NOTES TO FINANCIAL STATEMENTS

31st December, 2004

1. BASIS OF PRESENTATION

As reported in the financial statements, the Group had net current liabilities of US$433,834,000 as at 31st December, 2004 (2003: US$320,408,000).

Since May 1998, the Company has been negotiating a restructuring plan, which includes asset disposal and debt repayment programmes with its lending banks and the holders of its floating rate notes (collectively referred to as the "Lenders").

On 28th February, 2001, the Company entered into a formal Group restructuring agreement (the "Agreement") with its lending banks. The Agreement provided for the Company's indebtedness and the indebtedness of the Company's subsidiaries participating in the restructuring scheme, to be paid down, according to a schedule, over a period up to 31st December, 2002 and for any remaining indebtedness to be refinanced thereafter. However, certain features of the restructuring were only to take effect upon the satisfaction of certain conditions precedent or conditions subsequent specified in the Agreement.

On 29th March, 2001, a meeting was held by the holders of the Company's floating rate notes who resolved to acknowledge the restructuring and amend the terms and conditions of the floating rate notes in accordance with the terms of the Agreement.

On 23rd October, 2001, the Company announced that certain amendments (the "First Amendment Agreement") had been made to the Agreement. The amendments related to an extension of the period of the restructuring by 12 months to 31st December, 2003.

On 29th October, 2003, further to the First Amendment Agreement, the Lenders agreed to a Second Amendment Agreement to amend the debt restructuring schedule and an extension of the period of the restructuring by another 12 months to 31st December, 2004.

On 22nd December, 2004, the Company entered into a Bridging Facility Agreement with a bank in Thailand to borrow a bridging loan of US$20,800,000. The loan was used to finance the repayment of above indebtedness in order to fulfill the debt restructuring schedule of 2004. The term of the bridging loan is one year from the date on which it is utilised by the Company. Notwithstanding the said term, it is provided in the Bridging Facility Agreement that the Company shall repay such bridging loan on the day it obtains a refinancing facility from any banks and financial institutions or it obtains a new credit facility from a financial institution, whichever is earlier.

The total amount of distributions to the Lenders in 2004 was US$86,600,000 (2003: US$28,000,000), of which US$1,566,000 (2003: US$473,000) was placed in escrow accounts for the purpose of settling future claims on the Company, if any, on debts guaranteed by the Company to its subsidiaries in the PRC. Upon the disposal of all its listed Indonesian shares in the current year, an amount of US$3,682,000 of the related guarantee was released from the escrow accounts and was utilised to repay the indebtedness of the Company. After the distributions made during the year, the remaining indebtedness at 31st December, 2004 was US$146,927,000 (2003: US$235,643,000).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

1. BASIS OF PRESENTATION (continued)

On 14th January, 2005, the Lenders agreed to a Third Amendment Agreement and the amendment related to an extension of the period of the restructuring to 30th April, 2005.

In order to refinance its existing level of indebtedness, on 2nd March, 2005, the Company announced that it had been in discussion with certain banks and had received an offer from certain banks of a new loan facility of US$140,000,000, subject to various conditions including the execution of the relevant loan and security documentation. One of the conditions for the grant of the new loan facility is that, among other things, the Company would obtain new equity of US$30,000,000 which shall be applied together with the new loan facility to repay the Company's existing indebtedness to the Lenders and the bridging loan mentioned above, on or before 30th April, 2005.

In order to fulfill the equity requirement, on 2nd March, 2005, Worth Access Trading Limited, an associate of the controlling shareholders of the Company, entered into a subscription agreement with the Company for a conditional subscription of the subscription shares at a price of HK$0.32 each for an aggregate consideration of HK$234,000,000 (approximately US$30,000,000). Pursuant to the subscription agreement, the subscription shares will be issued with the warrants.

In order to fulfill the conditions for the proposed new equity by way of subscription, under which the subscription shares will be issued at HK$0.32 per subscription share, the directors have proposed that the share capital of the Company be reorganised. The implementation of the capital reorganisation will allow the Company, immediately following the capital reorganisation becoming effective, to proceed with the subscription upon the terms proposed. Further details are included in the public announcement of the Company dated 2nd March, 2005 and also note 34 to the financial statements. The Group expects that the above capital reorganisation and the subscription will be completed in April 2005.

The financial statements have been prepared on a going concern basis because the directors believe that:

(a) through certain restructuring and reorganisational measures, the Group's debt and liquidity position will be improved; and

(b) through the proposed capital reorganisation and the issue of subscription shares, total proceeds of approximately US$30,000,000 will be raised and therefore the Company will fulfill the condition of the new loan facility mentioned above.

Should the Group be unable to successfully generate sufficient cash inflows, be able to comply with the terms of the First, Second and Third Amendment Agreements, the proposed capital reorganisation and the issue of subscription shares, the basis of preparing the Group's current year's financial statements on a going concern basis may not be appropriate. Accordingly, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts in order to provide for any further liabilities which might arise and to reclassify the non-current assets and long term liabilities as current.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

2. CORPORATE INFORMATION

The consolidated financial statements of the Company for the year ended 31st December, 2004 were authorised for issue in accordance with a resolution of the directors on 30th March, 2005. The Company is a limited liability company which is incorporated in Bermuda.

The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

During the year, the Group was involved in the following activities:

- feedmill and poultry operations and trading of agricultural products
- manufacturing and sale of motorcycles and accessories for automotives through its jointly controlled entities
- property and investment holding

The Group employed approximately 51,000 (2003: 53,000) employees as at 31st December, 2004.

3. IMPACT OF A NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

IFRS 3 "Business Combination" (including revised International Accounting Standard ("IAS") 36 Impairment of Assets and IAS 38 Intangible Assets) is effective for business combinations with an agreement date on or after 31st March, 2004. In respect of earlier business combination, an entity shall apply the IFRS prospectively, from the beginning of the first annual period beginning on or after 31st March, 2004.

The main features of the new and revised standards are:

- All business combinations within the scope of IFRS 3 are accounted for using the purchase method. The pooling of interests method is prohibited.

- Cost expected to be incurred to restructure an acquired entity's (or the acquirer's) activities are treated as post-combination expenses, unless the acquired entity has a pre-existing liability for restructuring its activities.

- Intangible items acquired in a business combination must be recognised as assets separately from goodwill if they meet the definition of an asset, are either separable or arise from contractual or other legal rights, and their fair values can be measured reliably.

- Identifiable assets acquired, and liabilities and contingent liabilities incurred or assumed, are initially measured at fair value.

- Amortisation of goodwill and intangible assets with indefinite useful lives is prohibited. Instead they are tested for impairment annually, or more frequently if events or changes in circumstances indicate a possible impairment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

3. IMPACT OF A NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (continued)

The directors decided to early adopt the provisions of IFRS 3 (and the revised IAS 36 and IAS 38), from 1st January, 2004. The adoption of the new and revised standards has resulted in the Group ceasing annual goodwill amortisation and to test for impairment annually at the cash generating unit level from 1st January, 2004. The transitional provisions of IFRS 3 have required the Group to eliminate the carrying amount of the accumulated amortisation of goodwill of US$7,248,000 with a corresponding entry to goodwill.

Negative goodwill of US$8,884,000 existing at the date of adoption of the above IFRSs has been derecognised by way of adjustment to the opening reserves.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in United States dollars and conform with International Financial Reporting Standards, which comprise standards and interpretations approved by the International Accounting Standards Board, and IAS and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, certain fixed assets and short term and long term investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2004 together with the Group's share of the post-acquisition results and reserves of its jointly controlled entities and associates. The results of subsidiaries, jointly controlled entities and associates acquired or disposed of during the year are included from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies

Joint venture companies comprise companies operating, directly or indirectly, in the Mainland of the PRC as independent business entities. The joint venture agreements between the venturers stipulate the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared by the venturers either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreements.

A joint venture company is treated as:

(a) a subsidiary, if the Group has effective control, directly or indirectly, over the joint venture company;

(b) a jointly controlled entity, if neither the Group, nor its joint venture partners are in a position to exercise unilateral control over the economic activity of the joint venture company;

(c) an associate, if the Group holds, directly or indirectly, between 20% and 50% of the joint venture company's registered capital for the long term and is in a position to exercise significant influence over its management; or

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly controlled entities

A jointly controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets and goodwill recorded in the associates' own financial statements less any impairment losses.

