

CORPORATE GOVERNANCE REPORT

Risk management and internal control system

The Board and senior management are responsible for establishment, review and implementation of the risk management and internal control systems of the Group. The Board acknowledges its overall responsibility for maintaining an adequate and effective risk management and internal control systems of the Group on an ongoing basis and reviewing their effectiveness at least annually. The internal control system covers all major aspects of the Group's operations, including, among others, property development, property sales, investment property management, procurement, financial reporting, asset management, budgeting and accounting processes. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group also has set up an audit and supervision center to advise the executive Directors and senior management regarding the risk control and compliance issues arising from the day-to-day business operations of the PRC subsidiaries. The audit and supervisor center consisted of members from three departments, namely internal control audit department, construction audit department and anti-corruption supervision department, and is led by the general manager of the audit and supervision center. The Board considers that the current composition of the internal control team offers the expertise to provide a risk assessment of key areas of concern, such as strategy, operations, finance and compliance, to the Board and assists the Board to effectively plan and manage the operations of the Group's overall business. The internal control team provides progress, supervision and non-compliance updates in the monthly meeting held by audit and supervision center or reports regulatory and compliance-related matters directly to the general manager of the audit and supervision center who then reports to the Board.

With respect to the Group's risk management and internal control measures, the Group has a set of comprehensive policies and guidelines which set out details regarding the internal control standards, segregation of responsibilities, approval procedures and personnel accountability in each aspect. The Group also carries out regular internal assessments and training to ensure its employees are equipped with sufficient knowledge on such policies and guidelines. The Board believes that risk management is crucial to the success of any property developer in the PRC. Key operational risks that the Group face include changes in PRC political and economic conditions, changes in the PRC regulatory environment, availability of suitable land sites for developments at reasonable prices, availability of financing to support its developments, ability to complete its development projects on time and competition from other property developers. In managing its risks, the Group has established the following measures:

- The Board and management of the Group are responsible for determining the overall business and investment plans, preparing the annual financial budgets and final reports and formulating proposals for profit distributions, and is in charge of the overall risk control of the Group;
- The Group's final site selection decisions are made by its strategic investment center, management at the Group level and chairman of the Board. The responsible persons are specifically tasked with the review and approval decisions of such business development;
- The financial management center and strategic investment center of the Group are primarily responsible for the management of the liquidity risks. The responsible persons employ, among others, the following measures to manage the relevant risks: (i) maintaining systematic records of cash inflows and outflows at the Group level; (ii) preparing reports on a weekly or a monthly basis which identifies and addresses the potential issues and potential solutions in short-term cash flow, which are reviewed by the chief officers of the financial management center who then make recommendations to treasury director of financial management center about available actions to address the issues; and (iii) reviewing financial results for compliance against certain targets to ensure maintenance of sufficient level of cash on hand for short and long-term and report to the responsible persons at the Group level if there are any significant changes in the borrowing and investment activities;