERNAL AUDITOR'S SERVICES AND FEES

	2018 HK\$ million	2017 HK\$ million
Audit Services	2.85	2.66
Non-audit Services (Note)	1.54	0.99
Total	4.39	3.65

Note:

"Non-audit services" include agreed-upon-procedures reports, statutory compliance, regulatory or government procedures required to comply with financial, accounting or regulatory report matters. Specifically, these include 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, etc in 2017 and 2018. In 2018, the non-audit services also include the enterprise-wide cyber security assessment.

- Review and consider the 2019 audit service plan of the external auditor, and the terms of its engagement in respect of the 2019 interim results review.
- Recommend to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditor for 2019.

### Review of Risk Management and Internal Control Systems

- Assist the Board in its oversight of the Group's risk management framework through its functional implementation of the "second line of defence" and "third line of defence", protecting against and mitigating risks identified in the "first line of defence".

- Discuss with management the major risks the Group is facing.
- Review the Group's enterprise-wide cyber security assessment carried out by the independent team of Deloitte Touche Tohmatsu providing IT related assurance and risk management services. The assessment covered network architecture, cyber threat discovery exercise, cloud security management assessment, outsourcing management review, data management review and IT governance review, etc. This engagement assessed and evaluated the Group's enterprise IT security management, in order to identify the improvement areas and to provide recommendations.
- Review the treasury process.
- Review the special management reports on the Lee Garden Three constructions, property management incident management, and compliance of investment projects.
- Review the adequacy of resources, qualifications and experience of staff of the internal audit, accounting and financial reporting functions, and their training programmes and budget.
- Review the whistleblowing reports. No material issues were raised during the year.
- Review the inside information compliance framework and the enhanced Corporate Disclosure Policy.
- Review the legal and regulatory updates/trends that may affect the Group and their implications.
- Review 2018 annual risk management and internal control systems based on:
  - reports of the Internal Audit on the review of the Company's continuing connected transactions for the year ended 31 December 2018, as well as the adequacy and effectiveness of the related internal control procedures
  - regular reports by management of major risks, and special reports on selected major risk items detailed above
  - regular reports of the Internal Audit, including status of implementation of its recommendations
  - certification and confirmation of controls effectiveness by management, covering financial, operational, compliance controls, risk management and internal controls, noting the adoption of a control self-assessment questionnaire across the operating departments
  - confirmation from the external auditor that it had not identified any control weaknesses in respect of the Group's financial reporting cycle during the course of its audit.

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

## Audit and Risk Management Committee Report

### Internal Audit

- Review the internal audit plan, any matters identified as a result of internal audits, and management responses to audit reports issued during the year; and the progress made in implementing improvement actions.
- During 2018, the internal audit plan included reviews of business functions of retail, marketing, treasury, accounting and financial reporting, human resources management and administration and projects. No significant issues were raised during the review.
- Consider and approve the scope of work to be undertaken by the Internal Audit function in 2019. During 2019, it is expected that the internal audit plan will include reviews of leasing business, property management practice, etc.

### Review of Terms of Reference and Policy

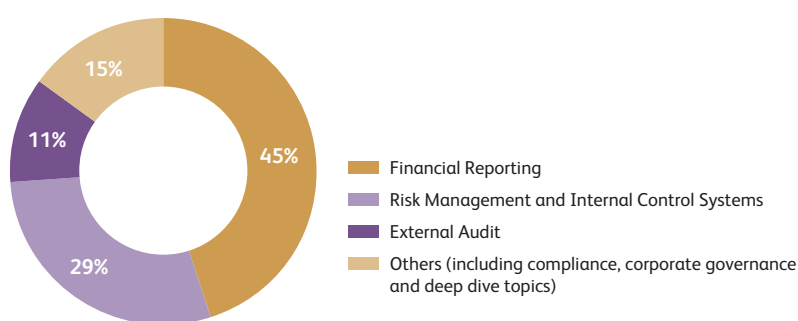
- Review the terms of reference of the Audit and Risk Management Committee and the Auditor Services Policy, including to extend the cooling off period for a former audit partner to become an Audit and Risk Management Committee member in accordance with the requirements of the Listing Rules. In February 2019, the terms of reference were further revised to better address the Audit and Risk Management Committee's key objectives and emphasis on risk management.

Members' attendance records are disclosed in the table on page 68.

### Evaluation

The Board and Committee evaluation process, which took place during the year, concluded that the Audit and Risk Management Committee was effective in fulfilling its roles in 2018. For details, please refer to Corporate Governance Report – "Board Evaluation 2018" (page 69).

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



Members of the Audit and Risk Management Committee

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

Hong Kong, 21 February 2019

# Remuneration Committee Report

## Composition

Majority are Independent  
Non-Executive Directors

## Committee Members

Fan Yan Hok Philip\*  
(Chairman)

Lee Tze Hau Michael

Poon Chung Yin Joseph\*

\*Independent Non-Executive Director

## Dear shareholder,

“ The primary roles of the Remuneration Committee are advising the Board on formulating the remuneration policy for Directors and senior management, determining remuneration and incentives packages for Directors and senior management, and ensuring that they are commensurate with their qualifications and competencies.

## Highlights

- Considered remuneration for Directors and senior management
- Considered the long-term incentive scheme

## Key responsibilities

- Reviewing Hysan's framework and general policies for the remuneration of Executive Director(s) and senior management
- Reviewing the remuneration packages of Executive Director(s), Non-Executive Director(s) and senior management
- Reviewing share incentive plans

## Meeting Schedule

The Remuneration Committee generally meets at least once every year. On matters other than those directly concerning them, the Executive Director(s) and management may be invited to the Remuneration Committee meetings. No Director is involved in deciding his/her own remuneration.

## Roles and Authorities

- Review Hysan's framework and general policies for the remuneration of Executive Director(s) and members of senior management, as recommended by management, and make recommendations to the Board.
- Review the remuneration of Executive Director(s) and senior management.
- Review the fees payable to Non-Executive Directors and Board Committee members prior to shareholders' approval at the AGM.
- Review new share option plans, changes to key terms of pension plans, and key terms of new compensation and benefits plans that have material financial, reputational, and strategic impact.

## Remuneration Committee Report

### Activities

During the year of 2018, the Remuneration Committee held a meeting to:

- Approve the 2018 Executive Director's compensation package (including annual fixed base salary and annual special fee in recognition of the extra responsibilities she had assumed), and the 2017 performance-based bonus.
- Review the fees for Non-Executive Directors and Board Committee members.
- Review compensation of senior management and other department heads.
- Review and consider the long-term incentive scheme.

In January 2019, the Remuneration Committee also held a meeting to:

- Propose refinement to the remuneration and compensation package of the Executive Director, Non-Executive Directors and Board Committee members based on the recommendations of an independent global consultancy company specialising in human resources and compensation.
- Approve the 2019 Executive Director's compensation package, and the 2018 performance-based bonus.
- Review compensation of senior management and other department heads.
- Review and consider the long-term incentive scheme.
- Review the terms of reference of the Remuneration Committee.

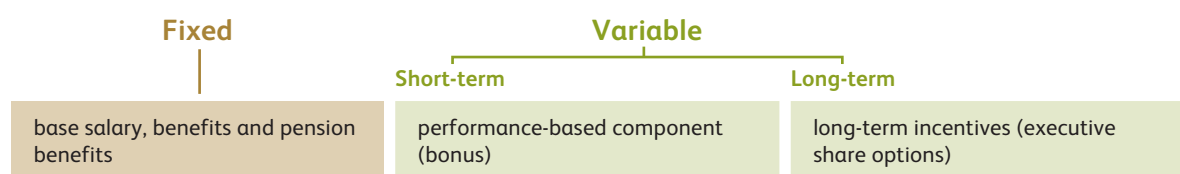
Members' attendance records are disclosed in the table on page 68.

### Executive Director(s)' and Senior Management's Remuneration Policy

The Group's remuneration policy aims to provide a fair market remuneration to attract, retain and motivate high quality Executive Director(s), senior management and employees. At the same time, awards must be aligned with shareholders' interests. In December 2018, the Group engaged an independent global consultancy company specialising in human resources and compensation to conduct an overall review of the Group's compensation structure for Executive Director(s), Non-Executive Directors and Board Committee members, with the objective of introducing refinements to better support the Group's strategic objectives ("Independent Compensation Review"). The Remuneration Committee thoroughly considered the Independent Compensation Review at the meeting held in January 2019.