If the Group's share of losses of an associate equals or exceeds the carrying amount of the investment, the Group will discontinue the investment including its share of further losses and the investment is reported at nil value. Additional losses are provided for to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the Group has guaranteed or otherwise committed.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the consolidation of subsidiaries, and on the acquisition of jointly controlled entities and associates represents the excess of the purchase consideration paid for subsidiaries, jointly controlled entities and associates over the fair values ascribed to their net assets and contingent liabilities as at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. As further explained in note 3 to the financial statements, from 1st January, 2004, goodwill is not amortised and is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, jointly controlled entities and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition. The carrying amount of negative goodwill at the beginning of 1st January, 2004 has been derecognised at that date, with a corresponding adjustment to the opening balance of accumulated losses. Negative goodwill on acquisitions for which the agreement date is on or after 1st January, 2004 is released to the profit and loss account immediately at the time of acquisition.

Impairment of assets

The carrying amounts of assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may exceed the recoverable amount. If, as a result of the review, it is determined that the carrying amount of an asset exceeds its recoverable amount, an impairment loss is immediately recognised in the profit and loss account. If an asset has been revalued, the impairment loss is initially debited to the revaluation reserve associated with that asset. If the impairment loss exceeds the revaluation reserve for that asset, any excess is recognised in the profit and loss account.

The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the estimated amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. The value in use is the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, where this is not possible, for the cash-generating unit of which the assets form part.

If there is any indication that an impairment loss recognised for an asset may no longer exist or may have decreased, the recoverable amount is estimated and compared to the carrying amount. If there has been a change in the estimates used to determine an asset's recoverable amount since the last impairment loss was recognised, the carrying amount of the asset is increased to the recoverable amount, not exceeding the carrying amount the asset would have had if the impairment loss had not previously been recognised. Such reversals of impairment losses are credited to the profit and loss account unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

(i) Office premises

Office premises are stated at their open market values on the basis of annual valuations performed at the end of each financial year. Changes in the values of such premises are dealt with as movements in the fixed asset revaluation reserve on an individual premise basis. If the total of the reserve attributable to the individual premises is insufficient to cover a deficit, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Upon the disposal of the office premises, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is released and transferred directly to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of the office premises over their estimated useful lives.

(ii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and any impairment losses.

Depreciation of fixed assets in Hong Kong is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life.

Depreciation of fixed assets in the PRC is calculated in accordance with the relevant regulations in the PRC, which require that depreciation be provided on the straight-line basis based on the estimated economic useful life of each category of assets and on an estimated residual value of 10% of the cost thereof, which in the opinion of directors represented the estimated recoverable amount upon disposal. The principal annual rates used for this purpose are as follows:

Industrial buildings in the PRC	2% – $4^1/_2$%
Plant and machinery	6% – 15%
Furniture, fixtures and equipment	10% – $33^1/_3$%
Motor vehicles and transport facilities	9% – $33^1/_3$%

The above principal annual rates used are adopted based on PRC accounting principles and the rates are not materially different to those under IAS.

The rights to the use of sites in the PRC are amortised over the period of the rights.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

(iii) *Construction in progress*

Construction in progress represents the costs incurred in connection with the construction of silos, factories, warehouses and farms, and hatchery facilities. Interest on bank loans used to finance construction costs is capitalised in construction in progress. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to prepare for their intended use, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. The capitalisation rate for the year is based on the actual cost of the related borrowings.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Investment properties

Investment properties held on a short, medium or long term basis are not depreciated and are stated at open market value on the basis of annual valuations performed at the end of each financial year. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated profit and loss account in the period in which they arise.

Investments

Listed and unlisted investments held on a long term basis are stated at estimated fair value. The gain or losses arising from changes in the value of the investments are credited or charged to the profit and loss account for the period in which they arise.

Short term investments are investments in equity securities held for trading purposes and are stated at fair value on an individual investment basis as at the balance sheet date. The gains or losses arising from changes in the value of a security are credited or charged to the profit and loss account for the period in which they arise.

The results of investee companies are included only to the extent of dividends received and receivable.

Inventories

Inventories are valued at the lower of cost, on the weighted average basis, and net realisable value after making due allowance for any obsolete or slow-moving items. Cost comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Livestock

Livestock is stated at fair value less estimated point-of-sale costs, except where the fair value cannot be measured reliably, in which case it is stated at cost less accumulated amortisation and any impairment. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit.

Net increments or decrements in the fair value of livestock are included in the profit and loss account, determined as:

(a) the difference between the total fair value of the livestock recognised at the beginning of the financial year and the total fair value of the livestock recognised at the end of the financial year; and

(b) cost incurred during the financial year to acquire and breed livestock.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the lower of the fair value or the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

Foreign currencies

The financial statements are prepared in United States Dollars as there is trading of the Company's shares by way of American Depository Receipts in the United States. Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into United States dollars at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

On consolidation, the assets and liabilities of the Company, its subsidiaries, jointly controlled entities and associates are translated into United States dollars at the exchange rates ruling at the balance sheet date. The revenue and expenses are translated into United States dollars at the weighted average exchange rates for the year. All translation differences arising on consolidation are taken to the exchange equalisation reserve.

In translating the financial statements denominated in Renminbi into United States dollars, the exchange rate used is the rate of exchange as quoted by the People's Bank of China in the PRC.

Employee benefits

Retirement benefits schemes

The Group operates a defined Mandatory Provident Fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

As stipulated by the regulations of the PRC government, each of the joint ventures in the PRC is required to make specific contributions to the state-controlled retirement plan at a rate of 6% to 29% of the total salaries of the PRC employees. The PRC government is responsible for the pension liability to the retired employees. The employees of the joint ventures are entitled to a monthly pension at their retirement dates. The joint ventures have no further obligation for post-retirement benefits beyond the annual contributions made.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or to exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Financial instruments

Financial assets and financial liabilities carried in the balance sheet include cash and cash equivalents, investments on marketable securities, trade and other receivables and payables and borrowings. The Group recognises a financial asset or financial liability on the balance sheet when, and only when, it becomes a party to the contractual provision of the instrument.

Financial assets are classified into four categories:

(a) loans and receivables originated by the enterprise which are not held for trading;

(b) held-to-maturity investments;

(c) available-for-sale financial assets; and

(d) financial assets held for trading.

After initial recognition of a financial asset or financial liability at cost, the Group measures each major category of the financial instruments at either the reliable fair value or amortised cost in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”. Regular way purchases and sales of financial assets are accounted for at the trade date. The gains and losses arising from changes in the fair values of those trading financial assets/liabilities and available-for-sale financial assets that are measured at fair value subsequent to initial recognition are included in net profit or loss for the period.

The fair values of financial assets are determined as described in note 42 to the financial statements.

Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

5. TURNOVER

Turnover represents rental income and the net invoiced value of sales after allowances for goods returned and trade discounts, and after eliminations of intra-group transactions.

An analysis of turnover by principal activity and geographical location of operations is as follows:

	GROUP	
	2004	2003
	US$'000	*US$'000*
By principal activity:		
Sales to/income from external customers:		
Feedmill and poultry operations	**1,713,032**	1,657,310
Property holding	**4**	36
	1,713,036	1,657,346
By geographical location:		
PRC:		
Hong Kong	**4**	36
Mainland	**1,713,032**	1,447,618
	1,713,036	1,447,654
Turkey (discontinued operation - *note 12*)	**–**	209,692
	1,713,036	1,657,346

The above analysis does not include the turnover of the Group's jointly controlled entities and associates, which is summarised in the combined results of jointly controlled entities and associates as set out in notes 21 and 22 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

6. REVENUE

The total revenue for the year is analysed as follows:

	GROUP	
	2004	2003
	US$'000	*US$'000*
Sale of goods	**1,712,423**	1,657,073
Rental income	**613**	273
Turnover	**1,713,036**	1,657,346
Interest income	**1,167**	1,065
Total revenue for the year	**1,714,203**	1,658,411

7. OTHER INCOME, NET

	GROUP	
	2004	2003
	US$'000	*US$'000*
Negative goodwill recognised as income	**–**	808
Gain on disposal of interests in subsidiaries, net	**4,574**	–
Gain on disposal of a jointly controlled entity	**20,381***	–
Gain/(Loss) on disposal of short term investments, net	**(7,580)**	3,754
Unrealised loss of short term investments	**–**	(227)
Unrealised gain on revaluation of livestock	**–**	1,057
Revaluation deficit on investment properties	**(613)**	(8)
Impairment loss in respect of fixed assets	**(5,163)**	(3,722)
Impairment loss in respect of goodwill	**(7,004)**	(1,830)
Interest income	**1,167**	1,065
Tax refund in respect of reinvestment of distributed earnings from the PRC ventures	**236**	202
	5,998	1,099

