Fosun Tourism Group

Guidance on Enterprise Risk Management (Trial Version)

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[Risk Control Center]

Fosun Tourism Group
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Guidance on Enterprise Risk Management

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1. General Provisions

1.1. For the guidance to Fosun Tourism Group ("Fosun Tourism Group" or "the Group"), its core subsidiaries and incubating enterprise to implement enterprise risk management, normalize risk management system, define risk management roles and responsibilities, improve the maturity level of risk management, and promote healthy, stable and sustainable development of the whole group. These Guidelines are formulated to meet the compliance requirements of the <Code on Corporate Governance Practices> and the <Corporate Governance Report> in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange.

1.2. Risk is the possibility that an event will occur and adversely affect the Group and the companies' achievement of business objectives in this guidance.

1.3. The Guidelines are applicable to the risk management activities of all levels and business departments of the Company. The comprehensive risk management work referred to in the Guidelines mainly includes risk identification, risk assessment, risk response, risk management supervision and improvement, risk management communication and risk management culture construction.

1.4. The overall objective of ERM is to:

(1) Serve for decision making in strategy setting, investment and financing activities, balance overall risks and rewards, achieve the Group's strategic targets;

(2) Allocate resources efficiently, produce synergy effects, improve the effectiveness and efficiency of investment and business operations, further realize

the Group’s tactical business targets;

(3) Ensure the timeliness, accuracy, authenticity and integrity of operational and financial information;

(4) Ensure that Group’s investment and business operations comply with relevant laws and regulations.

1.5. Basic principles followed by the Group in comprehensive risk management:

(1) Principles of strategic orientation. Risk management and internal control should be guided by the company's development strategy and proceed from the strategic objectives, and serve to achieve strategic objectives.

(2) Principles of compliance. Comprehensive risk management shall comply with the requirements of the <Code on Corporate Governance Practices> issued by the Hong Kong Stock Exchange.

(3) Principle of comprehensiveness and materiality. Risk management should run through the whole process of decision-making, implementation and supervision, covering the company's main daily business and important matters, and focusing on important business matters and high-risk areas on the basis of comprehensive control.

(4) Principle of check and balance. Risk management should form a mechanism of mutual restriction and supervision in the corporate governance structure, organization setting, right and responsibility allocation, business processes, and etc.

(5) Principle of continuous optimization. Risk management should adapt to the company's management, business scope and dynamic development. And the change of shall be adjusted in time to promote management improvement.

(6) The principle of balance between costs and benefits. On the basis of determining the priority of risk management, the matching of management cost and risk cost should be considered, and the balance between cost and expected benefit should be implemented to achieve effective control at appropriate cost.

1.6. This guidance is applicable to the Group and its subsidiaries. Joint ventures may implement the guidance by reference.

2. Risk Management Organizations

2.1 The Group and the companies should set up risk governance structures; define clear roles and responsibilities in risk management for the board of directors, the management, functional departments, risk control department and internal audit department, covering all business units.

2.2 The board of directors of the Group ("the Board ") is the highest decision making body in ERM and takes the ultimate responsibility for the completeness and effectiveness of the ERM system. The responsibilities of the Board include:

(1) Approve the overall risk management objectives, risk appetite, risk limits and risk management strategy;

(2) Approve risk management policies and procedures;

(3) Oversee the Group's overall risk profile;

(4) Oversee the effectiveness of risk management and control process of the management;

(5) Approve the Group's ERM report s and information disclosure of various significant risksl;

(6) Cultivate risk awareness and risk culture;

(7) Other related duties.

2.3. The Board delegates the Audit Committee to execute part of its risk management duties, and to oversee the effectiveness of the operation of ERM.

2.4. The Risk Control Department of the Group performs specific responsibilities for comprehensive risk management according to the authorization of the Audit Committee.

Its main responsibilities are as follows:

(1) Take charge of the Group's daily risk management activities to ensure the overall risk is acceptable;

(2) Formulate and organize the implementation of ERM policies and procedures according to the risk management objectives and risk appetite approved by the Board;

(3) Set up the ERM organization, structure and internal accountabilities;

(4) Carry out periodical assessment of overall risk profile;

(5) Set up emergency management mechanism within the Group; analyze and develop solutions to significant risk events;

(6) Organize the development and application of risk management information system;

(7) Promote risk awareness and risk culture;

(8) Report to the Board on a periodical basis on the overall risk level and risk management status;

(9) Other duties authorized by the Board.