The following principles have been established:

- Remuneration packages and structure to reflect a fair system of reward for all participants, with the emphasis on performance:



- Remuneration packages to be set at levels to ensure comparability and competitiveness with Hong Kong-based companies competing for a similar talent pool, with special emphasis on the real estate industry. Independent professional advice is to be sought where appropriate.
- The Remuneration Committee to determine the overall amount of each component of remuneration, taking into account both quantitative and qualitative assessment of performance and achievement of financial and operational key performance that align with the Group's long-term strategy.
- Remuneration policy and practice to be as transparent as possible.
- Participants to 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 are to be taken into account.
- The remuneration policy for Executive Director(s) and senior management is to be reviewed regularly, independent of executive management.
- The Remuneration Committee considered the annual base salary of Lee Irene Yun-Lien, which had remained unchanged since 2016 although she was paid a special fee in 2017 and 2018. The Committee also considered the recommendations from the Independent Compensation Review. In view of the significant in-year achievements, the Remuneration Committee concluded that her 2019 annual fixed base salary should be HK\$8,000,000.

Details of Directors' (including individual Executive Director(s)) and senior management's emoluments for the year of 2018 and option movements for Executive Director(s) during the year are set out in notes 11, 12 and 37, respectively, to the consolidated financial statements.

## Non-Executive Directors' Remuneration Policy

The Independent Compensation Review also included consideration and review of the Group's compensation structure for Non-Executive Directors and Board Committee members.

Key elements of our Non-Executive Directors' remuneration policy include the following:

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

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

Non-Executive Directors (including Independent Non-Executive Directors) received fees totalling HK\$2,615,000 for the year of 2018.

## Remuneration Committee Report

### Director Fee Levels

Director fees are subject to shareholders' approval at general meetings. The Remuneration Committee considered the recommendations from Independent Compensation Review, and that the full Board has assumed the role of the Strategy Committee to participate and contribute in setting and reviewing long term strategy; the Audit and Risk Management Committee has increasingly important role to support the Board in monitoring the Group's risks; as well as the level of responsibility, experience and abilities required of the Directors, level of care and amount of time required, as well as fees offered for similar positions in companies requiring the same talent, it is proposed for shareholders' consideration and approval that Director fees for Non-Executive Directors and Board Committee members be revised. The current fees for Non-Executive Directors and Board Committee members and the proposed fees are set out below. Executive Director(s) will not receive any director fee(s).

	Current Fee Per annum HK\$	Proposed Fee Per annum HK\$
<b>Board of Directors</b>		
Non-Executive Director	250,000 (Note 6)	280,000
<b>Audit and Risk Management Committee (Note 1)</b>		
Chairman	135,000 (Note 5)	180,000
Member	70,000 (Note 5)	108,000
<b>Remuneration Committee</b>		
Chairman	60,000 (Note 4)	75,000
Member	40,000 (Note 3)	45,000
<b>Nomination Committee</b>		
Chairman	30,000	50,000
Member	20,000	30,000
<b>Strategy Committee (Note 2)</b>		
Chairman	N/A	N/A
Member	N/A	N/A

Notes:

1. Audit Committee was renamed as the Audit and Risk Management Committee, effective from 21 February 2019.
2. Strategy Committee was discontinued and assumed by the Board with effect from 1 January 2019. The full Board is involved in setting and reviewing longer-term directional strategy for the growth of the Group. The then fee of Strategy Committee in 2018 for both Chairman and Member is HK\$30,000.
3. Approved by shareholders in the 2011 AGM.
4. Approved by shareholders in the 2014 AGM.
5. Approved by shareholders in the 2016 AGM.
6. Approved by shareholders in the 2018 AGM.

### Human Resources Practices

The Group aims to attract, retain and develop high calibre individuals committed to attaining our objectives. The total number of employees as at 31 December 2018 was 485. The Group's human resources practices are aligned with our corporate objectives so as to maximise shareholder value and achieve growth. Details on our human resources programmes, training and development are set out in the "2018 Sustainability Report".

## Long-term incentives: Share Option Schemes

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

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

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005 (the "2005 AGM"), which had 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 ordinary shares of the Company may be granted to employees of the Company or any wholly-owned subsidiaries (including Executive Director(s)) 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 the maximum number of shares permissible under the Listing Rules, being 10% of the total number of shares in issue as at the date of the 2005 AGM (being 104,996,365 shares).

The maximum entitlement of each participant under the 2005 Scheme must not, during any 12-month period, exceed the maximum number of shares permissible under the Listing Rules (which is 1% of the total number of shares in issue as at the date of the 2005 AGM, 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 for 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 the 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, both are referred to as the "Schemes") at its AGM held on 15 May 2015 (the "2015 AGM"), 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 ordinary shares of the Company may be granted to employees of the Company or any subsidiaries (including Executive Director(s)) 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.

## *Remuneration Committee Report*

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 the maximum number of shares permissible under the Listing Rules, currently being 10% of the total number of shares in issue as at the date of the 2015 AGM (being 106,389,669 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in a general meeting for “refreshing” the 10% limit under the New Scheme. The limit on the total number of shares that 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 the maximum number of shares permissible under the Listing Rules). No options may be granted if such a grant would result in such 30% limit or maximum permissible limit being exceeded.

The maximum entitlement of each participant under the New Scheme must not, during any 12-month period, exceed the maximum number of shares permissible under the Listing Rules (which is 1% of the total number of shares in issue as at the date of the 2015 AGM, 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 for 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 the exercise price to be made on exercise of the relevant options.

### **Grant and vesting structures**

Under the Company’s current policy, grants are to be made on a periodic basis. The exercise period is 10 years. The vesting period is 3 years in equal proportions starting from the 1st anniversary and shares will become fully vested on the 3rd anniversary of the grant. The size of the grant will be determined with reference to a base salary multiple and job performance grades. The Board reviews the grant and vesting structures from time to time.

### **Movement of share options**

During the year, a total of 956,200 shares options were granted under the New Scheme. The 2005 Scheme had 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) 1,322,667 share options granted and fully-vested under the 2005 Scheme remained outstanding, representing approximately 0.13% of the total number of issued shares of the Company;
- (ii) 1,983,867 share options granted (including 468,995 fully-vested share options) under the New Scheme remained outstanding, representing approximately 0.19% of the total number of issued shares of the Company; and
- (iii) 104,088,205 shares are issuable under the New Scheme, representing approximately 9.95% 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:

## 2005 Scheme

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2018	Changes during the year			Balance as at 31.12.2018
					Granted	Exercised	Cancelled/ lapsed (Note b)	
Executive Director								
Lee Irene Yun-Lien	14.5.2012	33.50	14.5.2013 – 13.5.2022	87,000	–	–	–	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
Eligible employees (Note c)	31.3.2009	13.30	31.3.2010 – 30.3.2019	59,000	–	(59,000) (Note d)	–	–
	31.3.2010	22.45	31.3.2011 – 30.3.2020	70,334	–	(20,334) (Note e)	–	50,000
	31.3.2011	32.00	31.3.2012 – 30.3.2021	54,000	–	(22,000) (Note f)	–	32,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	105,334	–	(35,334) (Note g)	–	70,000
	28.3.2013	39.20	28.3.2014 – 27.3.2023	153,000	–	(51,000) (Note h)	(17,000)	85,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	154,000	–	(108,000) (Note i)	–	46,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	204,667	–	(138,333) (Note j)	(3,667)	62,667
				1,777,335	–	(434,001)	(20,667)	1,322,667

## New Scheme

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2018	Changes during the year			Balance as at 31.12.2018
					Granted	Exercised	Cancelled/ lapsed (Note b)	
Executive Director								
Lee Irene Yun-Lien	9.3.2016	33.15	9.3.2017 – 8.3.2026	375,000	–	–	–	375,000
	23.2.2017	36.25	23.2.2018 – 22.2.2027	300,000	–	–	–	300,000
	1.3.2018	44.60 (Note k)	1.3.2019 – 29.2.2028	–	373,200	–	–	373,200
Eligible employees (Note c)	31.3.2016	33.05	31.3.2017 – 30.3.2026	377,668	–	(158,333) (Note l)	(45,335)	174,000
	31.3.2017	35.33	31.3.2018 – 30.3.2027	409,000	–	(84,666) (Note m)	(75,667)	248,667
	29.3.2018	41.50 (Note n)	29.3.2019 – 28.3.2028	–	583,000	–	(70,000)	513,000
				1,461,668	956,200	(242,999)	(191,002)	1,983,867

## Remuneration Committee Report

### Notes:

- (a) 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.
- (b) The options lapsed during the year upon the resignation of certain eligible employees.
- (c) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.
- (d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$39.25.
- (e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$45.36.
- (f) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$44.55.
- (g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$43.56.
- (h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$43.88.
- (i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$43.99.
- (j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$42.85.
- (k) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 February 2018) was HK\$45.35.
- (l) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$42.52.
- (m) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$42.33.
- (n) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 March 2018) was HK\$40.75.