* The gain relates to the disposal of the Group's entire 50% equity interest in Shanghai-Ek Chor General Machinery Co., Ltd. for a total consideration of US$40,000,000.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

	2004 US$'000	2003 US$'000
The Group's profit/(loss) from operating activities is arrived at after crediting:		
Foreign exchange gains, net	–	1,521
Rental income, net of outgoings	613	273
Write-back of provision for bad and doubtful debts	4,526	–
Write-back of provision against inventories	–	2,972
Write-back of impairment provision for livestock	55	309
and after charging:		
Depreciation	54,228	70,972
Provision for bad and doubtful debts	271	210
Provision against inventories	811	–
Provision for long service payment	–	830
Loss on disposal of fixed assets, net	3,439	4,693
Loss arising from a fire incident of a subsidiary:		
Loss of monetary and non-monetary assets	–	10,003
Less: Reimbursement from insurance company	–	(9,875)
	–	128
Minimum lease payments under operating leases:		
Land and buildings	3,777	4,947
Plant and machinery	440	440
	4,217	5,387
Auditors' remuneration	633	716
Staff costs (including directors' remuneration – *note 10*)	93,287	99,960
Pension fund contributions	4,289	4,611
Goodwill:		
Amortisation for the year	–	250
Impairment arising during the year	7,004	1,830
Foreign exchange losses, net	117	–

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

9. FINANCE COSTS

	GROUP	
	2004	2003
	US$'000	*US$'000*
Interest expense on:		
Bank loans wholly repayable within five years	**28,773**	31,728
Other loans repayable within five years	**479**	343
	29,252	32,071

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Executive		Independent non-executive	
	2004	2003	**2004**	2003
	US$'000	*US$'000*	***US$'000***	*US$'000*
Fees	**–**	–	**54**	54
Other emoluments:				
Basic salaries, housing allowances, other allowances and benefits in kind	**1,026**	1,026	**–**	–
	1,026	1,026	**54**	54

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil – US$128,000 (equivalent to HK$Nil to HK$1,000,000)	**9**	8
US$128,001 – US$192,000 (equivalent to HK$1,000,001 – HK$1,500,000)	**1**	1
US$385,001 – US$449,000 (equivalent to HK$3,000,001 – HK$3,500,000)	**1**	1
US$449,001 – US$513,000 (equivalent to HK$3,500,001 – HK$4,000,000)	**1**	1
	12	11

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

10. DIRECTORS' REMUNERATION (continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, 125,600,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 34 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (2003: two) directors, details of whose remuneration are set out in note 10 above. The remuneration of the remaining three (2003: three) non-director, highest paid individuals for the year is analysed and fell within the bands set out below:

	GROUP	
	2004	2003
	US$'000	*US$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**1,189**	605

	Number of employees	
	2004	2003
US$128,001 – US$192,000 (equivalent to HK$1,000,001 – HK$1,500,000)	**–**	1
US$192,001 – US$256,000 (equivalent to HK$1,500,001 – HK$2,000,000)	**–**	2
US$256,001 – US$321,000 (equivalent to HK$2,000,001 – HK$2,500,000)	**2**	–
US$641,001 or above (equivalent to HK$5,000,000 or above)	**1**	–

12. DISCONTINUED OPERATION IN THE PRIOR YEAR

On 12th November, 2003, the Company publicly announced the decision of its board of directors to dispose of the whole of the Group's interest in its Turkish subsidiary, C.P. Standart Gida Sanayi ve Ticaret Anonim Sirketi ("CP Standart"), through a wholly-owned subsidiary of the Company, Charoen Pokphand Development (Turkey) Limited to a related party, CPF Investment Limited ("CPF Investment"), for a total consideration of US$22,000,000. The disposal generated a loss on disposal of discontinued operation of approximately US$18,413,000, which was included in the Group's loss from discontinued operation. The consideration was determined following commercial negotiation between the Company and CPF Investment after taking into account the financial performance and net tangible asset value of CP Standart in the financial years of 2001 and 2002. Further details of the transaction were set out in a circular dated 3rd December, 2003. The transaction was approved by the independent shareholders on 18th December, 2003 and completed on 31st December, 2003.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

12. DISCONTINUED OPERATION IN THE PRIOR YEAR (continued)

The disposal formed part of the overall asset disposal programme contemplated under the Group's debt restructuring arrangements as further described in note 1 under the heading "Basis of Presentation". As the Group has been focusing on its agri-business in the PRC, the directors are of the view that the business operations of CP Standart in Turkey fall outside the current and future business focus of the Group.

The turnover, expenses and results of the Turkish subsidiary for the year ended 31st December, 2003 were as follows:

	2004	2003
	US$'000	*US$'000*
TURNOVER	–	209,692
Cost of sales	–	(172,867)
Gross profit	–	36,825
Selling and distribution costs	–	(10,503)
General and administrative expenses	–	(9,221)
PROFIT FROM OPERATING ACTIVITIES	–	17,101
Finance costs	–	(1,197)
PROFIT BEFORE TAX	–	15,904*
Tax	–	(4,173)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	–	11,731

* The net loss from the discontinued operation presented on the consolidated profit and loss account in the prior year of approximately US$2,509,000, included the loss on disposal of CP Standart of approximately US$18,413,000.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

13. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments.

GROUP

	Feedmill and poultry operations and trading of agricultural products US$'000	Manufacturing and sale of motorcycles and accessories for automotives* US$'000	Investment and property holding US$'000	Total US$'000
2004				
Segment results	**7,524**	**(3,469)**	**(2,961)**	**1,094**
Other revenue:				
Other income/(losses), net	**(7,357)**	**20,381**	**(8,193)**	**4,831**
Interest income				**1,167**
Finance costs				**(29,252)**
Share of profits and losses of jointly controlled entities	**(29,505)**	**4,518**	**–**	**(24,987)**
Share of profits and losses of associates	**2,220**	**–**	**–**	**2,220**
Loss before tax				**(44,927)**
2003				
Segment results				
Continuing operations	(6,967)	(4,820)	(9,440)	(21,227)
Discontinued operation	16,535	–	–	16,535
Other revenue:				
Other income/(losses), net	(3,975)	–	4,009	34
Interest income				1,065
Loss a disposal of discontinued operation	(18,413)	–	–	(18,413)
Finance costs				(32,071)
Share of profits and losses of jointly controlled entities	(10,591)	15,737	–	5,146
Share of profits and losses of associates	(1,446)	–	–	(1,446)
Loss before tax				(50,377)

* These activities were conducted through the Group's jointly controlled entities of its industrial sector.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

13. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

GROUP

	Feedmill and poultry operations and trading of agricultural products US$'000	Manufacturing and sale of motorcycles and accessories for automotives* US$'000	Investment and property holding US$'000	Total US$'000
2004				
Interests in jointly controlled entities	(724)	36,694	–	35,970
Interests in associates	25,806	–	–	25,806
Segment assets	791,127	5,634	36,063	832,824
Unallocated assets				2,458
Total assets				897,058
Segment liabilities	247,214	5,475	2,084	254,773
Unallocated liabilities				539,465
Total liabilities				794,238
Other segment information:				
Additions to fixed assets	35,160	185	194	35,539
Depreciation	54,034	128	66	54,228
Impairment loss	12,112	–	–	12,112
2003				
Interests in jointly controlled entities	16,494	57,495	–	73,989
Interests in associates	24,436	–	–	24,436
Segment assets	880,113	6,337	33,122	919,572
Unallocated assets				2,781
Total assets				1,020,778
Segment liabilities	237,883	1,525	1,388	240,796
Unallocated liabilities				630,585
Total liabilities				871,381
Other segment information:				
Additions to fixed assets	47,736	3	28	47,767
Depreciation	70,120	134	718	70,972
Amortisation	250	–	–	250
Impairment loss	5,243	–	–	5,243
Loss on disposal of discontinued operation	18,413	–	–	18,413

* These activities were conducted through the Group's jointly controlled entities of its industrial sector.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

13. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's geographical segments.

