

# **CSI PROPERTIES GROUP RISK MANAGEMENT POLICY**

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## **1. Principles of Risk Management Policy**

1.1 Pursuant to the requirement of the listing rules of the Hong Kong Stock Exchange, this Risk Management Policy aims at raising the Group's risk mitigation ability and ensuring the viability of the operations.

1.2 The followings are the objectives of the Group when adopting the Risk Management Policy:

- To contain the risks facing the Group within an acceptable level with reference to the Group's risk tolerance level.
- To ensure the Group's operations is in compliance with the relevant laws and regulations
- To raise the overall effectiveness and efficiency of the Group's operations
- To ensure corresponding disaster plans are built and can be duly executed in case any significant risks with disastrous effect materialize or any serious human errors were committed, thereby minimizing the loss that the Group may suffer.

1.3 Risks faced by the Group includes future uncertainty which, if allowed to materialize, can affect the Group's ability to pursue its business objectives. Such risks can be classified into strategic risk, operational risk, market risk, financial risk and legal risk.

- Strategic risk: Risk resulting from a lack of defined business strategies which may cause setbacks to the achievement of strategic objectives.
- Operational risk: Risk resulting from inappropriate operational decisions which will disrupt or affect the achievement of operational objectives.

- Market risk: Risk resulting from market fluctuation which will disrupt or affect the achievement of operational objectives.
  
- Financial risk: Includes financial reporting risk, threats to safety of asset, and fraud risk.
  - Financial reporting risk: Failing to comply with relevant accounting standards and regulations in the process of preparing for business accounting and financial reporting; Failing to disclose relevant financial information for users of the Group’s financial statements, disclosing incomplete or inaccurate information, or disclosing the information not on time.
  
  - Threats to safety of assets: Failing to establish or execute relevant assets management policy, which impairs or even minimize the value or liquidity of the Group’s assets, including properties, inventories and other assets.
  
  - Fraud risk: Deliberately attempt to earn unfair, unjustified or illegal gains.
  
- Legal risk: Risk of legal non-compliance resulting from failing to completely abide by the laws and regulations of Hong Kong or the jurisdictions where the Group’s operations reside, or the listing rules laid down by the Hong Kong Stock Exchange.

## **2. Risk Management Responsibilities**

2.1 Regarding risk management, departments or divisions act as the first line of defense, the Audit Committee acts as the second, and the Board of Directors the third.

2.2 Major responsibilities of the departments or divisions in managing risks and corresponding controls:

- Departments or the divisions should analyse the risk inherent in their operations and devise corresponding risk mitigation plans in consideration of the existing internal controls and their effectiveness.
- Implement controls based on confirmed risk mitigation plans, with descriptions and controls of the risk designed by management and record their effectiveness; Assess and improve the designs of the controls based on risk management requirements. Plans include: Establishing internal control policies, documenting the business flows in accordance with laid down methods, and proper filing for risk control documents for easy reference and review.
- Organise the execution of control policies and monitor their execution status; Identify and analyse the weaknesses of the implemented controls and devise improvement plans to these weaknesses. In case of identifying significant control weakness or loopholes in the operation flows, the case should be immediately reported to the management of the Group for devising remedial internal controls to counter the weaknesses or loopholes.
- Cooperate with other departments in case of investigations on significant losses.

2.3 Major responsibilities of the Audit Committee in managing risks and the corresponding controls:

- Monitor and review the risk management plans implemented by each department or divisions.
- Check the appropriateness and effectiveness of the overall risk management framework

2.4 Major responsibilities of the Board of Directors in managing risks and the corresponding controls:

- Annual review of the risk management framework and plans for continuous improvement of the framework
- Review and approve the decisions made based on professional consultation regarding risk management.
- Review and approve any risk review reports prepared
- Decide on the allocation of risk management resources

