新世界發展有限公司
New World Development Company Limited
(Stock Code: 17.HK)

Enterprise Risk Management Policy

New World Development Company Limited

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1. Background

This Enterprise Risk Management ("ERM") framework is implemented across the Group, where the responsibilities for identifying, assessing, and managing risks will be shared with Risk Owners of all NWD corporate departments (i.e. department heads) and business units of the Group (i.e. senior management of business units) on an ongoing basis. Application of this framework ranges from day-to-day activities to strategic processes at the Board of Directors (the "Board") level, which enables a consistent view of risks across the Group.

It also provides a governance structure where all key risks (including but not limited to business, operation as well as environmental, social and governance ("ESG") related risks) are identified, assessed, and accounted for, as well as ensuring that risks are managed to an acceptable level with reference to the Group's objectives. In addition, operational efficiency and effectiveness through continuous improvement of processes to address the identified risks and/or opportunities allows the management to more focus on addressing performance and profitability goals and safeguarding resources against loss.

2. Scope

The key objective of this Policy is to establish a consistent basis for identifying, analyzing, evaluating, treating, monitoring and reporting risks across the Group at all levels to support the achievement of the organization's overall strategic objectives. The ERM framework described in this Policy applies to all business functions and operations of the Group in different geographical areas.

3. Enterprise Risk Management Framework

Robust and effective management of risks is an essential and integral part of corporate governance. It helps to ensure that the risks encountered in the course of achieving the Group's strategic objectives are managed within the Group's risk appetite. An ERM framework is established for identifying, assessing, responding to and reporting on risks that might affect the Group in pursuit of its objectives and goals. The main purpose of ERM implementation is to provide senior management and the Board with a holistic view of the Group's material risk exposures and steps taken to manage and monitor such exposures.

3.1 Risk Management Approach

NWD adopts both top-down and bottom-up approaches in relation to risk management. It involves collating and appraising bottom-up input from Risk Owners of all NWD corporate departments and business units of the Group, with refinements and adjustments through top-down input from the Board in an iterative manner.

The risk management process is integrated into our daily operations and is an ongoing process involving all parts of the Group from the Board down to each individual staff. The Risk Owners and Risk Oversight Parties are clearly defined across the Group. They are required to identify, analyze and evaluate the risks (including but not limited to business, operation as well as ESG risks) facing their businesses with proper management execution to avoid, reduce or transfer those risks accordingly.

3.2 Early Risk Flagging Mechanism

Ongoing risk monitoring can help to identify and assess broad areas of change, emanating from both internal and external factors that might generate new risks. Establishing an early risk flagging mechanism supports the Group to proactively identify emerging risks and act on them in a timely manner. To ensure risk management practices are effective, a list of potential risk adverse events (which are not exhaustive) is set forth by the NWD Risk Management Committee. Risk Owners of all NWD corporate departments and business units of the Group have to flag and report immediately when and where a potential risk is perceived in any business areas.

In order to efficiently pool information and track any impending crises or issues within the Group as and when they arise, every corporate department and business unit will use the Issue Alert System in which they will enter all relevant details related to the issue and follow up on the impending crises or issues in a timely manner.

4. Risk Governance Structure

The Group's risk governance structure is guided by the "Three Lines" model. This is manifested by the oversight and directions from the Board, the Audit Committee and the Risk Management Committee of the Group. The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk

management and internal control systems.

As the first line, risk owners of all corporate departments and business units of the Group identify and evaluate the risks which may potentially impact the achievement of their business objectives, mitigate and monitor the risks (including but not limited to business, operation as well as environmental, social and governance risks) by designing and executing control procedures in their day-to-day operations. They conduct risk assessment and control self-assessment on a regular basis to evaluate the adequacy and effectiveness of controls that are in place to mitigate the identified risks.

As the second line, the Group establishes specific functions to effectuate risk management and ensure the first line is properly in place and operating as intended. The Risk Management Committee also oversees and monitors the overall operation of the risk management and internal control systems.