GROUP

	Continuing operations			Discontinued operation	
	Hong Kong	PRC Mainland	Thailand and Indonesia	Turkey	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
2004					
Segment results	**(5,041)**	**6,135**	**–**	**–**	**1,094**
Other revenue:					
Other income/(losses), net	**(613)**	**13,024**	**(7,580)**	**–**	**4,831**
Interest income					**1,167**
Finance costs					**(29,252)**
Share of profits and losses of jointly controlled entities	**–**	**(24,987)**	**–**	**–**	**(24,987)**
Share of profits and losses of associates	**–**	**2,220**	**–**	**–**	**2,220**
Loss before tax					**(44,927)**
2003					
Segment results	(7,287)	(13,940)	–	16,535	(4,692)
Other revenue:					
Other income/(losses), net	(8)	(1,515)	1,557	–	34
Interest income					1,065
Loss on disposal of discontinued operation	–	–	–	(18,413)	(18,413)
Finance costs					(32,071)
Share of profits and losses of jointly controlled entities	–	5,146	–	–	5,146
Share of profits and losses of associates	–	(1,446)	–	–	(1,446)
Loss before tax					(50,377)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

13. SEGMENT INFORMATION (continued)

(b) Geographical segments (continued)

GROUP

	Continuing operations			Discontinued operation	
	PRC Hong Kong	PRC Mainland	Thailand and Indonesia	Turkey	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
2004					
Interests in jointly controlled entities	–	35,970	–	–	35,970
Interests in associates	–	25,806	–	–	25,806
Segment assets	24,310	808,514	–	–	832,824
Unallocated assets					2,458
Total assets					897,058
Segment liabilities	2,084	252,689	–	–	254,773
Unallocated liabilities					539,465
Total liabilities					794,238
Other segment information:					
Additions to fixed assets	194	35,345	–	–	35,539
Depreciation	66	54,162	–	–	54,228
Impairment loss	–	12,112	–	–	12,112
2003					
Interests in jointly controlled entities	–	73,989	–	–	73,989
Interests in associates	–	24,436	–	–	24,436
Segment assets	46,690	863,657	9,225	–	919,572
Unallocated assets					2,781
Total assets					1,020,778
Segment liabilities	1,396	239,400	–	–	240,796
Unallocated liabilities					630,585
Total liabilities					871,381
Other segment information:					
Additions to fixed assets	28	40,998	–	6,741	47,767
Depreciation	718	65,006	–	5,248	70,972
Amortisation	–	250	–	–	250
Impairment loss	–	5,243	–	–	5,243
Loss on disposal of discontinued operation	–	–	–	18,413	18,413

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

14. TAX

	GROUP	
	2004	2003
	US$'000	US$'000
The Company and subsidiaries:		
Provision for profits tax in respect of the year:		
PRC:		
Hong Kong	**–**	–
Mainland	**7,515**	5,367
Overseas	**–**	5,092
Deferred tax (*note 25*)	**252**	(3,441)
	7,767	7,018
Over provision in the prior year:		
PRC:		
Hong Kong	**–**	–
Mainland	**(26)**	(1,558)
Overseas	**–**	(1,218)
	(26)	(2,776)
Jointly controlled entities:		
PRC:		
Hong Kong	**–**	–
Mainland	**1,053**	3,668
	1,053	3,668
Associates:		
PRC:		
Hong Kong	**–**	–
Mainland	**647**	–
	647	–
Tax charge for the year	**9,441**	7,910

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

14. TAX (continued)

Hong Kong profits tax is calculated by applying the current tax rate of 17.5% (2003: 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

In accordance with the relevant tax rules and regulations in the PRC, certain of the Company's PRC subsidiaries, jointly controlled entities and associates enjoy income tax exemptions and reductions. Certain subsidiaries, jointly controlled entities and associates are subject to income taxes at tax rates ranging from 10% to 33%.

A reconciliation between the provision for profits taxes computed by applying the applicable tax rates to the loss before tax and the actual provision for profits taxes is as follows:

	2004	2003
	US$'000	*US$'000*
Loss before tax	**(44,927)**	(50,377)
Expected tax charge at the domestic tax rates applicable in the countries concerned, net	**(11,348)**	(10,765)
Non deductible expenses, net	**6,325**	3,012
Tax exemptions or reductions	**(5,604)**	(5,490)
Tax losses of subsidiaries, jointly controlled entities and associates	**20,068**	20,790
Effect of increase in tax rate on timing differences	**–**	363
Actual tax expense	**9,441**	7,910

15. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The loss for the year of the Company dealt with in the consolidated profit and loss account amounted to US$48,175,000 (2003: US$52,653,000).

The Group's share of aggregate losses less profits retained by the jointly controlled entities for the year amounted to US$26,040,000 (2003: Aggregate profits less losses of US$1,821,000).

The Group's share of aggregate profits retained by the associates for the year amounted to US$1,573,000 (2003: Aggregate losses of US$1,446,000).

16. LOSS PER SHARE

The basic loss per share amount is calculated based on the net loss attributable to shareholders of US$62,386,000 (2003: US$62,758,000) and 2,158,480,786 (2003: 2,158,480,786) shares of the Company in issue during the year.

Diluted loss per share amounts for the years ended 31st December, 2004 and 2003 have not been disclosed as no diluting events existed during the two years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

17. FIXED ASSETS

GROUP

	2004									2003
	Office premises in Hong Kong	Office premises in the Mainland China	Industrial buildings in the Mainland China	Rights to the use of sites	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles and transport facilities	Construction in progress	Total	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cost or valuation:										
At beginning of year	6,030	8,516	290,729	48,715	488,502	67,552	27,817	16,278	954,139	968,465
Additions	–	–	2,243	2,822	4,591	3,609	1,837	20,437	35,539	47,767
Disposals	–	–	(5,745)	(718)	(8,841)	(2,967)	(3,415)	–	(21,686)	(20,290)
Revaluation	3,634	–	–	–	–	–	–	–	3,634	(800)
Transfer in/(out)	–	–	12,032	–	13,059	369	63	(25,523)	–	–
Transfer to investment properties	(81)	–	–	–	–	–	–	–	(81)	(5,520)
Acquisition of subsidiaries	–	–	3,428	378	2,928	148	56	–	6,938	–
Disposals of subsidiaries (*note 38 (b)*)	–	–	(9,680)	(4,063)	(7,368)	(649)	(241)	–	(22,001)	(40,708)
Exchange realignment	–	–	–	–	–	–	–	–	–	5,225
At end of year	9,583	8,516	293,007	47,134	492,871	68,062	26,117	11,192	956,482	954,139
Accumulated depreciation and impairment losses:										
At beginning of year	–	2,545	92,031	7,666	262,867	40,978	19,926	–	426,013	389,264
Depreciation provided during the year	83	229	14,122	1,195	32,466	3,954	2,179	–	54,228	70,972
Impairment losses provided during the year	–	–	1,054	–	4,075	28	6	–	5,163	3,722
Disposals	–	–	(2,194)	(76)	(5,164)	(2,206)	(2,627)	–	(12,267)	(13,747)
Revaluation	(83)	–	–	–	–	–	–	–	(83)	(83)
Transfer to investment properties	–	–	–	–	–	–	–	–	–	(3,273)
Disposals of subsidiaries (*note 38 (b)*)	–	–	(2,185)	(294)	(1,603)	(251)	(56)	–	(4,389)	(23,814)
Exchange realignment	–	–	–	–	–	–	–	–	–	2,972
At end of year	–	2,774	102,828	8,491	292,641	42,503	19,428	–	468,665	426,013
Net book value:										
At end of year	9,583	5,742	190,179	38,643	200,230	25,559	6,689	11,192	487,817	528,126
At beginning of year	6,030	5,971	198,698	41,049	225,635	26,574	7,891	16,278	528,126	579,201

The Group's land and buildings are analysed as follows:

	Hong Kong	Elsewhere	Total
	US$'000	*US$'000*	*US$'000*
Long term leases	9,583	–	9,583
Medium term leases	–	301,523	301,523
	9,583	301,523	311,106

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

17. FIXED ASSETS (continued)

An analysis of the cost or valuation of fixed assets as at 31st December, 2004 is as follows:

	Valuation	Cost	Total
	US$'000	*US$'000*	*US$'000*
Office premises in Hong Kong	9,583	–	9,583
Office premises in the Mainland China	8,516	–	8,516
Industrial buildings in the Mainland China	–	293,007	293,007
Rights to the use of sites	–	47,134	47,134
Plant and machinery	–	492,871	492,871
Furniture, fixtures and equipment	–	68,062	68,062
Motor vehicles and transport facilities	–	26,117	26,117
Construction in progress	–	11,192	11,192

The office premises in Hong Kong are held under long term leases. The properties were assessed by Castores Magi (Hong Kong) Limited, independent professionally qualified valuers, on an open market basis as at 31st December, 2004.

Had the Group's premises in Hong Kong been stated at cost less accumulated depreciation, the carrying amount of the premises as at 31st December, 2004 would have been US$1,554,000 (2003: US$1,596,000).

The office premises in the Mainland China are held under medium term leases and were assessed by B.I. Appraisals Limited, independent professionally qualified surveyors, on an open market basis at 18th March, 2005, which is considered by the directors approximate to the market value as at 31st December, 2004.