### **3. Research on Risk-related Intelligence**

- 3.1 Collect internal and external information relevant to the risks facing the Group or to its risk management process on a quarterly basis. Such can include data from the past and future forecast. The collection duties should be assigned to the departments and the divisions. Specific risks that the departments and the divisions should pay attention to are listed under s3.7.
- 3.2 Regarding strategic risks, cases of similar listed companies failing to control strategic risks which resulted in causing loss to the company should be noted. Government policies, economic conditions, market demand, and the competitions facing the Group, should also be closely monitored. Attention needs to be paid to the development and planning of the Group's strategies, investment plans, and annual operational goals, and also to the rationale in arriving at these strategies, plans and goals.
- 3.3 Regarding financial risks, cases of similar listed companies failing to control financial risks which resulted in causing loss to the company should be noted. Attention should be paid to news which can affect the Group's profitability, ability on capital utilization, liquidity, and its expansion potential. Other major concerns can be areas including cost budget review, transactions settlement and cash management where such areas are easily prone to errors or mistakes.
- 3.4 Similarly for operational risk and market risk, take notes of other similar listed companies suffering losses due to lack of control in market risk. Collect information on products or services similar to those that the Group is offering, market demand for the Group's product, and latest news about the Group's competitors, suppliers and customers. Monitor and review business flows of existing operations and information systems, and analyse the Group's risk management ability.
- 3.5 In terms of legal risk, notes can be taken on other similar listed companies suffering losses due to having insufficient control over legal risk. Events including changes in the legal framework which governs the Group's business environment, integrity and ethical issues with employees, signing of significant contracts with any external parties, and any legal disputes, shall be studied on their effect to the legal risk the Group is subjected to.

- 3.6 Information collected by Heads of each department or divisions needs to be studied and compared in order to carry out risk assessment.
- 3.7 Heads of each department or divisions are required to continuously monitor the risks they had identified in their daily operations and to record any new risks into their department or division's Risk Register (see Appendix 1). The register will be reviewed and discussed between the responsible departments or divisions and the management of the Group quarterly.
- 3.8 The following lists out some key risk concerns of which staff of the respective departments should pay attention to:

***Property Acquisition and Development***

**(Relevant departments: Commercial Department / Project Management Department)**

- Profitability of investments need to be assessed as accurately as possible to provide a competitive bidding price for potential projects.

Risk control measures: Closely monitor the price of similar commercial properties to better assess the fair value of the investment; timely sharing the listed information from other auctions for better reference.

- Preemptive measures should be taken against demand fluctuation for the real estate units of the Group's projects.

Risk control measures: Building long term relationships with property agents to get more referral of potential tenants; timely communicate with clients who are close to the end of its lease term to better assess client's intention in renewing the lease. Consider offering rental discounts and earlier sourcing of new clients as maybe necessary.

- Intelligence used in the project bidding process and the final bidding price should be kept confidential.



Risk control measures: Confidentiality agreement and a disclosure of potential conflicts of interests should be signed between the Group and the employees. Regular reviews to the list of potential conflicts should also be performed by the Board. The final approved bidding price should be kept confidential among only a small number of senior management.

### ***Project Development***

**(Relevant departments: Project Development Department)**

- Possibility of approval delays from different Government bureaus in various stages of a project, which can raise project costs and delay the launch timing of the real estate, needs to be closely monitored and resolved at the soonest.

Risk control measures: Actively coordinates and liaise between the Government departments to accelerate the approval process; conduct planning and feasibility studies at the earliest stage possible to check for all the potential areas which require government approval and apply for approval accordingly.

- Closely monitor any upsurges in the major cost items of the projects and devise cost saving measures as appropriate. Regularly update the cost data used in project budgets according to the inflation level; In terms of controlling subcontracting costs, conduct fair and open tender with the in-house Quantity Surveying team and the external Quantity Surveying Consultant; shortlisted contractors should be reviewed by the Finance Department, the Project Department, and the Board of Directors.
- Adjust projects' planning according to regulatory changes, which can be in terms of environmental protection and noise mitigation

Risk control measures: Any news about amendments in construction regulations should be quickly disseminated within the Group to allow sufficient time for the project teams to assess the impacts to their projects and prepare mitigation plans accordingly.

### ***“Connected transactions”***

**(Relevant departments: Finance Department / Legal and Compliance Department)**

- Disclosure of connected transactions needs to closely abide by the listing rules

Risk control measures: Setting up a list of connected parties to allow for better monitoring of any connected transactions for the required disclosures.

- The required authorizations for connected transactions have to be fully obtained before the transactions can be released.

