

SUPPLEMENTARY INFORMATION

The following details are the supplementary information related to the Group's financial operation. These information do not form part of the audited financial statements.

FINANCIAL ACTIVITIES

During the year, all of the Group's financial operations were conducted in the PRC.

CORPORATE GOVERNANCE

The Company's subsidiary China First Tractor Group Finance Company Limited ("FTGF"), an enterprise group finance company incorporated in the PRC, is a non-banking financial institution approved by the People's Bank of China and under the supervision of China Banking Regulatory Commission ("CBRC"). The board of directors of FTGF put efforts to ensure its compliance with Measures of Management on Enterprise Group Finance Companies promulgated by the People's Bank of China and the relevant regulatory laws and provisions required by CBRC. With an established legal person governance structure, FTGF has set up special committees with specific duties to strengthen its internal control.

INTERNAL CONTROL COMMITTEE

The internal control committee of FTGF is responsible to: formulate and amend its internal control system and perform auditing, evaluation and research thereof; enforce penalty in respect of any act in violation with the internal control system; accept supervision and auditing of its control system by CBRC; and file internal control information to CBRC in accordance with the relevant requirements. The committee consists of the General Manager, Deputy General Manager, Manager of the Poly-business Department, Manager of the Auditing Department and Chief of the Risk Asset Management Office of FTGF.

ASSETS-LIABILITIES MANAGEMENT COMMITTEE

The assets-liabilities management committee is responsible for coordination and management on assets and liabilities of FTGF, seeking measures against inconsistency between liquidity and profitability, and carrying out solutions on unbalanced structure between assets and liabilities. The committee consists of the General Manager, Deputy General Manager, Chief Auditor, Manager of the Credit and Loan Department, Manager of the Accounting Department and Manager of the Auditing Department of FTGF.

LOAN APPROVAL COMMITTEE

The loan approval committee is responsible for consideration of risks related to loans and approval of loans within its authorities. The committee consists of the General Manager, Deputy General Manager, Chief Auditor, and Managers of the Auditing Department, the Credit and Loan Department and Poly-business Department of FTGF.

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RISK MANAGEMENT INFORMATION

Credit risk

Credit risk is the risk that a customer or counterparty will be unable to meet a commitment in connection with the company's credit activities.

FTGF has established a set of strict credit granting criterion and approving system to control and manage credit risks. The loan approval committee is responsible to formulate credit policies and determine the cap of facilities, and each credit transaction was subject to a collective consideration and approval under conservative and prudent policies. The auditing department of FTGF is responsible for supervision over implementation of the credit approving system and post-credit inspection system, so as to control the risk as far as possible.

Market risk

Market risk is the risk of potential gain or loss from the holding of a financial instrument or business (including those in-balance or off-balance sheet) related to such risk as a result of changes in interest rates, stock prices, commodity prices and governmental policies.

FTGF monitored the exposure of financial instrument or business to market risks on a prudent manner and a regular basis, and made appropriate arrangement to minimise the exposure. The Credit Department and Investment Department periodically reported the latest interest rates and price movement in capital market to the credit approving committee and the assets-liabilities management committee, as well as the developing trend of the relevant State macro financial policies.

Liquidity risk

Liquidity risk (also known as payment risk) is the risk that a company is unable to finance for reduction in liability or increase in assets, which in turn affects the company's profitability or brings difficulties for settlement.

Keeping a close eye on the structure and position of its assets, the assets-liabilities committee of FTGF carried out analysis and assessment of liquidity and paying ability of its assets based on assets-liabilities benchmarks fixed by CBRC. Accordingly, corresponding managing polices were set out or aligned so as to maximise the company's interests on the basis of guarantying the payment.

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Operational risk

Operational risk is the risk resulting from errors, frauds or unexpected accidents of people in a company's daily operations.

With a series of internal control systems and policies to regulate its business, FTGF has specified duties of departments as well as workflows and authorities of its businesses. By virtue of training for the staff, inspection (either periodical or non-periodical) of the auditing department and amendment to the internal control system by the internal control committee from time to time, the overall operating and managerial expertise was improved and operational risk was effectively under control.