Had the Group's premises in the Mainland China been stated at cost less accumulated depreciation, the carrying amount of the premises at 31st December, 2004 would have been US$5,742,000 (2003: US$5,971,000).

The industrial buildings in the Mainland China are held under medium term leases.

Certain of the Group's buildings and plant and machinery in the PRC have been pledged as securities for interest-bearing bank loans as further detailed in note 33 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

17. FIXED ASSETS (continued)

COMPANY

	Furniture, fixtures and equipment	
	2004	2003
	US$'000	*US$'000*
Cost:		
At beginning of year	**536**	508
Additions	**194**	28
At end of year	**730**	536
Accumulated depreciation:		
At beginning of year	**486**	451
Provided during the year	**66**	35
At end of year	**552**	486
Net book value:		
At end of year	**178**	50
At beginning of year	**50**	57

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

18. INVESTMENT PROPERTIES

	GROUP 2004 US$'000	GROUP 2003 US$'000
Long term leasehold land and buildings situated in Hong Kong, at valuation:		
At beginning of year	**61**	1,242
Transfers from/(to) fixed assets	**81**	(1,173)
Revaluation surplus/(deficit)	**72**	(8)
At end of year	**214**	61
Medium term leasehold buildings situated in the PRC, at valuation:		
At beginning of year	**3,705**	285
Transfers from/(to) fixed assets, net	**(685)**	3,420
At end of year	**3,020**	3,705
	3,234	3,766

The land and buildings in Hong Kong are held under long term leases. The property was assessed by Castores Magi (Hong Kong) Limited, independent professionally qualified valuers, on an open market basis, as at 31st December, 2004.

The medium term leasehold buildings in the Mainland China were assessed by B.I. Appraisals Limited, Hainan Haixin Accountant Affairs Office and Wuhan Zheng Hao Certified Public Accountants, independent professionally qualified surveyors, on an open market basis, as at 31st December, 2004.

Details of the investment properties are as follows:

Location	Use
Portions of 21/F of Far East Finance Centre, 16 Harcourt Road, Hong Kong	Office premises for rental
Portions of Block 1, 12/F of Guang Hua Chang An Da Xia, Jiangguomenneidajie, Beijing, the PRC	Office premises for rental
Laocheng Development Zone, Chengmai Country, Hainan Province, the PRC	Industrial buildings for rental
Dahualing, Wuhan Jiang Xia District, Hubei Province, the PRC	Industrial buildings for rental

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

19. NON-CURRENT LIVESTOCK

	GROUP	
	2004	2003
	US$'000	*US$'000*
Livestock:		
at fair value	3,763	4,217
at cost	**851**	612
	4,614	4,829
Physical quantity of pigs:		
Number of progeny pigs	**48,361**	50,544
Number of breeder pigs	**9,817**	9,365
	58,178	59,909

The Group's non-current livestock comprises progeny and breeder pigs owned by subsidiary companies. The progeny pigs are raised for sale. The breeder pigs are held to produce further progeny pigs. The fair value was determined based on the selling prices approximating those at the year end. Significant assumptions made in determining the fair value of the livestock are:

(i) Progeny pigs aged up to 17 weeks are valued at cost as no active or liquid markets exist for these pigs;

(ii) Progeny pigs aged 18 weeks and above are valued at fair value less estimated point-of-sale costs; and

(iii) Breeder pigs are valued at fair value less estimated point-of-sale costs.

	GROUP	
	2004	2003
	US$'000	*US$'000*
Reconciliation of changes in the carrying amount:		
Balance at 1st January	**4,829**	1,624
Increase due to purchases/raising	**17,863**	9,944
Gains arising from changes in fair value less estimated point-of-sale costs, net	**–**	1,057
Decrease due to sales	**(18,078)**	(7,796)
Balance at 31st December	**4,614**	4,829

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

20. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2004	2003
	US$'000	*US$'000*
Unlisted shares, at cost:	**64,280**	62,872
Amounts due from subsidiaries	**311,646**	335,238
Amounts due to subsidiaries	**(74,711)**	(107,987)
	301,215	290,123
Provision for impairment	**(88,400)**	(54,059)
	212,815	236,064

The amounts due from and to subsidiaries are unsecured, bear interest at rates ranging from 2.2% to 7.4% (2003: 1.6% to 4.0%) per annum and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries are presented on pages 98 to 112 of the financial statements.

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	GROUP	
	2004	2003
	US$'000	*US$'000*
Unlisted investments:		
Share of net assets	**25,843**	81,381
Amounts due from jointly controlled entities	**19,684**	3,573
Amounts due to jointly controlled entities	**(4,217)**	(5,625)
	41,310	79,329
Provision for impairment	**(5,340)**	(5,340)
	35,970	73,989

The amounts due from and to jointly controlled entities are unsecured, bear interest at rates ranging from 0% to 6.7% (2003: 0%) per annum and have no fixed terms of repayment.

Particulars of the jointly controlled entities are presented on pages 113 to 115 of the financial statements.

A significant number of the Group's interests in jointly controlled entities are Sino-foreign joint ventures established in the PRC. Details of the factors affecting the distribution of earnings from these joint ventures are set out in note 37 to the financial statements.

Under the terms of the joint venture agreements for these jointly controlled entities in the PRC, the Group is entitled to receive its attributable share of the net assets upon liquidation of the joint venture companies.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The following summaries of financial information, prepared on a combined 100% basis, present the combined financial position and results of operations of all jointly controlled entities involved in the agri-business and industrial business as at the balance sheet date, accounted for by the Group using the equity method, for the years ended 31st December, 2004 and 2003:

	2004		2003	
	Agri-business in PRC US$'000	**Industrial business in PRC US$'000**	Agri-business in PRC US$'000	Industrial business in PRC US$'000
Fixed assets	**209,278**	**43,406**	171,276	71,460
Long term investments	**904**	**175**	816	14,444
Long term receivables and other assets	**300**	**317**	338	1,360
Current assets	**178,033**	**102,476**	239,481	174,113
Creditors: Amounts falling due within one year	**(417,024)**	**(63,137)**	(360,569)	(130,883)
Net current assets/(liabilities)	**(238,991)**	**39,339**	(121,088)	43,230
Creditors: Amounts falling due after one year	**(5,958)**	**(10)**	(9,552)	(18,947)
	(34,467)	**83,227**	41,790	111,547
Shareholders' funds	**(34,467)**	**83,228**	41,790	109,968
Minority interests	**–**	**(1)**	–	1,579
	(34,467)	**83,227**	41,790	111,547
Turnover	**725,119**	**248,748**	427,080	416,431
Profit/(Loss) before tax	**(87,258)**	**12,259**	(29,813)	33,819
Tax	**(258)**	**(2,680)**	(494)	(7,134)
Profit/(Loss) after tax	**(87,516)**	**9,579**	(30,307)	26,685
Minority interests' share of profits and losses	**–**	**10**	–	(299)
Profit/(Loss) attributable to shareholders	**(87,516)**	**9,589**	(30,307)	26,386
Group's proportionate share of profits and losses after tax for the year	**(29,526)**	**3,486**	(10,838)	12,316

Loss after tax of the agri-business in PRC included a write-off of irrecoverable input value-added-tax of approximately US$45,000,000 of a 50% jointly controlled entity (Group's share: US$22,500,000).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

22. INTERESTS IN ASSOCIATES

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	*US$'000*	***US$'000***	*US$'000*
Unlisted investments:				
At cost	**–**	–	**15,000**	15,000
Share of net assets	**10,881**	9,308	**–**	–
Provision for non-recovery	**–**	–	**(15,000)**	(15,000)
	10,881	9,308	**–**	–
Amounts due from associates	**15,045**	15,128	**14,773**	14,773
Amounts due to associates	**(120)**	–	**–**	–
Provision for non-recovery	**–**	–	**(14,773)**	(14,773)
	25,806	24,436	**–**	–

The amounts due from and to associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the associates are presented on page 115 of the financial statements.

The Group's interests in associates are joint ventures established in the PRC. Details of the factors affecting the distribution of earnings from these associates are set out in note 37 to the financial statements.