Risk control measures: Closely follow the required authorization flow for connected transactions and report any irregularities if necessary.

### ***Fund Management***

#### **(Relevant departments: Finance Department)**

- The required review and authorizations need to be obtained before material payments can be released in order to prevent transactions with fraudulent intent (if any) or erroneous transactions.

Risk control measures: Closely follow the standard authorization flow; report any irregular and/or material transaction requests to the Board of Directors or the Audit Committee.

- Liquidity of the operations or the ability of available funds to cope with the Group's investment plans need to be uphold.

Risk control measures: Review the financial position of the Group every quarter and compare against budget while computing forecast for the next quarter; Report the cash position of the Group to the Board every month;

- Unnecessary foreign exchange loss due to depreciation of the foreign currencies held by the Group should be avoided.

Risk control measures: Closely monitor the fluctuation of the exchange rate and convert any idle foreign currencies to the local currency when the rate is favorable.

### ***Human Resources & Administration Support***

**(Relevant departments: Human Resources and Administration / Legal and Compliance)**

- Human Resource policy needs to comply with the Labour Ordinances or other relevant regulations.

Risk control measures: Timely update the department's knowledge to the latest amendments to the Labour Ordinances to ensure compliance of the Group's Human Resources policy.

- Staffing risk as a result of unforeseen labour demand from new projects, sudden loss of key management personnel or other factors should be avoided.

Risk control measures: Regular communications with the frontline project teams to get knowledge of the amount of potential future projects and discuss and assess with them their recruitment needs; assess the competence of the remuneration packages in order to retain employees.

- Preventive measures against potential fraudulent acts due to staff's own incompetence, unrealistic performance targets set by the management, or other internal control weaknesses which create opportunities for the fraudulent acts, should be taken.

Risk control measures: Perform adequate screening at the hiring stage; ensuring the staff is familiar with the code of conduct of the Group; adopting a "whistle blowing" program to possibly uncover any existing fraud schemes.

## ***Hotel Operations***

### **(Relevant departments: Commercial Department (Hotel))**

- Actions should be taken against foreign exchange rate fluctuations to limit the effect of a drop in demand from tourists from any particular countries.

Risk control measures: Diversify the client portfolio not only in terms of different countries but also to source for local corporate demands.

- Prepare for any regulatory amendments regarding building management, such as change in fire safety system requirements.

Risk control measures: Maintenance manager at hotel to be in charge of monitoring and overseeing daily hotel maintenance work; regular maintenance schedule with service providers to check if the firefighting equipment, the surveillance cameras and the water tanks can cope with the regulations.

- Impose information control over communication with the press to maintain brand image.

Risk control measures: Any media enquiries should be referred to the public relation agent.

- Customer complaints need to be handled according to the standard complaint handling procedure and with the greatest care to avoid damage to the Group's brand and also any monetary loss in terms of compensation.

Risk control measures: Staff should follow the complaint handling procedure as laid down in the staff handbook; briefing sessions sharing complaint cases handling skills should be organized; when handling complaint cases, staff should ensure his or her location can be captured by the hotel's CCTV.

#### 4. Risk Assessment

- 4.1 A risk assessment exercise will usually involve 5 steps, namely, establishing risk management philosophies, determining risk tolerance level, setting objectives, identifying risks, analysing risks, and responding to the risks.
- 4.2 Confirming the Group's risk management principles and determining its risk tolerance level forms the basis to carry out risk assessment exercises.
- The emphasis of the risk management principles is on the correct attitude that the Group should have in identifying risks inherent in its operations, from activities planning to daily execution of their work duties. The Group should adopt prudent risk management principles and to be especially cautious when considering high risk investment plans.
  - Risk tolerance levels refers to the risk level that is tolerable to the Group when pursuing its objectives. In general, risk tolerance levels can be classified into 3 types: "high", "middle" or "low". For example if the Group's risk tolerance level is "low", it means the Group, given a prudent risk management attitude in managing its operation, can accept only low level of risks. In choosing the tolerance level, the choice should be in line with generally acceptable risk management philosophy.
- 4.3 Objective setting is the prerequisite to risk identification, analysis and control. The Group must first set its objectives before it can identify the risks which are inherent in the course of pursuing these objectives. The Group can then assess these risks and adopt risk mitigation plans as necessary. The objectives can be classified into strategic, operational, compliance and financial. In setting them, cautions must be taken that they can comply with the laws and rules of the jurisdiction, the development trend of the industry, the Group's strategy, and the rules of the regulatory authorities. (For example, the Hong Kong Stock Exchange.)
- 4.4 Risk identification aims at identifying factors that will disrupt the Group