2.5. Each department and business unit of the Group shall accept the organization, coordination and supervision of the risk control department, establish and improve relevant risk management processes, and assess and monitor the risks of its own functional department or business unit. At the same time, each functional department of the Group headquarters is responsible for the relevant management and control of risks in the professional fields under its jurisdiction.

2.6. Through the setting up of the above risk management organizations and structures the risk oriented, three lines of defense model or three tiers of risk management framework is built up:

(1) The 1st line of defense is comprised of functional departments and business units, business units, who are responsible for identifying, assessing, responding,

monitoring and reporting risks within their organizations as daily operational activities are carried out;

(2) The 2nd line of defense is the risk control department, who , who formulates risk management policies, rules and procedures, set standards and risk limits, and put forward risk response suggestions;

(3) The 3rd line of defense is the internal audit department, who is responsible for regular review and oversight activities of the execution of risk management policies, procedures and risk control activities ensure the required level of risk management competency.

The 1st line of defense of functional departments and business units is the fundamental and most crucial line of defense within the ERM, taking the first and foremost responsibilities in ERM.

3. Risk Management Strategy, Risk Appetite and Risk Limits

3.1. The Group and the companies should develop a clear risk management strategy, review and assess its effectiveness at least once a year. The risk management strategy should reflect the risk appetite, risk profile and changes in market and macro economic environment.

3.2. Risk appetite is the amount and type of risk that an organization is willing to take in order to meet its strategic objectives, which reflects the organization’s basic attitude toward risks. The Group and the companies should compile risk appetite statements, focusing on both quantitative and qualitative indicators. The setting of risk appetite should be linked to strategic goal, business plan, capital plan, performance appraisal and compensation mechanism. Risk appetite should be conveyed and carried out throughout the organization.

3.3. The risk appetite statement should include but not limited to:

(1) The basis to set strategic goal and business plan; the linkage between risk appetite and strategic planning;

(2) The overall risk amount that the organization is willing to accept in pursuit of its strategic goal and business plan;

(3) The type of risk and the highest level of risk that the organization is willing to accept for various types of risk;

(4) Quantitative indicators of risk appetite, including profit, rate of return, risks, capital, liquidity, credit rating, etc., and their target values or range of values. The mechanism to integrate those indicators with business plan and performance appraisal, and the mechanism to cascade and set risk limits at increasing levels of granularity to business units, branches and subsidiaries.

(5) For risks that are inappropriate to quantify, qualitative descriptions are required including reasons of accepting the risks, their boundaries and measures taken to manage the risks;

(6) Capital adequacy and liquidity level required to defend the overall risk and specific types of risk;

(7) Circumstances that may lead to deviation of risk appetite targets, and the possible actions taken in case of occurrence.

The respective roles and responsibilities of the Board, management, the Risk Control Department and the Internal Audit Department should be clearly defined in the risk appetite statement.

Once risk appetite boundaries are breached, the Group and the companies should analyze the reasons, develop solutions and execute in time.

3.4. The Group and the companies should establish the mechanism to adjust risk appetite according to changes in strategic goals, business scale and complexities, and risk profile.

3.5. Risk limits are the result of further quantification of risk appetite and cascading risk appetite down to granular levels within the overall risk tolerance, risk limits are set for various operation standards that may impact the overall risk level and their risk indicators. These risk limits serve as the basis and standard for risk monitoring by business units, product and operation departments. The Group and the companies should formulate risk limits management policies procedures, which cover the setting of risk limits, adjustment of limits, limit breach reporting and mitigating actions in case of a breach. On the basis On the basis of risk appetite, risk limits are set according to dimensions of asset type, industry/sector, region or currency, etc. actors such as capital adequacy, risk concentration, liquidity, concentration, liquidity, and trading purpose should be taken into account in developing risk limits.

The Risk Control Department should monitor and report risk limits to the Board and management

4. Risk Management Policies and Procedures

4.1. The Group and the companies should set up comprehensive ERM system of policies and guidelines to define the risk management strategy, risk appetite, organization structure, performance appraisal method, risk management mechanism, and specify requirements for managing various types of risk such as strategic risk, market risk, credit risk, liquidity risk, operational risk, compliance risk, country risk, reputation risk and insurance risk.