Under the terms of the joint venture agreements, the Group is entitled to receive its attributable share of the net assets upon liquidation of the joint venture companies.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

22. INTERESTS IN ASSOCIATES (continued)

The following summaries of financial information, prepared on a combined 100% basis, present the combined financial position and results of operations of all associates involved in the agri-business as at the balance sheet date, accounted for by the Group using the equity method, for the years ended 31st December, 2004 and 2003:

	Agri-business in PRC	
	2004	2003
	US$'000	US$'000
Fixed assets	**17,672**	25,541
Long term investments	**6,527**	5,975
Long term receivables and other assets	**1,105**	1,366
Current assets	**35,590**	33,335
Creditors: Amounts falling due within one year	**(9,756)**	(18,477)
Net current assets	**25,834**	14,858
	51,138	47,740
Shareholders' funds	**50,303**	47,740
Minority interests	**835**	–
	51,138	47,740
Turnover	**129,909**	113,524
Profit/(Loss) before tax	**3,711**	(3,116)
Tax	**(1,294)**	–
Profit/(Loss) after tax	**2,417**	(3,116)
Minority interests' share of losses	**730**	224
Profit/(Loss) attributable to shareholders	**3,147**	(2,892)
Group's proportionate share of profits and losses after tax for the year	**1,573**	(1,446)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

23. LONG TERM INVESTMENTS

	GROUP	
	2004	2003
	US$'000	US$'000
Listed investment, at market value	524	520
Unlisted investments, at fair value	1,054	1,054
	1,578	1,574

24. GOODWILL AND NEGATIVE GOODWILL

Goodwill:

	GROUP	
	2004	2003
	US$'000	US$'000
At 1st January, net of accumulated amortisation	2,820	3,690
Additions arising from additional interests in subsidiaries acquired during the year	6,887	1,210
Impairment provided/amount amortised during the year	(7,004)	(2,080)
At 31st December	2,703	2,820

The directors decided to early adopt the provisions of IFRS 3. As at 1st January, 2004, goodwill was no longer amortised and was annually tested for impairment.

Negative goodwill:

As further explained in note 3 to the financial statements, upon the adoption of IFRS 3 during the year, negative goodwill of US$8,884,000, existing at the beginning of 1st January, 2004 was derecognised by way of an adjustment to opening accumulated losses.

Goodwill acquired through business combination has been allocated to feedmill and poultry operations. The recoverable amount has been determined based on a value in use calculation and the cash flow projections are based on financial budgets approved by senior management covering a five-year period.

The key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill are:

- Budgeted gross margin- the basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the year immediately before the budgeted year.

- Raw material price inflation- the basis used to determine the value assigned to the raw materials price inflation is the forecast price indices during the budgeted year where raw materials are sourced.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

25. DEFERRED TAX

Deferred tax assets

	GROUP	
	2004	2003
	US$'000	*US$'000*
At beginning of year	**2,524**	862
Charges/(Credit) for the year (*note 14*):		
Decelerated depreciation for tax purposes	**(6)**	682
Losses available for offset against future taxable profit	**(749)**	1,805
Deferred tax charge resulting from origination of retirement benefits liability	**–**	811
Other temporary differences	**503**	143
	(252)	3,441
Exchange realignment	**–**	128
Upon disposal of a subsidiary	**–**	(1,907)
At end of year	**2,272**	2,524

At the balance sheet date, the deferred tax assets represented the tax effect of temporary differences on the following items:

	GROUP	
	2004	2003
	US$'000	*US$'000*
Decelerated depreciation for tax purposes	**538**	544
Losses available for offset against future taxable profit	**1,056**	1,805
Other temporary differences	**678**	175
	2,272	2,524

Deferred tax liabilities

Deferred tax has not been provided on the revaluation of the Group's investment properties because, in the opinion of the directors, the disposal of such properties would not result in a tax liability.

At the balance sheet date, the Group had unused tax losses amounting to US$209,311,000 (2003: US$163,000,000) for which a deferred tax asset has not been recognised, as it is not considered probable that taxable profits will be available against which the unused tax assets and unused tax losses can be utilised. The unused tax losses are due to expire within two to five years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

26. SHORT TERM INVESTMENTS

	GROUP	
	2004	2003
	US$'000	US$'000
Overseas listed investments, at market value	–	11,290

27. CURRENT LIVESTOCK

	GROUP	
	2004	2003
	US$'000	US$'000
Breeder chicks	7,521	10,995
Hatchable eggs	2,807	2,216
Day-old chicks	3,606	3,029
	13,934	16,240
Provision for impairment	(794)	(849)
	13,140	15,391

Due to the generally short breeding and raising cycle of the chicks and because an active market does not exist, these livestock are classified as current assets and stated at cost less impairment and a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current financial year is not presented.

28. INVENTORIES

	GROUP	
	2004	2003
	US$'000	US$'000
Raw materials	97,266	105,368
Work in progress	12,856	8,582
Finished goods	50,943	47,157
	161,065	161,107
Provision against inventories	(6,735)	(5,924)
	154,330	155,183

The carrying amount of inventories included in the above that were carried at net realisable value as at the balance sheet date was US$33,940,000 (2003: US$28,989,000).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

29. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND DEPOSITS

The Group normally grants a credit policy of up to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. An aged analysis of the accounts receivable, other receivables and deposits of the Group is as follows:

	GROUP	
	2004	2003
	US$'000	*US$'000*
Less than 90 days	**22,826**	24,334
91 to 180 days	**936**	1,537
181 to 360 days	**1,449**	398
Over 360 days	**4,761**	8,819
	29,972	35,088
Other receivables and deposits	**38,750**	96,042
	68,722	131,130
Provision for bad and doubtful debts	**(10,411)**	(14,667)
	58,311	116,463

30. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The amounts due from and to related companies are unsecured and have no fixed terms of repayment and arose, in the opinion of the directors, in the normal course of the Group's business activities.

31. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	*US$'000*	***US$'000***	*US$'000*
Time deposits	**1,188**	1,121	**1,188**	1,195
Cash and bank balances	**82,869**	67,314	**9,791**	11,810
	84,057	68,435	**10,979**	13,005
Less:				
Cash held in escrow accounts*	**(9,688)**	(11,675)	**(9,688)**	(11,675)
	74,369	56,760	**1,291**	1,330

* The purpose of setting up the escrow accounts is to settle further claims on the Company, if any, on debts guaranteed by the Company to its subsidiaries in the PRC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

32. ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUED EXPENSES

An aged analysis of the accounts payable, other payables and accrued expenses of the Group is as follows:

	GROUP	
	2004	2003
	US$'000	*US$'000*
Less than 90 days	**92,189**	94,444
91 to 180 days	**6,329**	7,421
181 to 360 days	**4,530**	3,404
Over 360 days	**1,863**	2,839
	104,911	108,108
Other payables and accrued expenses	**91,546**	85,714
	196,457	193,822

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

33. INTEREST-BEARING BANK LOANS AND OTHER LOANS

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Bank loans:				
Secured	**174,954**	192,717	**–**	–
Unsecured	**275,447**	269,856	**68,525**	47,205
	450,401	462,573	**68,525**	47,205
Short term other loans, unsecured	**4,333**	1,323	**4,126**	–
Floating rate notes, unsecured	**99,202**	159,101	**99,202**	102,370
	553,936	622,997	**171,853**	149,575
Amounts falling due within one year classified as current liabilities:				
Bank loans:				
Secured	**(172,544)**	(189,584)	**(68,525)**	–
Unsecured	**(250,517)**	(210,245)	**–**	(17,348)
Short term other loans	**(4,333)**	(1,323)	**(4,126)**	–
Floating rate notes	**(99,202)**	(58,470)	**(99,202)**	(37,622)
	(526,596)	(459,622)	**(171,853)**	(54,970)
Amounts falling due after one year	**27,340**	163,375	**–**	94,605
Bank loans and other loans repayable within a period:				
Not exceeding one year or on demand	**526,596**	459,622	**171,853**	54,970
Of more than one year, but not exceeding two years	**14,920**	154,168	**–**	94,605
Of more than two years, but not exceeding five years	**12,420**	9,207	**–**	–
	553,936	622,997	**171,853**	149,575

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

33. INTEREST-BEARING BANK LOANS AND OTHER LOANS (continued)

Certain of the Group's fixed assets located in the PRC with net book values of US$249,968,000 (2003: US$242,226,000) have been pledged as security for various short and long term bank loans.

Interest on the Group's bank loans is payable at various rates ranging from 2.2% to 7.4% (2003: 1.3% to 7.1%) per annum.

On 28th February, 2001, the Company entered into the formal Group restructuring agreement (the "Agreement") with its lending banks. On 29th March, 2001, a meeting was held by the holders of the floating rate notes and resolved to acknowledge the restructuring. Certain amendments were subsequently made to the Agreement on 23rd October, 2001 relating to an extension of the period of the restructuring by 12 months to 31st December, 2003. On 29th October, 2003, the Group further agreed with the Lenders to extend the debt restructuring schedule to 31st December, 2004. On 14th January, 2005, the Lenders agreed to a Third Amendment Agreement that the repayments of the bank loans and floating rate notes would be extended to 30th April, 2005. Accordingly, the Group's borrowings, including bank loans and floating rate notes were reclassified in accordance with the terms.

