

Risk Management

Our philosophy

We believe that risk management is the key to the survival and long-term success of an organisation. This is specially true in an ever changing economy like the one we are facing now. We also believe that risk management is the responsibility of all management personnel at all level of the organisation. Risk management is an integral and inseparable part of the duty of management's daily businesses.

Our objectives

The objectives of our risk management system are: to control the risks which may hamper the achievement of our strategic and operational goals within a level acceptable to our management through reasonable, standardised and scientific risk management and monitoring processes; to ensure compliance with the relevant laws and regulations of the state and of the relevant authorities; to ensure the proper implementation of key measures in achieving our strategic goals; and to enhance our operation efficiency; and to minimise the uncertainty in achieving our strategic goals.

The Company formulates specific working targets of risk management in stages according to the actual operating environment and conditions. Such targets are determined and implemented by our risk management committee (the "Risk Management Committee") which reports directly to the Managing Director.

The establishment of our risk management system

In June 2008, the Company engaged a professional risk management consultancy, Protiviti Shanghai Co. Ltd. ("Protiviti"), to act as our risk management advisor for the risk management system establishment project. With the assistance of Protiviti, our audit department established a risk management system of the Company based on the COSO framework, and formulated the "Basic Standards of Risk Management of China Agri-Industries Holdings Limited" (the "Standards") in 2008. The Standards mainly include the following key aspects:

- definition, principles and objectives of our risk management;
- organisational structure of risk management and the basic duties of each component;
- standardised risk management procedures;

- proposed list of persons responsible for major risks area ("Process Owners") and their designation procedures;
- explanations on the method of implementing risk control strategies;
- mechanism and procedures for daily reporting and early warning;
- the plan for incorporating risk management objectives into Process Owner's efficiency appraisals.

The following stages of the establishment of our risk management system were completed during 2008:

First stage: Information collection and preliminary training

- Information collection: Before the establishment of our risk management system, information was collected from both internal and external sources, they included relevant documents regarding rules, policies and procedures, strategic and financial information of the Company (internal), and data regarding the relevant industries and available information about our competitors (external).
- Preliminary training: We set up a risk management system establishment team, organised an initial training and kick-off meeting for the risk management system establishment project. During the meeting, we specifically explained to our senior management the reason and meaning of embarking on the risk management project as well as our action plan within 2008. An explanation on the basic knowledge of comprehensive risk management was also given at the meeting.

Second stage: Research and study

- Interviewing the management: In order to collect the management's opinion on the current status of our risk management and on the establishment of the system, the team interviewed our Managing Director, general managers of each business unit and each functional department. The interviews seek to understand the management's views and concerns on risks and the current status of our risk management in respect of six areas, namely operating strategies, procedures, personnel and organisational structure, methodology, management reporting, and system and data. Fourteen management interviews were performed, information including the management's understanding of the risks that the Company are currently facing, and the current status of risk management in the operations under their supervision are recorded in details. Such interview records formed the important foundation for the identification of risks

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the Company is currently facing, and embodied valuable suggestion for the establishment and future growth of our risk management system.

- Site study of major profit centers: On-site studies were conducted at the major profit centers of each of the five business units of the Company to further understand the risk management situation at the profit center level and the risks of various operations. The method of the review included interviews management and walk-through tests. Interviews were conducted to understand risks that are specific to certain operations, the major risks they were facing and the current status of risk management. Walk-through tests were conducted on typical operating procedures such as sales, purchase and financial issues to understand the design and actual implementation of the procedures and the risks involved. More than 80 interviews were performed at the profit center level. Such records provided the basic information for identifying the risks faced by the industry and the Company, and the current status of risk management.

Third stage: Risk assessment and handling

- Categorisation of risks: Through consolidating the information of the above research and studies, the risks faced by the Company were categorised, and such risks were consolidated and a preliminary risk model of the Company was formed, underlying which was a risk database with 34 types of risks. On such foundation and based on the results of the above analysis and the industry analysis, 27 risks were selected for further evaluation.
- Inherent risks evaluation: A risk assessment meeting was convened with the participation of the Managing Director, general managers of all business units and functional departments. During the meeting, inherent risks evaluation was conducted in respect of the probability of risks occurrence and their impacts, risks identified are prioritised according to the likelihood of occurrence and the impact to the organisation on occurrence to form a risk heat diagram. The nominations of the Process Owner for each major risk were also confirmed at the meeting.
- Matching key risks with control activities: A risk and control matrix was designed to match all risks to their corresponding operating processes and control activities, enabling the assessment of whether the current process and control activities can maintain the risks within an acceptable level.

Fourth stage: Establishment of risk management system

- The Standards was formulated.
- Protiviti, our risk management adviser, issued a report on the assessment of the current status of our risk management establishment. The report evaluated the risk management capabilities of the Company and planned our future risk management system under six areas, namely the operating strategies, procedures, personnel and organisation, management report, methodology, and system and data.

Our development approaches and missions for 2009

Since the beginning of 2009, our management has been, and will continue to be, committed to advance the implementation of a comprehensive risk management system, and requires each of the five major business units and each functional department of the Company to comply with the Standards. The Risk Management Committee, will oversee the overall execution and improvement of our risk management. Our managing director, through acting as the chairman of the Risk Management Committee, directly supervises and participates in the implementation of the system. Each Process Owner undertakes the daily supervision and management responsibilities of major risks area and prepares the quarterly risk report. Such reports will be consolidated and submitted to the Risk Management Committee for their review. Meanwhile, our audit department will further develop the risk management system based on the foundation built up in 2008 and evaluated the effectiveness of the system. The major tasks include:

- Establishment of key risk indicator system.
- Matching and refining the control of key risks, and evaluating residual risks on such basis.
- Provide risks management training to management personnel at all level of the Company.