Apart from the above, the Company has not granted 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 37 to the consolidated financial statements.

## 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 statement of profit or loss over the three-year vesting period of the options.

The fair values of share options granted by the Company were determined by using the 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 management's best estimate. The value of an option varies with different variables based on a number of subjective assumptions. Any change in the variables may materially affect the estimation of the fair value of an option.

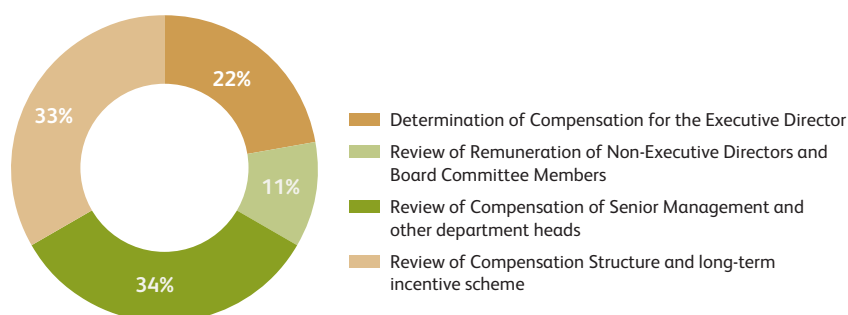
The inputs into the Model were as follows:

Date of grant	29.3.2018	1.3.2018
Closing share price at the date of grant	HK\$41.500	HK\$43.700
Exercise price	HK\$41.500	HK\$44.600
Risk free rate ( <i>Note a</i> )	1.802 %	1.741 %
Expected life of option ( <i>Note b</i> )	5 years	5 years
Expected volatility ( <i>Note c</i> )	17.923 %	17.534 %
Expected dividend per annum ( <i>Note d</i> )	HK\$1.288	HK\$1.288
Estimated fair values per share option	HK\$4.900	HK\$4.760

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 over the past 5 years immediately before the date of grant.
- (d) Expected dividend per annum: being the approximate average annual cash dividend over the past 5 financial years.

## Remuneration Committee activities and agenda time during the year



Members of the Remuneration Committee

**Fan Yan Hok Philip** (*Chairman*)

**Lee Tze Hau Michael**

**Poon Chung Yin Joseph**

Hong Kong, 21 February 2019

# Nomination Committee Report

## Composition

Majority are Independent  
Non-Executive Directors

## Committee Members

Lee Irene Yun-Lien  
(Chairman)

Fan Yan Hok Philip\*

Lau Lawrence Juen-Yee\*

Lee Chien

Poon Chung Yin Joseph\*

\*Independent Non-Executive Director

## Dear shareholder,

“ The primary roles of the Nomination Committee are to review Board structure, composition and diversity, and to recommend Board appointments. The roles of Non-Executive Directors continue to evolve in line with the growing demands and fast-changing business environment. The Board is constantly looking ahead to ensure that our Non-Executive Directors have the required skills and experience to drive the highest performance. During the year, we were pleased to welcome Wong Ching Ying Belinda, our new Independent Non-Executive Director, to the Board.

## Highlights

- Nominated Wong Ching Ying Belinda as a new Independent Non-Executive Director
- Considered the re-appointment and independence of Directors
- Reviewed the Nomination Policy, Diversity Policy and Terms of Reference of Nomination Committee

## Key responsibilities

- Reviewing the structure, size, composition and diversity of the Board and making recommendations to the Board
- Assessing independence of the Independent Non-Executive Directors

## Meeting Schedule

The Nomination Committee generally meets at least once every year.

## Roles and Authorities

- Review and make recommendations on the structure, size, composition and diversity of the Board to complement the Company's corporate strategies.
- Review the Diversity Policy.
- Nominate candidates to fill Board vacancies after careful consideration of the attributes and values required to support the effective functioning of the Board based on a combination of skills, knowledge and experience.
- Review the independence of Directors pursuant to the Listing Rules' requirements.
- Generally oversee the succession planning of the Board.
- Review the time commitment and the efforts required from Directors to discharge their responsibilities.
- Review the training and continuous professional development of the Directors.

## Activities

During the year of 2018, the Nomination Committee held a meeting to:

### Board Changes and Composition

- Consider and nominate Wong Ching Ying Belinda as an Independent Non-Executive Director to the Board in accordance with the Company's Nomination Policy and Diversity Policy. The appointment introduces in a new spectrum of expertise and experience in retail, food and beverage, people, brand development and growth strategy across the Greater China and Asia Pacific regions.

#### Director Recruitment Process



- Review the Board's structure, size, composition and diversity, and monitor the progress made towards enriching the skills and experience of Board members and improving diversity within the Board. The Nomination Committee was satisfied that, with the appointment made during the year and the discontinuation of the Strategy Committee, the current composition and size of the Board remained appropriate for the time being. However, these matters continue to be kept under regular review.
- Continue with the appointment of Li Xinzhe Jennifer as an advisor to the Board, to continue to enrich the Board's skills and diversity.
- The recent Board performance evaluation concluded that the Board has operated very well. The Nomination Committee was satisfied that all Directors were strongly committed to the Company and had contributed to the Board through their participation in the Company's affairs and discussions at the Board and Board Committees' meetings during the year, as reflected in their high attendance records in the table on page 68.
- Review the contribution of Directors who are due to retire and subject to re-appointment at the forthcoming Annual General Meeting with the support of the Board.
- Review the training of Directors and senior management.

### Independence of Non-Executive Directors

- Assess the independence, effectiveness and commitment of each of the Company's Independent Non-Executive Directors. The Nomination Committee was satisfied that notwithstanding the length of service of such Directors, as well as their number and nature of office held in other public companies and their other commitments, they remained highly committed to the Company, remaining independent and impartial, and continuing to be in a position to discharge their duties and responsibilities in the coming year.

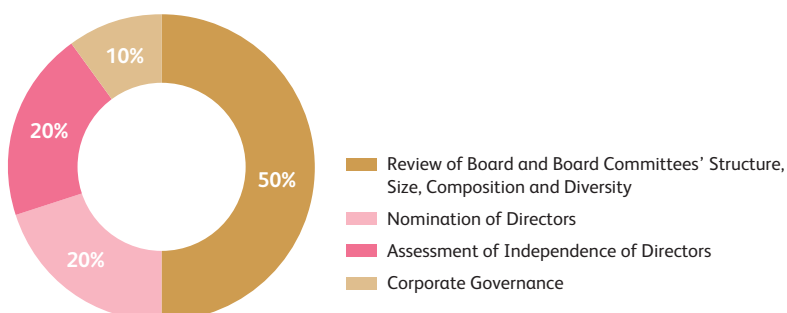
### Review of Policy and Terms of Reference

- Enhance our Diversity Policy to emphasise the importance of a diverse Board and senior management team.
- Adopt a separate Nomination Policy to emphasise our commitment to a rigorous and transparent nomination process.
- Review its terms of reference taking into account the corporate governance roles of the Nomination Committee. In February 2019, the terms of reference were further reviewed to address the key objectives.

### Next Generation Innovation Panel and Sustainability Committee

- Consider the nature and composition of the Next Generation Innovation Panel, which refreshes capabilities and supports the strategic direction-making of the Board.
- Seek to reflect, in a more formally manner, the Sustainability Committee at management level, thereby which supporting the Board in the Company's drive to comply with environmental, social and governance requirements and directions.