in pursuing its objectives and creating value, and also on impairing the Group's existing value. Means to identify these factors include questionnaires, group discussions, professional consultation, scenario analysis, government policy analysis, industrial benchmarking, and interviews. Factors identified should then be registered onto the Risk Register, with risk description, contributing factors and effects to the Group.

- 4.5 Risk analysis concerns on analysing the likelihood of a risk materializing, and the impact a risk will have to the Group if it materialize. Such analysis will classify risks into those more significant and those requiring less concern. For more significant risks, they will be further classified into handling priority of "high", "middle" or "low", so as to provide a basis for devising suitable controls.
- 4.6 Responding to risks relies on understanding the contributing factors to the risks and the effect they will have to the Group. Possible risk mitigation plans include: risk aversion, risk acceptance, risk reduction or risk sharing.
- 4.7 When devising the mitigation plans, the following should be considered:
  - The effect the mitigation plans will have to the likelihood and impact of the risk materializing, and also whether the outcome can be in line with the risk tolerance of the Group.
  - Cost and benefit comparison by implementing the mitigation plans.
  - Any further risk implication by implementing the mitigation plans.
  - Consider the combination of different risk mitigation plans.
- 4.8 Relevant risk management responsible Head of departments or divisions and staff should implement the control plans as designed by management. The progress of implementation should be reported at each quarter's risk management meeting.

## 5. Risk Mitigation Plans

- 5.1 Risk mitigation plans are devised in correspondence to each identified significant risks. Mitigation objectives, required management personnel, the involved operations, the approach to implement the plans, and remedial actions to be taken at different stages if the risk materialize, should all be incorporated into the risk mitigation plans.
- 5.2 For operation flows which are inherent with significant risks, control measures covering the entire flow should be considered. In devising these measures, principles including alignment of operation tactics and risk management strategies, and maintaining balance between the benefits and costs of implementing the controls, should be followed. For other less significant risks, controls should be focused on key stages of the operation flows.
- 5.3 Controls which are effective and built with reasonable costs can include but not limited to the following:
- Specify the limit of authorization of each positions within an operation flow. The limits should concern the nature of the subject, conditions to be satisfied for granting authorization, the areas of operation, and the amount to be authorized. Any positions should not make any decisions which exceeds their limit of authorization.
  - Building internal control authorizing procedures. For important decisions, the authorization flow, conditions to be satisfied for granting authorization, involved areas and amounts, departments and personnel, should all be specified.
  - Establishing policies of internal audit. With reference to the key control requirements, methods, standards and flows of internal control, specify the subject, content, approach, and the department of an internal audit.
  - Establishing internal control review policies
  - Establish balance and check mechanism for positions with high authority by, for example, segregation of duties. In preparing vouchers for posting to the accounting ledgers, and security and counting of fixed assets, control measures can include assigning two

persons to balance and check on the others' work for duties performed regarding the same area. Emphasize the monitor and oversee responsibility of the immediate supervisor to the two persons, and including flows with such segregation of duties into the internal audit plan as areas more prone to significant risks.



## **6. Continuous Improvement on Risk Management**

- 6.1 To form a foundation for further improvement on risk management, the management should set up an information and communication network which enables communicating timely, accurate and intact information. The network should also penetrate and be transparent to different levels of the Group.
  
- 6.2 External internal control consultant can be engaged to regularly or on an ad hoc basis conduct reviews on the effectiveness of the risk management measures executed by different departments or divisions. Reports of the reviews should be directly reported to the Board of Directors.

## **7. Others**

- 7.1 The Board of Directors retains the right of final decision to the terms and conditions laid down in this policy.
- 7.2 This policy should be adopted upon approval by the Board of Directors.