4.2. Risk management policies and guidelines should be formulated to cover identification, assessment and measurement methods for various risks, quantitative and qualitative standards of risk indicators, and responsible persons. The roles and responsibilities of functional departments such as strategy management, investment management, finance, tax, actuarial, legal affairs, branding, risk management, internal audit, and anti-corruption departments should be defined for managing specific risks. The policies and guidelines should be reviewed and updated at least once a year, properly recorded and archived.

4.3. Risk management procedures are the whole process of a series of risk management activities which include risk identification and assessment, risk measurement, risk response and control, risk monitoring, early warning and risk reporting. Risk management procedures should help implement the established corporate strategy and be consistent with the risk culture.

(1) **Risk Identification** is the process of recognizing and understanding the risks in business operations. The characteristics, possible causes of the risks, driving factors and conditions of the risks can be identified in this process.

(2) **Risk Assessment** is the process of analyzing and evaluating the recognized risks. The possible impact of the risks on attainment of operation targets will be assessed and form the basis for risk management

(3) **Risk Measurement** is the process of measuring potential economic losses caused by the risks according to business nature, scale and complexity and visually reflecting the risk profile.

(4) **Risk Response and Control**. According to the risk assessment and measurement results, the Group and the companies should prepare risk response plans on corporate strategy and risk appetite. The risk response plan should include risk management objectives, relevant procedures, conditions and required resources, specific measures to take and management tools needed.

(5) **Risk Monitoring** is the process of monitoring changes and development trends of all quantifiable key risk indicators and unquantifiable risk factors, as well as the quality and effectiveness of risk management measures. The Group and the companies should set appropriate quantitative and qualitative monitoring standards, define risk indicators to monitoring and reporting procedures according to characteristics of various risks.

(6) **Risk Warning** is the process of issuing risk alerts when risk indicators deviate from the standards and meet early warning criteria. The Group and the companies

should establish an early warning system to ensure that significant risks can be identified and resolved in a timely basis within the complex external and internal environment.

(7) **Risk Reporting** is the process of compiling and issuing risk reports of different types and at different hierarchy of risk governance, which follows the established scopes, procedures and frequencies, to meet the diversified management needs. The Group and the companies should set up risk information transmission and reporting mechanism to facilitate managing risks both interactively and cross-functionally.

4.4. The Group and the companies should adopt suitable risk management tools to manage risks, which include but not limited to:

(1) Comprehensive budget management;

(2) Asset-liability management;

(3) Capital planning and allocation;

(4) Economic capital models;

(5) Sensitivity analysis, scenario analysis and stress testing;

(6) Emergency management and planning.

5. Internal Control and Internal Audit

5.1. According to risk management strategies and objectives, the Group and the companies should reasonably determine risk control points of various business and management activities; take appropriate control measures; perform unified business processes and management processes to ensure proper and orderly operation.

5.2. The Group and the companies should include ERM into the scope of internal audit, periodically review and evaluate the sufficiency and effectiveness of ERM.

5.3. Internal audit report of ERM should be submitted directly to the Audit Committee. The Audit Committee should urge the management to promptly take corrective measures on audit findings. The internal audit department should follow up and check the results of the remediation and report to the Audit Committee in time.

6. Oversight, Appraisal and Evaluation

6.1. The Group and the companies should set up accountability in risk management. The management is responsible for determining risk owners of major risks and assigning specific responsibilities to corresponding functional departments and business units. Any organization or individual violating relevant policies should be investigated and punished accordingly.

6.2. Risk oversight includes supervision and inspections of the robustness, reasonableness and effectiveness of the ERM system. The Group and the companies should periodically analyze the design of the ERM framework and execution results. Any risk management deficiencies detected in the oversight process should be remediated promptly so as to improve the risk management system continuously.

7. Risk Culture

7.1. To ensure the attainment of risk management objectives, the Group and the companies should embed risk culture into the building of enterprise culture at all levels, through continuously improving risk management policies, guidelines and procedures, strengthening organizations and developing risk management information systems.

7.2. To promote the establishment of a systematic, standardized and efficient risk management system, risk awareness should be strengthened across the whole group and converted into common sense and conscious actions of all staff.

7.3. Risk awareness programs are advocated and promoted within the whole group, and should be included in new staff orientation and training during work.

8. Supplementary

8.1. The Risk Control Department of Fosun Tourism Group is responsible for the interpretation and revision of the guidance.

8.2. The guidance goes into effect as the date of issuance.