### Nomination Committee activities and agenda time during the year



### Members of the Nomination Committee

**Lee Irene Yun-Lien** (*Chairman*)

**Fan Yan Hok Philip**

**Lau Lawrence Juen-Yee**

**Lee Chien**

**Poon Chung Yin Joseph**

Hong Kong, 21 February 2019

# Strategy Committee Report

Composition	Highlights	Key responsibilities
<p>Lee Irene Yun-Lien (Chairman)</p> <p>Fan Yan Hok Philip*</p> <p>Jebsen Hans Michael</p> <p>Lee Chien</p> <p>Poon Chung Yin Joseph*</p> <p><small>*Independent Non-Executive Director</small></p>	<ul style="list-style-type: none"><li>Discussed business plans, as well as longer-term directional strategy for the growth of the Group</li></ul>	<ul style="list-style-type: none"><li>Reviewing and recommending to the Board actions on the Group's strategic matters</li><li>Aligning corporate responsibility and sustainability initiatives with the Group's strategy</li></ul>

## Change of Board Committee

The Board has recognised the importance of formulating the Group's strategies and long-term objectives for the future. The Board had therefore resolved to assume the role of the Strategy Committee and incorporate the Company's strategy discussions as an integral part of Board meetings. Accordingly, the Strategy Committee was discontinued and assumed by the Board with effect from 1 January 2019. This further facilitates and enables the full Board to actively involve and participate in setting and reviewing longer-term directional strategy for the growth of the Group.

## Meeting Schedule

The Strategy Committee met once in November 2018. Full Board members were also invited and attended.

## Roles and Authorities

The Strategy Committee was responsible for reviewing and making recommendations to the Board on the Group's strategic matters.

## Activities

During the year of 2018, the Strategy Committee held a meeting (in which full Board members and senior management joined and actively participated) to discuss business plans, as well as longer-term directional strategy for the growth of the Group.

The Board recognised the importance of formulating the Group's strategic and long-term objectives for the future. The Board fully supported the strategy of strengthening our core and non-core operations both for today and for the next generations, and to position and transform the Lee Gardens to achieve an even higher level of attainment. This commitment is to provide our stakeholders with sustainable and outstanding returns from a property portfolio that is strategically planned and managed by passionate, responsible and forward-looking professionals.

Members' attendance records are disclosed in the table on page 68.

Members of the then Strategy Committee

**Lee Irene Yun-Lien** (Chairman)  
**Fan Yan Hok Philip**  
**Jebsen Hans Michael**  
**Lee Chien**  
**Poon Chung Yin Joseph**

Hong Kong, 21 February 2019

# *Risk Management and Internal Control Report*

## **Responsibility**

Responsibility for risk management is shared among the Board of Directors and the management of the Group. The Board has the overall responsibility of reviewing and maintaining sound and effective risk management and internal control systems. Management's role is to design and implement these systems, and report to the Board and the Audit and Risk Management Committee on the risks identified and how they are managed, which is a process that is essential for the Group to achieve its business objectives.

## **Our Risk Management and Internal Control Framework**

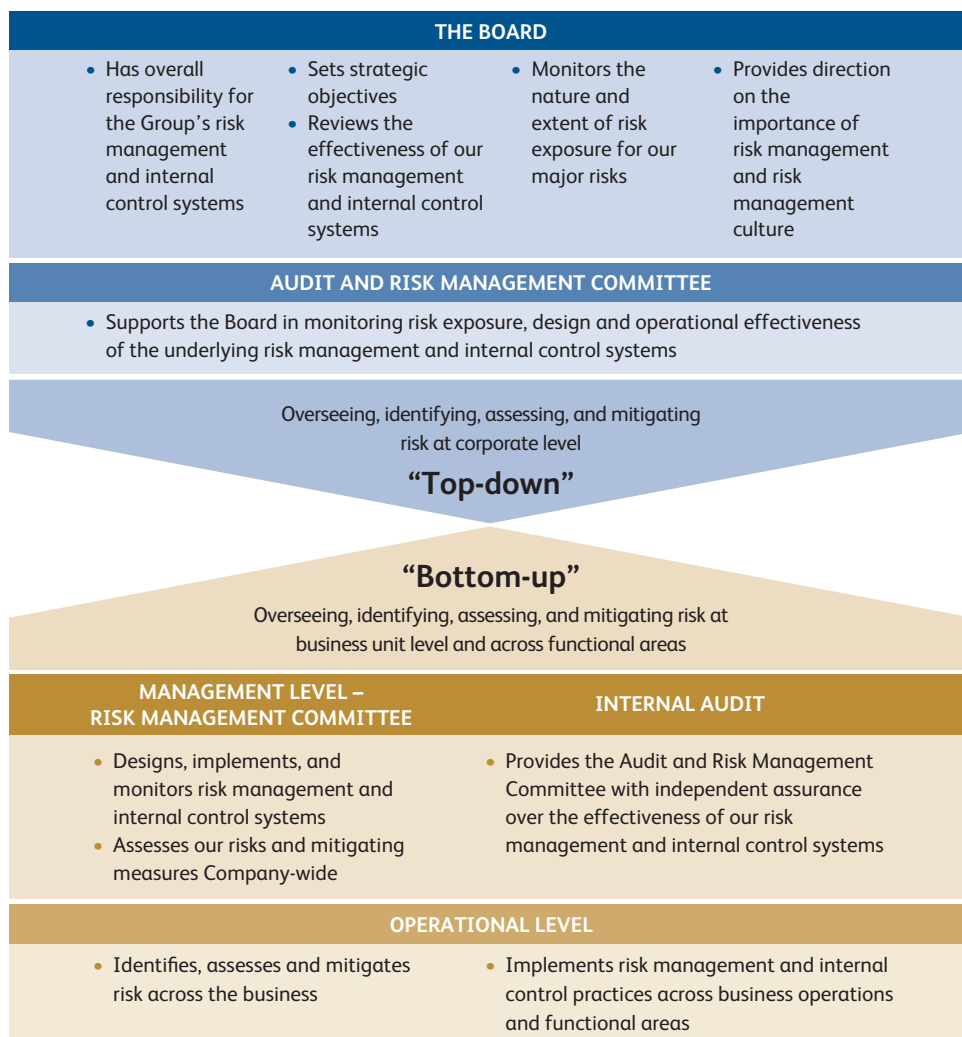
The Audit and Risk Management Committee supports the Board in monitoring our risk exposures, the design and operating effectiveness of the underlying risk management and internal control systems. Acting on behalf of the Board, the Committee oversees the following processes on a regular basis:

- (i) Reviewing the principal business risks and control measures in order to mitigate, transfer or avoid such risks; the strengths and weaknesses of the overall risk management and internal control systems; and action plans to address the weaknesses or improve the assessment process;
- (ii) Reviewing the business process and operations reported by Internal Audit, including action plans to address the identified control weaknesses, as well as status updates and monitoring the implementation of audit recommendations; and
- (iii) Reporting by the external and internal auditors of any control issues identified in the course of their work, and discussing with the external and internal auditors the scope of their respective review and findings.

The Audit and Risk Management Committee would report its findings to the Board, which would then consider these findings in order to form its own view on the effectiveness of the Group's risk management and internal control systems.

*Please also see the "Audit and Risk Management Committee Report" from pages 80 to 84 regarding the Audit and Risk Management Committee's detailed review work, including the forms of assurance received from management, the external auditor and internal auditor.*

## Hysan's Top-Down/Bottom-Up Risk Management Framework



## 2018 Review of Risk Management and Internal Control Effectiveness

In respect of the year ended 31 December 2018, the Board, with confirmation from the Chief Operating Officer, Chief Financial Officer, Head of Internal Audit and General Counsel and Company Secretary, considered the risk management and internal control systems to be effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, internal audit, risk management and internal controls functions of the Group were identified. The risk management and internal control systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss.

During the review, the Board also considered the resources, qualifications/experience of staff of the Group's internal audit, accounting and financial reporting functions and their training and budgets were considered adequate.

### **Our Risk Management and Internal Control Model**

Our risk management and internal control model is based on that of the Committee of Sponsoring Organisations of the U.S. Treadway Commission (“COSO”) for internal control, but with due consideration given to our organisational structure and business nature.

The COSO model has five components and how the model fits into our operational and control environment is described as follows:

- **Control Environment** – this sets the tone for risk management and internal control. As Hysan is a tightly-knit organisation, the actions of management and its commitment to effective governance are transparent to all.

We have a strong tradition of good corporate governance and a corporate culture based on sound business ethics and accountability. We have in place a formal Code of Ethics that is communicated to all staff (including new recruits). We have maintained a separate Whistleblowing Policy since 2016, under which whistle blowers can raise concerns to a designated independent third party who then reports to the Audit and Risk Management Committee. Our overall aim is to build risk awareness and control responsibility into our culture, becoming thereby the foundation of our risk management and internal control systems.

- **Risk Assessment** – we continue to improve our risk management process and the quality of information generated, while maintaining a simple and practical approach. Instead of setting up a separate risk management department, we seek to embed risk management into our operations (retail, office, residential, property management & technical services, projects, marketing and investment & development) and functional areas (including finance, human resources, IT, legal, secretarial and corporate communications).

