

CORPORATE GOVERNANCE

ENTERPRISE RISK MANAGEMENT SYSTEM

I. Overall Risk Management Philosophy of the Company

Shang Properties, Inc. and its subsidiaries (collectively, the “Company”) is guided by an organizational culture that optimizes ability to achieve strategic objectives while ensuring appropriate management of evolving risks.

Each year, the Board reviews the risks affecting the Company and evaluates the effectiveness of the internal control framework covering: (i) setting of objectives and budgets, (ii) the establishment of regular reporting of financial information, in particular, the tracking of deviations between actual performances and budgets/targets; (iii) the delegation of authority; and (iv) the establishment of clear lines of accountability

II. Risk Policy

Risks are inherent in the business and exposures affecting the Company can be associated to strategic threats, operational issues, compliance to laws and reliability of financial reporting.

Strategic risk

Strategies and objectives of the Company as a whole are determined by the Board. Budget are prepared annually and reviewed by the Board. In implementing these strategies and achieving these objectives, each Executive Director has specific responsibilities for monitoring the conduct and operations of individual business units within the Company. This includes the review and approval of business strategies and plans, the setting of business related performance targets as well as the design and implementation of internal controls.

Operational risk

Operational risk management is carried out by the Company’s management under policies approved by the Board. The Company’s management identifies and evaluates risks inherent to its day-to-day operations in close cooperation with the Company’s operating units.

To allow for delegation of authority as well as to enhance segregation of duties and accountability, a clear organization structure exists detailing different levels of authority and control responsibilities within each business unit of the Company.

Compliance risk

The Company's management compliance process is achieved through identifying applicable requirements, assess the risks and determine state of compliance. The Company monitors compliance to laws or regulations governing areas such as:

- Environmental
- Employee health and safety
- Security and Disaster
- Local tax and statutory laws

III. Financial & Reporting

The main objective of the Company's financial risk management is to minimize the potential adverse effects of the unpredictability of financial markets on the Company's financial performance. Periodic financial information is provided to the Executive Directors. Variance analysis between actual performances and targets are prepared and documented for discussion at Board meetings, with explanations noted for any material variances and deviations between actual performances and budgets. This helps Board and management to monitor the Company's business operations and to plan on a prudent and timely basis.

The Board provides principles for overall financial risk management, as follows:

- Interest rate risk
- Foreign exchange risk
- Credit risk
- Liquidity risk