As the third line, the Group Audit and Management Services ("GAMS") Department acts as an independent assessor. It is responsible for reviewing the major operational, financial, compliance and risk management controls of the Group on a continuous basis. It schedules its work in an annual audit plan which is reviewed by the Audit Committee every year. The audit plan is derived from annual risk assessment covering all businesses of the Group and is aimed at covering each significant corporate department and business unit in which the Group involves in day-to-day management within a reasonable period. The GAMS Department also carries out independent and timely review or investigation works, where and when necessary, on risks and control related incidents identified from time to time.

On top of the "Three Lines", through independent audit and review, the external auditor provides reasonable assurance on the effectiveness of the risk management and internal control systems. Whistleblowing System is established for staff and other relevant parties to report misconduct cases. Every reported case will be handled in confidentiality and followed through in accordance with the Whistleblowing Policy and its related procedures.

5. Risk Management Process

While all major risks constituting the risk adverse events must be reported to responsible Risk Oversight Parties immediately, a regular risk review and assessment process to ensure that all major risks (including but not limited to business, operation and ESG-related risks) are properly identified, evaluated and monitored is important to the sound and effective risk management

system.

On a half yearly basis, Risk Owners of all NWD corporate departments and business units of the Group are required to perform proper risk review and assessment by making use of either the Risk Identification and Assessment Checklist or any risk evaluation form specific to respective Risk Owners' division or business unit to perform such risk review and assessment.

Risk identification is critical because a potential risk not identified at this stage is excluded from further analysis. Identification should include all risks whether or not they are under the control of the organization. Risk Owners also needs to consider carefully the factors that contribute to or increase risk, including issues such as past experience of failure to meet objectives; quality of personnel; significant changes, such as increased competition; legislative, regulatory and personnel changes; market developments, and the significance of particular activities to the entity and their complexity.

Major risks that are identified can be quantified as the likelihood (the probability that a risk event will occur) multiplied by its impact or consequence. Such a calculation yields an estimate of risk level. The purpose of the risk analysis phase is to gain an understanding of the level of risks to determine priorities according to their impact and likelihood and support decision-making about future actions.

Risk evaluation involves comparing the levels of risk found during the risk analysis process with risk criteria established when the context is considered. It indicates predefined qualitative measures that identify the criteria for each level of risk. Low and accepted risks should be monitored and periodically reviewed to ensure they remain acceptable. If risks do not fall into the low or acceptable risk category, appropriate risk strategy and control measures should be in place. The output of a risk evaluation is a prioritized list of risks for further action.

Arising from risk evaluation, there will be a prioritized list of risks requiring treatment. Selection of the most appropriate option involves balancing the cost of implementing each option against the benefits derived from it. In general, the cost of managing risks needs to be commensurate with the benefits obtained.

Daily risk monitoring is done by respective Risk Owners (who are supported by Risk Managers if available). On a half yearly basis, NWD Risk Management Committee, assisted by GAMS Department, shall review all

major risks and evaluate the risk management processes being undertaken by the respective Risk Owners concerned, and report the consolidated results to the Audit Committee where appropriate.

The Audit Committee, assisted by the Risk Management Committee, shall report to the Board of Directors on the following:

(i) consider what are the significant risks and assess how they have been identified, evaluated and managed;
(ii) assess the effectiveness of the Group's risk governance structure in managing the major risks;
(iii) consider whether necessary actions are being taken promptly to remedy any significant failings or weaknesses; and
(iv) consider whether the findings indicate a need for more extensive monitoring of the risk management system.

Communication to the Board of Directors will be done at least twice a year.

6. Implementation and Review of the Policy

While the Audit Committee has overall responsibility for implementation, monitoring and periodic review of this Policy, it has delegated the day-to-day administration of this Policy to the Risk Management Committee in which Head of GAMS Department is one of the committee members.

The Policy shall be approved by the Audit Committee and subject to review every two years and when needed.