On an annual basis, department heads review and update their risk registers, providing assurances that controls are appropriately embedded and operating effectively.

At management level, the risk management committee, comprising of Executive Director(s), Chief Operating Officer, Chief Financial Officer, Financial Controller, General Counsel and Company Secretary, and Head of Internal Audit, sets relevant policies and monitors potential weaknesses and action items regularly. This committee is also responsible for identifying and assessing risks of a more macro and strategic nature, including emerging risks.

This bottom-up approach in which operating unit heads identify operational risks, together with the top-down approach, determine the Group’s major risks. Discussion sessions with all department heads further enhance the participatory and interactive aspect of the overall risk assessment and risk challenge process.

- **Control Activities and Information and Communicating** – our core property leasing and management business involves well-established business processes. Control activities have traditionally been built on top-level reviews, segregation of duties, and physical controls. These control policies have been formalised as written policies and procedures, with defined limits of delegated authority and segregated duties and controls. A greater use of automation (information processing and analytics) is also being implemented.

The annual budgeting and planning process, one of our key control activities, takes into consideration all risk factors. All operating units, in preparing their respective plans, are required to identify material risks that may have an impact on the achievement of their business objectives. Action items to mitigate identified risks are required to be developed for implementation. Variance analyses are regularly performed and reported to management and the Board, which help to identify deficiencies for timely remedial actions to be taken.

Another significant control activity is the monitoring of major project expenditures, as they are a particularly capital-intensive aspect of our property business. For each project, a detailed analysis of expected risks and returns is submitted to the operating unit heads, Chief Operating Officer, Chief Financial Officer, Executive Director(s) and the Board for approval. Criteria used to assess business and financial feasibility are generally based on net present value, payback period, and internal rate of return from projected cash flow as well as sensitivity analysis.

Management also conducts an internal control self-assessment annually. All department/unit heads must complete a relevant control self-assessment questionnaire and confirm with management that appropriate internal control policies and procedures have been established and properly complied with.

- **Monitoring Activities** – the Board and the Audit and Risk Management Committee oversee the control process, with the assistance from our Internal Audit team. Management provides update reports to the Audit and Risk Management Committee on major risks and appropriate mitigating measures. During the three Audit and Risk Management Committee meetings held annually, a session in each meeting is largely dedicated to discussions regarding risk management and internal control systems. In 2019, the Audit and Risk Management Committee will hold an additional meeting (making a total of 4 meetings) to address the dynamic risks and enhance the risk management oversight function.

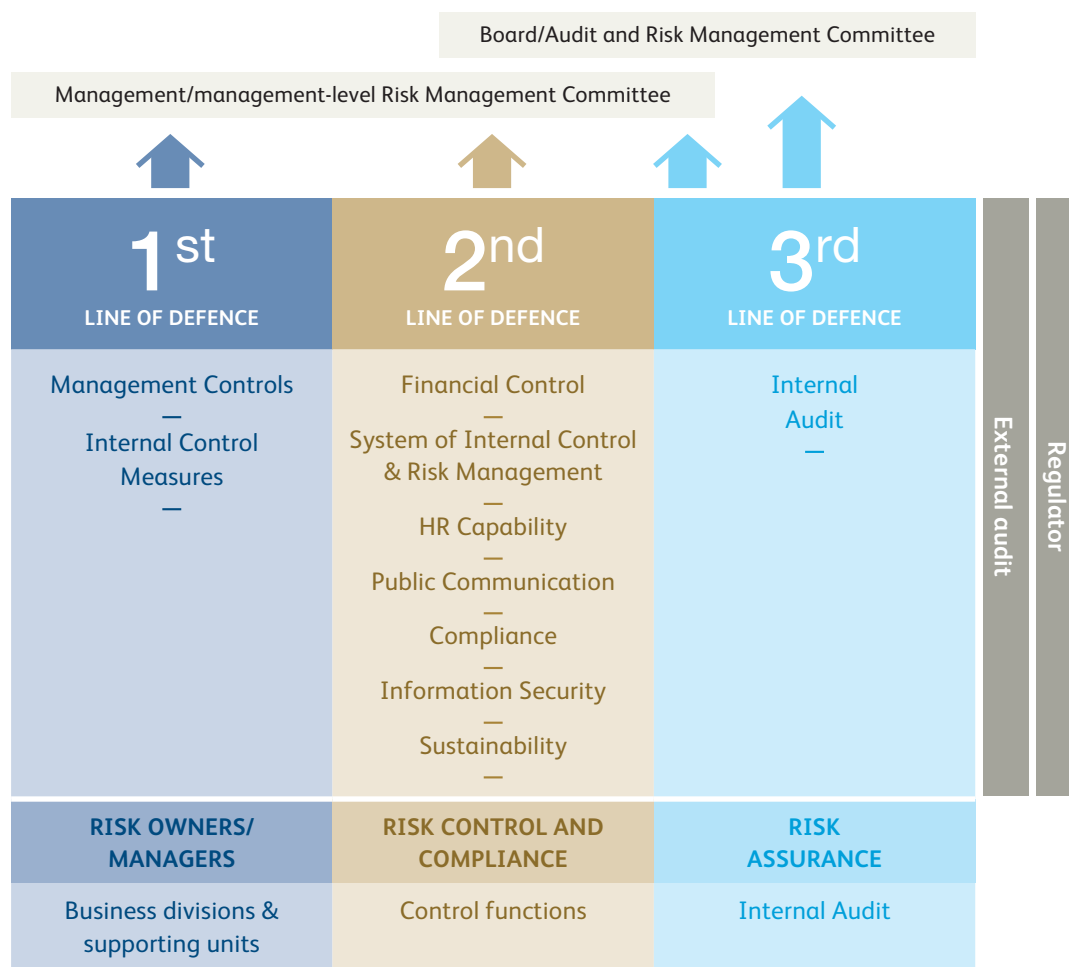
## Strengthening our Underlying Systems

Since 2012, we have been progressively making improvements to our risk management and internal control systems. The initial phase focused on adopting a more risk-based, rather than process-based, approach to risk identification and assessment. This approach strengthens our ability to analyse risks and respond to opportunities as we pursue our strategic objectives. Management reporting to the Audit and Risk Management Committee has also been enhanced, including the presentation of special reports on selected risk topics.

Our goal is to further integrate risk management and internal control into our business processes, including annual budgeting and planning as well as major project management. In December 2013, we revised the COSO framework to adopt a holistic approach to risk management, taking into consideration the Company's circumstances, including its ongoing risk management and internal control improvement plan as well as strategic initiatives such as sustainability. Ultimately, our objective is to make risk management a "living" process that is practised on a day-to-day basis by operating units, incorporating up-to-date and fit for purpose market best practice.

## Hysan's "Three Lines of Defence" Model

Clear responsibilities and robust controls are vital to help manage risks. Since 2017, we have reinforced our risk governance structure by adopting a "Three Lines of Defence" model to address how specific duties related to risk and control could be assigned and coordinated within the Group. This reinforced Hysan's risk management capabilities and compliance culture across all divisions and functions.



The model aims to reinforce Hysan's risk management capabilities and compliance culture throughout the Group. The responsibilities of each of the defence lines are as follows:

	Relevant units	Responsibilities
<b>First LINE</b>	Business and supporting units	Ultimately accountable for all risks and controls in all business processes
<b>Second LINE</b>	Corporate oversight and control functions	Responsible for the Group's policy framework and independent risk assessment
<b>Third LINE</b>	Group internal audit	Responsible for providing independent and objective assurance on the effectiveness of risk management, internal controls and governance processes

## Hysan's Regulatory Compliance and Governance Framework

The Board, supported by the Audit and Risk Management Committee, shall have overall regulatory compliance authority in all matters. We have a regulatory compliance and governance framework in place, which is fundamental to our commitment of achieving a high standard of internal control and governance.