34. SHARE CAPITAL

Shares

	2004	2003
	US$'000	*US$'000*
Authorised:		
3,000,000,000 ordinary shares of US$0.05 each	**150,000**	150,000
Issued and fully paid:		
2,158,480,786 ordinary shares of US$0.05 each	**107,924**	107,924

No repurchase of shares was made by the Company during the year or subsequent to the balance sheet date.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

34. SHARE CAPITAL (continued)

Subsequent to the balance sheet, on 2nd March, 2005, the directors proposed that the share capital of the Company be reorganised in the following manner:

(i) the paid-up capital and nominal value of each issued share be reduced from US$0.05 to US$0.01 by cancelling paid-up capital to the extent of US$0.04 on each issued share (and the necessary amendment(s) be made to the bye-laws of the Company);

(ii) the authorised but unissued shares be cancelled and the authorised share capital of the Company be increased to the original level by the creation of the requisite number of shares of nominal value US$0.01 each in the share capital of the Company upon the capital reorganisation and becoming effective; and

(iii) the credit of approximately US$86,339,000 (based on the 2,158,480,786 shares in issue) or US$104,775,000 (based on the 2,619,376,942 shares in issue assuming the subscription rights attaching to all the outstanding share options are exercised before the capital reorganisation becomes effective) arising from the capital reduction will be applied to the contributed surplus account of the Company, where it may be utilised by the directors in accordance with the bye-laws of the Company and all applicable laws, including to eliminate the accumulated losses of the Company.

As mentioned in note 1 to the financial statements, the Company proposed to raise new equity by way of the subscription, under which the subscription shares will be issued at HK$0.32 per subscription shares. Under the Companies Act of Bermuda, it is not possible for the Company to issue the subscription shares at a price below the par value per share which stands at US$0.05 (approximately HK$0.39). The implementation of the capital reorganisation will allow the Company, immediately following the capital reorganisation becoming effective, to proceed with the subscription upon the terms proposed.

The implementation of the capital reorganisation is conditional upon, among other things:

(i) the passing of a special resolution to approve the capital reorganisation by the shareholders at the special general meeting;

(ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the shares of nominal value of US$0.01 each; and

(iii) the proper compliance with section 46 of the Companies Act of Bermuda in relation to the capital reduction, including the publication of a notice in relation to the capital reduction in Bermuda and a certificate being signed by a director confirming that on the date as from which the capital reduction is to have effect, there are no reasonable grounds for believing that the Company is, and after the capital reduction, would be, unable to pay its liabilities as and when they fall due.

The proposed capital reorganisation is expected to be finalised in April 2005.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

34. SHARE CAPITAL (continued)

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, senior executives and employees of the Group. The Scheme became effective since 10th April, 1992. During the year, the Company further approved 194,848,078 shares on 3rd May, 2004. Options granted under the Scheme can be exercised at any time during a period not exceeding ten years commencing from the date the option was adopted and expiring on the last day of such period or ten years from the date of grant.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer and (iii) the nominal value of the share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

34. SHARE CAPITAL (continued)

Share option scheme (continued)

The following share options were outstanding under the existing Scheme during the year:

Name or category of participant	At 1st January, 2004	Number of share options Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31st December, 2004	Date of grant	Exercise period	Exercise price HK$	Price of Company's shares at the date of grant HK$
Directors										
Dhanin Chearavanont	12,800,000	–	–	–	–	12,800,000	26th February, 2003	26th February, 2003 to 25th February, 2013	0.39	0.315
		12,800,000	–	–	–	12,800,000	3rd May, 2004	3rd May, 2004 to 2nd May, 2014	0.39	0.162
Sumet Jiaravanon	12,800,000	–	–	–	–	12,800,000	26th February, 2003	26th February, 2003 to 25th February, 2013	0.39	0.315
		12,800,000	–	–	–	12,800,000	3rd May, 2004	3rd May, 2004 to 2nd May, 2014	0.39	0.162
Prasert Poongkumarn	21,584,807	–	–	–	–	21,584,807	26th February, 2003	26th February, 2003 to 25th February 2013	0.39	0.315
	18,479,248	–	–	(18,479,248)	–	–	20th May, 1994	20th May, 1994 to 20th May, 2004	1.752	2.19
		20,000,000	–	–	–	20,000,000	3rd May, 2004	3rd May, 2004 to 2nd May, 2014	0.39	0.162
Min Tieanworn	21,584,807	–	–	–	–	21,584,807	26th February, 2003	26th February, 2003 to 25th February, 2013	0.39	0.315
		20,000,000	–	–	–	20,000,000	3rd May, 2004	3rd May, 2004 to 2nd May, 2014	0.39	0.162

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

34. SHARE CAPITAL (continued)

Share option scheme (continued)

The following share options were outstanding under the existing Scheme during the year: (continued)

Name or category of participant	At 1st January, 2004	Number of share options Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31st December, 2004	Date of grant	Exercise period	Exercise price HK$	Price of Company's shares at the date of grant HK$
Directors (continued)										
Thirayut Phitya-Isarakul	25,000,000	–	–	–	–	25,000,000	10th August, 1998	10th August, 1998 to 10th August, 2008	0.3875	0.3875
	21,584,807	–	–	–	–	21,584,807	26th February, 2003	26th February, 2003 to 25th February, 2013	0.39	0.315
		20,000,000	–	–	–	20,000,000	3rd May, 2004	3rd May, 2004 to 2nd May, 2014	0.39	0.162
Thanakorn Seriburi	17,500,000	–	–	–	–	17,500,000	10th August, 1998	10th August, 1998 to 10th August, 2008	0.3875	0.3875
	21,584,807	–	–	–	–	21,584,807	26th February, 2003	26th February, 2003 to 25th February, 2013	0.39	0.315
		20,000,000	–	–	–	20,000,000	3rd May, 2004	3rd May, 2004 to 2nd May, 2014	0.39	0.162
Veeravat Kanchanadul	21,584,807	–	–	–	–	21,584,807	26th February, 2003	26th February, 2003 to 25th February, 2013	0.39	0.315
		20,000,000	–	–	–	20,000,000	3rd May, 2004	3rd May, 2004 to 2nd May, 2014	0.39	0.162
Other senior executives in aggregate	82,324,043	–	–	–	–	82,324,043	26th February, 2003	26th February, 2003 to 25th February, 2013	0.39	0.315
		69,248,078	–	–	–	69,248,078	3rd May, 2004	3rd May, 2004 to 2nd May, 2014	0.39	0.162
Other employees in aggregate	7,700,000	–	–	–	–	7,700,000	10th August, 1998	10th August, 1998 to 10th August, 2008	0.3875	0.3875
	284,527,326	194,848,078	–	(18,479,248)	–	460,896,156				

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

34. SHARE CAPITAL (continued)

Share option scheme (continued)

The Company's executive share options outstanding as at the balance sheet date were as follows:

Expiry date	Exercise price *HK$*	Number of shares issuable under the executive share options
10th August, 2008	0.3875	50,200,000
25th February, 2013	0.39	215,848,078
2nd May, 2014	0.39	194,848,078
		460,896,156

As at the balance sheet date, the Company had 460,896,156 share options outstanding under the Scheme which represented approximately 21.4% of the Company's shares in issue as at that date. The exercise in full of such options would, under the present capital structure of the Company, result in the issue of 460,896,156 additional ordinary shares and cash proceeds to the Company of approximately HK$179,624,000 (US$23,028,718) before the related issue expenses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

35. RESERVES

GROUP

	Contributed surplus	Fixed asset revaluation reserve	General reserve	Capital reserve	Reserve fund	Expansion fund	Exchange equalisation reserve	Accumulated losses	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1st January, 2003	6,093	9,347	(1,783)	36,912	22,766	13,727	(44,947)	(49,650)	(7,535)
Exchange realignment	–	1,539	(212)	891	–	–	(2,683)	–	(465)
Deficit on revaluation	–	(717)	–	–	–	–	–	–	(717)
Release upon disposal of a subsidiary *(note 38 (b))*	–	4,211	–	(7,442)	–	–	15,946	–	12,715
Transfer to retained earnings upon disposal of a subsidiary	–	(10,884)	1,744	–	–	–	–	9,140	–
Transfers from/(to) the profit and loss account	–	–	251	–	1,283	914	–	(2,448)	–
Loss for the year	–	–	–	–	–	–	–	(62,758)	(62,758)
At 31st December, 2003 and 1st January, 2004	6,093	3,496	-	30,361	24,049	14,641	(31,684)	(105,716)	(58,760)
Exchange realignment	–	–	–	–	–	–	(9)	–	(9)
Surplus on revaluation	–	3,551	–	–	–	–	–	–	3,551
Release upon disposals of subsidiaries *(note 38 (b))*	–	–	–	–	–	–	633	–	633
Release upon disposal of a jointly controlled entity	–	–	–	–	(4,167)	(5,438)	9,706	–	101
Transfers from/(to) the profit and loss account	–	–	–	–	788	134	–	(922)	–
Effect of adopting IFRS 3	–	–	–	–	–	–	–	8,884	8,884
Loss for the year	–	–	–	–	–	–	–	(62,386)	(62,386)
At 31st December, 2004	6,093	7,047	–	30,361	20,670	9,337	(21,354)	(160,140)	(107,986)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