## Our Past Efforts in Enhancing the Internal Control Environment and Activities

In addition, the following are examples of the improvements we have made over the past few years to strengthen our risk management and internal control system:

### Control Environment – policy of compliance

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| <ul style="list-style-type: none"> <li>Updated the Group's competition law compliance policy and templates.</li> </ul> <p>Training on Competition Law was organised in June 2018 for our Business Units, covered practical application to our business practices, consequences of breach, etc.</p> | <p>Ongoing review/ refinement of processes and structures to enhance compliance.</p> |
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### Risk Assessment – enhanced monitoring of “emerging risks”

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|---|--|
| <ul style="list-style-type: none"> <li>Strengthened the monitoring of material risks and “emerging risks”, i.e. new or evolving risks with potential significant impact, such as socio-political, economic or cyber security risks.</li> </ul> <p>The management-level Risk Management Committee plays a key role in identifying and tracking these risks, with top management leading discussions with all department heads.</p> | <p>In the context of a fast-changing global and local environment, the monitoring of “emerging risks” will be a focus.</p> |
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### Control Activities – e-compliance system

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|---|--|
| <ul style="list-style-type: none"> <li>The half-yearly compliance reporting was digitalised and transformed into an electronic reporting system in July 2018. The legal compliance and connected transactions reporting systems were combined into one. This facilitates timely reporting, good record tracking and improves efficiency.</li> </ul> | <p>Continual review and refinement of internal risk management and reporting procedures to ensure prompt and timely response and escalation.</p> |
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### Control Activities – internal controls and policies

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|---|--|
| <ul style="list-style-type: none"> <li>Enhanced the group-wide privacy compliance framework and reviewed the procedures for various key business units. Subsequent training was delivered to reinforce improvements.</li> <li>Regular trainings and education provided across the Group during the year by Legal Department and external professional advisors, including how to handle down raids, connected transactions, privacy compliance, lease negotiation, intellectual properties, etc.</li> </ul> | <p>Continual review and refinement of policies and procedures, risk management and internal controls in line with the fast-changing external and internal business environments are essential.</p> |
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### Monitoring Activities – enhanced “management assurance” to the Audit and Risk Management Committee and the Board

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|--|--|
| <ul style="list-style-type: none"> <li>Enhanced management update reports to the Audit and Risk Management Committee and the Board on major risks, including deep-dive reports on topics such as enterprise-wide cyber security assessment, treasury process and Lee Garden Three project.</li> </ul> <p>To strengthen management's “assurance” to the Audit and Risk Management Committee and the Board, self-assessment questionnaires were rolled out across all departments. Department heads were required to review and certify the effectiveness of their departmental controls, including the identification of any control issues. This backs up management's certification to the Audit and Risk Management Committee and the Board.</p> | <p>Facilitate and enhance the work of the Audit and Risk Management Committee and the Board in monitoring our risk exposure.</p> |
|--|--|

## Our Risk Profile

Our approach for managing risk is underpinned by our understanding of our current risk exposures, and how our risks are changing over time. The following illustrates the nature of our major risks. Further analysis of our strategies is set out in other sections of the Annual Report as indicated below:

Risk area	Risk level changes during 2018	Description of risk change	Our mitigating measures
Overall business environment	↑	<ul style="list-style-type: none"> <li>High uncertainties in global political and economic environment.</li> <li>Signs of economic slow down in mainland China and Hong Kong economies cause head winds to impede our growth.</li> </ul>	<ul style="list-style-type: none"> <li>Better curated portfolio as well as prudent and sound financial management enable Hysan to become more resilient.</li> </ul>
Office sector	↑	<ul style="list-style-type: none"> <li>Continued decentralisation from Central benefits Hysan in Causeway Bay as well as other areas like Hong Kong Island East, Wong Chuk Hang and Kowloon Bay. Rent conscious tenants may aim for lower cost non-traditional business areas.</li> <li>Rental reversion for Grade A office in Wan Chai and Causeway Bay shows slower growth in 2018.</li> <li>Non-grade A office in Causeway Bay faces greater pressure due to lower demand and rent levels.</li> <li>Co-working is a disruptor to traditional office leasing business. Expected consolidation may disturb the market.</li> </ul>	<ul style="list-style-type: none"> <li>Diverse and flexible leasing efforts as well as maintaining a diversified tenant mix ensure a more resilient tenant portfolio.</li> <li>Offer tailored solutions to increase marketability of office units.</li> <li>Embrace co-working trend by collaborating with leading and strong co-working brands.</li> </ul>
Retail sector	↑	<ul style="list-style-type: none"> <li>Retail market recovery momentum may not be sustainable as when growth in Q3 and Q4 2018 was much lower than that experienced in Q1 and Q2 2018.</li> <li>Brands are cautious when opening new shops.</li> <li>Peers are catching up with their offerings and narrowing our advantages.</li> <li>Regional malls divert shoppers from traditional shopping areas.</li> </ul>	<ul style="list-style-type: none"> <li>Diverse and flexible leasing effort as well as active curation of tenant mix to ensure a more resilient and sustainable tenant portfolio.</li> <li>Use business technology to drive loyalty programme as well as shopping experiences to distinguish ourselves.</li> <li>Focus on marketing efforts to target relevant existing and potential new shoppers.</li> </ul>
Residential sector	↔	<ul style="list-style-type: none"> <li>Uncertainties in economy affect demand for luxury residential units from expatriates as well as affordable rent level due to their tighter budget.</li> <li>With more well decorated units offered, both rental reversion and occupancies have improved in 2018.</li> </ul>	<ul style="list-style-type: none"> <li>Continue efforts in renovating units as well as the public area to enhance appeal to potential new tenants and to drive demand as well as postering higher rentals.</li> </ul>
Lee Garden Three Project	↓	<ul style="list-style-type: none"> <li>Lee Garden Three was completed in December 2017 and has been operating well.</li> </ul>	–
Tai Po Residential Development Project	↑	<ul style="list-style-type: none"> <li>The low-rise residential development project in Tai Po, which is jointly invested with HKRI International Limited (“HKRI”), is making good progress. Various statutory submissions are ongoing. Site work has also commenced. This project is managed together with HKRI and will be executed professionally. Recent signs of the cooling of the property market, as well as the new “vacancy tax” levied by the Government, may affect developers’ profits in the future.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure the sites are carefully and professionally designed to fit the target market.</li> <li>Approach the market at the appropriate moment.</li> <li>Sensible tender price mitigates pressure on profit.</li> </ul>
Human Resources	↔	<ul style="list-style-type: none"> <li>With continual low unemployment rate and structural changes in the workforce in Hong Kong, the service industry continues to face widespread labour shortages.</li> <li>We are facing competition for skilled personnel for our frontline operations as well as management to support our growth strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Improve working environment, benefits and an emphasis on well-being would help recruit new blood and retain talented people more effectively.</li> </ul>
Cyber Security	↑	<ul style="list-style-type: none"> <li>With fast developments in business technology, Hysan continues to leverage technology to improve our offering to shoppers and tenants, as well as to enhance our operations and management.</li> <li>Disturbance to business due to cyber security risks can be significant and costly to rectify.</li> </ul>	<ul style="list-style-type: none"> <li>Regular cyber security review with capable management in place to mitigate the risks.</li> </ul>

Notes:



where “inherent risks” (i.e. before taking into consideration mitigating activities) have increased



where “inherent risks” have decreased



where “inherent risks” have remained broadly the same

# *Sustainability Report – Summary*

This section provides a summary of Hysan's sustainability/corporate responsibility strategy overview and accomplishments. The reporting period is from 1 January 2018 to 31 December 2018, unless otherwise specified. Hysan continued to comply fully with the requirements of the provisions contained in the Environmental, Social and Governance Reporting Guide, Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As a "Business of Life", Hysan creates positive and visible changes of influence for our stakeholders and the communities we serve. With much stronger emphasis on sustainability in all walks of life in recent years and the Board's strong support and commitment to sustainability, we decided to embed further sustainable development principles and practices into our operations and to provide a better structure within our corporate setup to strategize and report on sustainability issues.

In 2018, a Sustainability Committee at management level was formalised to formulate sustainability strategies and oversee their implementation in an efficient and effective manner, with clear terms of reference and delegated powers. This Committee is chaired by the Chief Operating Officer and reports to the Chairman of the Board and the Executive Committee. The Executive Committee then shares sustainability plans with the Board and helps cascade the Directors' views on each topic to the Sustainability Committee. A sustainability task force, with employees selected for their expertise as members, will execute the initiatives developed by this Committee.

Together with the formalisation of the Committee, a new Sustainability Policy for the Group was implemented in early 2019. Our new Sustainability Policy enhances the framework for the way we manage our corporate responsibilities. Maintaining high ethical standards, respecting our staff, providing and maintaining a safe and healthy environment, minimising the adverse impact of our operations on the environment, contributing to combatting climate change and improving resilience as a business, as well as encouraging partners to commit to high sustainability standards: these are our main sustainability themes.

Hysan has long assessed the materiality of sustainability issues it faces based on industry norms and what we learnt from participating in sustainability reporting with renowned international and local indexes, like FTSE4Good, MSCI Sustainability Indexes and Hang Seng Sustainability Index. For details about Hysan's sustainability initiatives, please refer to the 2018 Sustainability Report on the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk)

Under the sustainability umbrella, Hysan's Environmental Policy focuses on measuring and reporting our carbon reduction efforts, promoting waste reduction at source, enhancing green purchasing and improving stakeholder engagement.

## **Environmental Achievements of 2018**

- Benchmarking exercises: Hysan Place achieved Final Platinum rating under BEAM Plus Existing Buildings; Lee Garden Three was given the China Green Building Label 2 Stars rating; the new Tai Po residential development began based on the requirements of BEAM Plus New Buildings Version 1.2.
- Partnership synergy: Collaborated with Green Monday and over 20 restaurants in Lee Gardens area during the summer to promote healthy and sustainable eating lifestyle through the @GoGreenCWB campaign; provided a LEED and BEAM information kit for Lee Garden Three tenants and encouraged tenants to aim for high interior sustainability standards.
- Public awareness: Installed the second Well#, a smart water refill station, at the kid's floor of Lee Garden Two. During the summer of 2018, we also launched a one-month "Hydrating Causeway Bay" campaign with an additional pop-up Well# installed at Hysan Place to promote reduced usage of disposable plastic bottles.

- Stakeholder engagement: Launched “GreenFest by Hysan” at Hysan Place to engage and inspire our new generations to take positive action towards a more sustainable future. The first edition of this event included many innovative workshops on the theme of “Rethink our Food”.
- Waste management: Actively engaged our Food and Beverages tenants to deliver their food waste at Hysan’s cost to the Organic Waste Treatment Facilities (OWTF) operated by the Environmental Protection Department.
- Energy saving initiatives: Installed energy-efficient variable voltage variable frequency (VVVF) type power system for the lift modernization project at One Hysan Avenue office tower and Lee Garden Two retail podium; continued to adopt more LED lights under Hysan’s portfolio.
- Green finance: Developed our own Green Finance Framework as reviewed by Sustainalytics. This framework aims to guide the future funding of sustainable building development and enhancements through green bonds or loans.

In the area of workplace quality, our Code of Ethics and Employment and Staff Policy are well observed. The mobile learning system, introduced in 2017, was enhanced in 2018. It now has eight categories of curriculum encompassing 72 courses and 100 modules, encouraging employees to learn new skills and industry knowledge anytime anywhere.

To continue to feed the talent pipeline, Hysan recruited more high potential young talents through its 2018 Management Trainee Programme. The Management Trainees go through a 24-month structured rotation plan leading them to different business functions to receive an in-depth understanding of Hysan’s business operations. Hysan’s Health and Safety Policy focuses on the provision and maintenance of a safe and healthy environment within Hysan’s portfolio for all staff, tenants, and members of the general public. In 2018, more than 1,800 hours of safety and health training were recorded by our staff members. Through our own demand for high levels of health and safety within our operations, we send a clear message to our partners and contractors to follow suit.

In 2018, Hysan continued its close ties with Lee Gardens Association (LGA), the area association that strives to create a unified community of businesses to promote the Lee Gardens area to the public. Many of LGA’s new members are renowned traditional businesses along Lan Fong Road and Pak Sha Road, which helped bring more attention to the association and its activities. LGA has also developed its own popular social media platforms to promote the area and its events.

Hysan Place’s Urban Farm and Sky Wetland remained the best-loved environmental attractions within our portfolio. In the past year, more than 25 local and international organizations visited these two green features at Hysan Place. Together with the GreenFest event, over 300 urban farmers enjoyed sessions growing organic produce at Hysan Urban Farm, while around 100 children and parents participated in our Green Wonders programme to learn about green building and urban farming.

Family and children’s events became a strong focus for Hysan’s community events in 2018. Apart from those co-sponsored with LGA, the company launched a monthly children’s theatre performance at Lee Garden Two with the help of Absolutely Fabulous Theatre Connection. Each performance weekend would attract close to 400 participants.

On the artistic front, among other events, Hysan sponsored a special installation art piece by renowned Swiss artist Dimitri de Perrot, which was hosted at Hysan Place’s popular atrium.

Hysan’s volunteer team contributed 493 hours of their time to services for the community in 2018. Another 111 hours were recorded as contributions by team members’ friends and families, who also took part in Hysan activities. Hysan was the winner of a Silver Award for Volunteer Service.

# Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2018, which were approved by the Board of Directors on 21 February 2019.

## PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2018 to be property investment, management, and development. Details of the Group's principal subsidiaries, associates and a joint venture as at 31 December 2018 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 the 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 2018 are set out in the consolidated statement of profit or loss on page 121.

The first interim dividend of HK27 cents per share, amounting to approximately HK\$283 million, was paid to shareholders during the year.

The Board declared a second interim dividend of HK117 cents per share to the shareholders on the register of members on 8 March 2019, absorbing approximately HK\$1,224 million. The dividends declared and paid for ordinary shares in respect of the full year 2018 will absorb approximately HK\$1,507 million, and 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 of the Company's business – "Key Facts" and "Chairman's Statement";
- (d) Analysis using financial key performance indicators – "Management's Discussion and Analysis";
- (e) Discussion of the Company's environmental policies and performance – "Sustainability Report – Summary";
- (f) Discussion of the Company's compliance with the relevant laws and regulations that have a significant impact on the Company – "Corporate Governance Report", "Sustainability Report – Summary" and "Independent Auditor's Report"; and
- (g) An account of the Company's key relationships with its employees, customers, suppliers and others that have a significant impact on the Company and on which the Company's success depends – "Directors' Report" and "Sustainability Report – Summary".

A detailed discussion of the Company's environmental policies and performance, its compliance with the relevant laws and regulations that have a significant impact on the Company, and its key relationships with stakeholders, is contained in the separate 2018 Sustainability Report, which is available on the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk).

These discussions form part of this 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 124 and 125 and note 30 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 2018 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 2018 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 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 29 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 to 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 58 to 79) – this gives detailed information on the Company's compliance with the Corporate Governance Code and the relevant laws and regulations, its adoption of local and international best practices, Director's service contracts, and Directors' interests in shares, contracts and competing business;
- (b) "Audit and Risk Management Committee Report" (pages 80 to 84) – this sets out the terms of reference, work performed and findings of the Audit and Risk Management Committee for the year;
- (c) "Remuneration Committee Report" (pages 85 to 93) – this gives detailed information on Directors' remuneration and interests (including information on Directors' compensation);
- (d) "Nomination Committee Report" (pages 94 to 96) – this sets out the terms of reference, work performed and findings of the Nomination Committee for the year;
- (e) "Strategy Committee Report" (page 97) – this sets out the terms of reference, work performed and findings of the Strategy Committee for the year; and
- (f) "Risk Management and Internal Control Report" (pages 98 to 105) – this sets out the Company's framework for risk assessment and internal control (including control environment, control activities and work completed during the year).

Further information on the Company's sustainability policies and practices is contained in the separate 2018 Sustainability Report, which is available on the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk).

**THE BOARD**

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

Wong Ching Ying Belinda was appointed as an Independent Non-Executive Director, effective from 18 December 2018.

Lee Irene Yun-Lien and Yang Chi Hsin Trevor served as alternate Directors to Lee Anthony Hsien Pin and Jebesen Hans Michael, respectively, throughout the year.

Save as otherwise mentioned above, other Directors whose names and biographies appear on pages 52 to 56 have been Directors of the Company throughout the year and up to the date of this report.

According to Article 97 of the Company's current Articles of Association ("Articles"), a Director appointed either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following Annual General Meeting ("AGM").

Under Article 114 of the Company's Articles, 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 re-election at the forthcoming AGM are set out in the related circular to shareholders.

The Company received from each Independent Non-Executive Director an annual confirmation of his or her independence with regard to 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 2018. (See "Corporate Governance Report" and "Nomination Committee Report".)

The names of Directors who have served on the boards of the subsidiaries of the Company during the year and up to 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 "Corporate Governance Report" on pages 58 to 79.

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

As at 31 December 2018, 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)
Lee Hysan Company Limited	Beneficial owner	433,130,735	41.39
Silchester International Investors LLP	Investment manager	83,489,000	7.98
First Eagle Investment Management, LLC	Investment manager	52,460,214	5.01

Note:

The percentage was compiled based on the total number of issued shares of the Company as at 31 December 2018 (i.e. 1,046,501,891 ordinary shares).

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 2018.

## 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 and that were negotiated on normal commercial terms and on an arm’s length basis. Further details are set out in note 35 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 that were subject to the notification and announcement requirements but exempt from the circular and shareholders’ approval requirements under Rule 14A.76(2) of the Listing Rules during the year (the “Transactions”). Details of the Transactions required to be disclosed are set out as follows:

### I. Leases granted by the Group

#### 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 the property owner of Lee Garden Two, as landlord, with the following connected persons:

Connected person	Date of agreement	Term	Premises	Annual consideration (Note a)
(i) Jebsen and Company Limited (Note b)	(1) 28 March 2013 (Existing Lease and Carpark Licence Agreements) (as amended – Notes c & f)	5 years commencing from 1 September 2013 (Note d)	Office units on the 28th, 30th and 31st Floors and 3 carparking spaces	2018: HK\$37,949,209 2019: HK\$38,723,268 2020: HK\$38,723,268 2021: HK\$25,815,512 (on pro-rata basis) (Note m)
	(2) 22 June 2018 (Lease, Carpark Licence Agreements and Licence Agreements to renew, among others, item (1)) (Notes e & f)	Renewed for further 3 years commencing from 1 September 2018	Office units on the 28th, 30th and 31st Floors, 4 carparking spaces and 2 portions of spaces near the carparking spaces	
(ii) Treasure Matrix Limited (Notes g & h)	(1) 28 March 2014 (Lease and Licence Agreements) (as amended – Notes i & k)	5 years commencing from 28 March 2014 (Note d)	Shop Nos. 308 & 311 on the 3rd Floor (connected to an outdoor garden)	2018: HK\$3,590,119 (on pro-rata basis) (Note n)
	(2) 27 March 2017 (Licence Agreement) (Notes j & k)	1 year, 3 months and 27 days commencing from 1 December 2017	Portion 1 on the 3rd Floor	
	(3) 27 March 2017 (Licence Agreement) (Notes j & k)	1 year, 4 months and 27 days commencing from 1 November 2017	Various storerooms and advertising spaces	
	(4) 28 June 2018 (Surrender Agreement) (Note l)	Early termination with effect from 15 July 2018	All premises set out in items (1) to (3)	

**CONTINUING CONNECTED TRANSACTIONS** continued

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

- (a) The following management agreement was 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 in respect of Lee Garden Two:

Connected person	Date of agreement	Term	Premises	Consideration received during the year
Barrowgate Limited	22 March 2016	3 years commencing from 1 April 2016	Whole premises of Lee Garden Two	HK\$27,941,068 (Note o)

- (b) The following management agreement was 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	Term	Premises	Consideration received during the year
Barrowgate Limited	22 March 2016	3 years commencing from 1 April 2016	Whole premises of Lee Garden Two	HK\$4,234,637 (Note o)

Notes:

- (a) The annual considerations were based on current rates of rental (including estimated turnover rent, where applicable), operating charges, (for retail premises) promotion levies and 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) Jebson and Company Limited ("Jebson and Company") is a beneficial substantial shareholder of Barrowgate and has an equity interest of 10% in Barrowgate. Jebson Hans Michael, Non-Executive Director of the Company, is a controlling shareholder of Jebson and Company.
- (c) On 16 August 2016, a memorandum was entered into, pursuant to which the rent for the period from 1 September 2016 to 31 August 2018 was reviewed and revised to the then prevailing market rent.
- (d) The terms of the agreements mentioned under I (i)(1) and I (ii)(1) above exceed 3 years. According to the Listing Rules requirement, an independent financial adviser to the Board was engaged in each case. The advisor formed the view, in each case, that a term with a duration period longer than 3 years was required and it was normal business practice for leases of this type to be of such duration.
- (e) The Hysan Group has also been leasing to Jebson and Company a carparking space and 2 portions of spaces at Lee Garden Two. These transactions on their own constituted continuing connected transactions of the Company, and as such were fully exempted from Chapter 14A requirements since the annual consideration under the agreements fall below the applicable de minimis threshold under the Listing Rules. For the purposes of renewing these existing lease and licence agreements, on 22 June 2018, new lease and licence agreements were entered into to renew the leasing of office units on 28th, 30th and 31st Floors, and the licensing of 4 car parking spaces and 2 portions of spaces near the car parking spaces, at Lee Garden Two.
- (f) As the aggregated annual consideration under the lease and various licence agreements entered into with Jebson and Company exceeds the applicable de minimis threshold under the Listing Rules, they constituted continuing connected transactions of the Company, being subject to announcement requirements but exempted from independent shareholders' approval requirements.
- (g) Treasure Matrix Limited ("Treasure Matrix") is a wholly-owned subsidiary of the Company.
- (h) Under these transactions, Barrowgate was considered a connected person of the Company under the Listing Rules by virtue of it being a non wholly-owned subsidiary of the Company and also by having a substantial shareholder which is an associate of Jebson Hans Michael, Non-Executive Director of the Company.
- (i) On 27 March 2017, a memorandum was entered into, pursuant to which the rent for the period from 28 March 2017 to 27 March 2019 was reviewed and revised to the then prevailing market rent.
- (j) The licence agreements on their own constituted continuing connected transactions of the Company. These were fully exempted from Chapter 14A requirements as the annual consideration under the licence agreements fall below the applicable de minimis threshold under the Listing Rules.
- (k) As the aggregated annual consideration under the lease and various licence agreements entered into with Treasure Matrix exceeds the applicable de minimis threshold under the Listing Rules, they constituted continuing connected transactions of the Company, being subject to announcement requirements but exempted from independent shareholders' approval requirements.
- (l) On 28 June 2018, a surrender agreement was entered into to terminate the lease and various licence agreements with effect from the surrender date (i.e. 15 July 2018).
- (m) Office monthly operating charges for Lee Garden Two were revised with effect from 1 January 2018 and 1 January 2019.
- (n) Retail monthly operating charges and promotion levies for Lee Garden Two were revised with effect from 1 January 2018.
- (o) These represent the actual consideration received for the year ended 31 December 2018, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

## CONTINUING CONNECTED TRANSACTIONS continued

All the Transactions were entered in the ordinary and usual course of business of the respective companies within the Group, 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 insofar as they are applicable.

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 on pages 111 to 112 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.

The Company's Internal Audit has reviewed the Transactions and the related internal control procedures, and concluded that the internal control procedures are adequate and effective. 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

The lease, carpark licence agreements and licence agreements between Jebesen and Company and Barrowgate is considered a contract of significance under paragraph 15 of Appendix 16 to the Listing Rules due to its annual consideration having a percentage ratio of 0.98 % from the calculation of the revenue test (the percentage ratios for assets ratio and consideration ratio are 0.04 % and 0.10 % respectively). Details of the transaction are set out under I(i) of "Continuing Connected Transactions".

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, 23.99 % of the aggregate amount of purchases was attributable to the Group's 5 largest suppliers, with the largest supplier accounting for 8.46 % to 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 shares) had any interest in the Group's 5 largest suppliers.

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

During the year ended 31 December 2018, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## ISSUANCE OF SECURITIES

During the year ended 31 December 2018, 677,000 shares were issued by the Company as a result of the exercise of share options granted under the share option schemes of the Company. For further details, please refer to the paragraphs headed "Movement of share options" in the Remuneration Committee Report.

During the year, HK\$300 million 3.66 % Fixed Rate Note which will be due in November 2025 has been issued for general corporate purposes under the US\$1.5 billion Medium Term Note Programme ("MTN Programme"), and is unconditionally and irrevocably guaranteed by the Company. The issuer under the MTN Programme is Hysan (MTN) Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Company. For further details of the above mentioned Fixed Rate Note, please refer to note 27 to the consolidated financial statements. Save as disclosed above, the Group has not issued any debentures during the year.

#### **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\$0.3 million to charitable and non-profit-making organisations.

#### **PERMITTED INDEMNITY PROVISION**

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred by him or her in the execution of the duties of his or her office or in relation thereto. The Directors and Officers Liability Insurance ("D&O Insurance") taken out by the Company throughout the year provides adequate cover for such indemnities to all the Directors of the Company and its subsidiaries. The relevant provisions in the Articles and the D&O Insurance were in force during the financial year ended 31 December 2018 and as of the date of this report.

#### **AUDITOR**

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the 2019 AGM.

By Order of the Board  
**Lee Irene Yun-Lien**  
*Chairman*

Hong Kong, 21 February 2019