35. RESERVES (continued)

COMPANY

	Share premium account US$'000	Contributed surplus US$'000	Accumulated losses US$'000	Total US$'000
At 1st January, 2003	51,210	6,093	(13,843)	43,460
Loss for the year	–	–	(52,653)	(52,653)
At 31st December, 2003 and 1st January, 2004	51,210	6,093	(66,496)	(9,193)
Loss for the year	–	–	(48,175)	(48,175)
At 31st December, 2004	51,210	6,093	(114,671)	(57,368)

The contributed surplus originally represented the excess of the fair value of the share of net assets of subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain prescribed circumstances.

The general reserve represents a reserve transferred from unappropriated profits in a subsidiary. The nature of the expansion and reserve funds are set out in note 36 below.

The capital reserve mainly represents gains arising from the deemed disposal of a subsidiary and an associate in previous years. The prior year's movement was related to the disposal of the Group's Turkish subsidiary.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

36. ACCUMULATED LOSSES

	GROUP	
	2004	2003
	US$'000	*US$'000*
Retained in:		
Company	**(114,671)**	(66,496)
Reversals of provisions for impairment losses of investments in subsidiaries and an associate	**88,400**	54,059
	(26,271)	(12,437)
Subsidiaries	**(66,748)**	(51,039)
Jointly controlled entities	**(78,455)**	(52,001)
Associates	**11,334**	9,761
	(160,140)	(105,716)

A significant number of the Group's interests in subsidiaries, jointly controlled entities and associates are Sino-foreign joint venture enterprises. Pursuant to the relevant PRC laws and regulations for Sino-foreign joint venture enterprises, the profits of the Group's joint venture companies operating in the PRC are available for distribution in the form of cash dividends to each of the joint venture partners after the joint venture company: (1) satisfies all tax liabilities; (2) provides for losses in previous years; and (3) makes appropriations to the three statutory reserves. These appropriations include the individual entity's reserve fund, expansion fund and funds for staff bonuses and welfare benefits. All foreign-owned and Sino-foreign enterprises are generally required to appropriate not less than 10% of their net profit after tax to the reserve fund, until the balance of the fund reaches 50% of the registered capital. Appropriations of the expansion fund and funds for staff bonuses and welfare benefits are determined at the sole discretion of the board of directors. On consolidation of the results of subsidiaries and equity accounting for the results of the jointly controlled entities and associates, amounts designated as staff bonuses and welfare benefits have been charged to income before arriving at a net profit in accordance with IAS.

The profit distributions of the PRC joint venture companies are declared and paid in Renminbi ("RMB"). In certain circumstances, if the joint venture has foreign currencies available after meeting its operational needs, the foreign investor in the joint venture may access such foreign currencies for profit distribution. Otherwise, such distributions to the Group outside the PRC have to be converted into foreign currencies through an approved exchange centre, successful arrangement of import substitutions, compensation trade or other means approved by the relevant authorities. Further details on distributions of RMB earnings are set out in note 37 below.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

37. FOREIGN CURRENCY EXCHANGE

RMB is not freely convertible into foreign currencies. All foreign exchange transactions are conducted at the exchange rates quoted by the People's Bank of China. Payments for imported materials and the remittance of earnings outside the PRC are subject to the availability of foreign currencies, which are dependent on the foreign currency denominated earnings of the joint ventures.

The products of the Company's subsidiaries, jointly controlled entities and associates operating in the PRC are sold primarily in RMB. Revenues and profits are thus predominantly denominated in RMB. For certain subsidiaries, jointly controlled entities and associates, funds denominated in RMB may have to be, and from time to time are, converted into United States dollars or other foreign currencies for the purchase of imported materials.

In addition, to the extent that foreign currencies are not sufficient to pay distributions, the Group's share of distributions from the PRC subsidiaries, jointly controlled entities and associates have to be converted into foreign currencies through the exchange centre at the prevailing rates. The companies are not normally able to hedge their foreign exchange exposure because neither the Bank of China, nor other financial institutions authorised to engage in foreign exchange transactions in the PRC offer forward exchange contracts.

Should the RMB devalue against the United States dollar, it may reduce the foreign currency equivalent of such earnings available for distribution by these subsidiaries, jointly controlled entities and associates of the Company.

At 31st December, 2004, the exchange rate quoted by the People's Bank of China was approximately US$1.00 = RMB8.28 (2003: US$1.00 = RMB8.28).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

38. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT

(a) Acquisition of subsidiaries

	2004 US$'000	2003 US$'000
Net assets acquired:		
Fixed assets	6,939	–
Long term investments	5	–
Interest in jointly controlled entities	(4,110)	–
Inventories	1,741	–
Accounts receivable, other receivables and deposits	205	–
Amounts due from related companies	456	–
Cash and bank balances	807	–
Accounts payable, other payables and accrued expenses	(1,294)	–
Amounts due to related companies	(4,657)	–
Interest-bearing bank loans	(6,978)	–
	(6,886)	–
Goodwill arising from acquisition	6,887	–
	1	–
Satisfied by:		
Cash	1	–

An analysis of net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004 US$'000	2003 US$'000
Cash consideration	1	–
Cash and bank balances acquired	(807)	–
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(806)	–

From the date of acquisitions, the subsidiaries contributed US$1,420,000 profit to the Group. If the combination had taken place at the beginning of the year, the profits for the Group would have been US$7,812,000 and the revenue from continuing operations would have been US$34,492,000.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

38. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT (continued)

(b) Disposals of subsidiaries

	Notes	2004 US$'000	2003 US$'000
Net assets disposed of:			
Fixed assets	17	**17,612**	16,894
Non-current livestock		**–**	11,592
Deferred tax assets		**–**	1,907
Inventories		**6,763**	18,248
Accounts receivable, other receivable and deposits		**6,817**	15,547
Amounts due from related companies		**31,636**	18
Bills receivable		**215**	–
Cash and bank balances		**4,259**	2,107
Fixed deposits		**–**	6,421
Accounts payable, other payables and accrued expenses		**(21,587)**	(22,483)
Amount due to a related company		**(29,275)**	–
Bills payable		**(145)**	–
Interest-bearing bank loans and other loans		**(24,235)**	(15,141)
Minority interests		**–**	(7,412)
		(7,940)	27,698
Release of reserves upon disposal	35	**633**	12,715
Transfer to interests in jointly controlled entities		**3,633**	–
Gain/(Loss) on disposal of a subsidiary recorded in the profit and loss account	7, 12	**4,574**	(18,413)
		900	22,000
Satisfied by:			
Cash		**900**	22,000

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

38. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT (continued)

(b) Disposals of subsidiaries (continued)

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposals of subsidiaries is as follows:

	2004 US$'000	2003 US$'000
Cash consideration	**900**	22,000
Cash and bank balances, disposed of	**(4,259)**	(8,528)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposals of subsidiaries	**(3,359)**	13,472

39. COMMITMENTS

As at the balance sheet date, the Group had the following commitments:

(i) Capital expenditure authorised, but not provided for in the financial statements, was as follows:

(a)

	GROUP		COMPANY	
	2004 US$'000	2003 US$'000	2004 US$'000	2003 US$'000
Unpaid capital contributions to certain:				
Subsidiaries	**16,807**	16,836	–	–
Jointly controlled entities	–	–	–	–
	16,807	16,836	–	–
Machinery and equipment:				
Contracted for	**6,042**	7,282	–	–
Not contracted for	**1,634**	8,320	–	–
	7,676	15,602	–	–

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

39. COMMITMENTS (continued)

(i) Capital expenditure authorised, but not provided for in the financial statements, was as follows (continued):

(b) The Group's share of capital commitments of the jointly controlled entities was as follows:

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Contracted for	**14**	22	**–**	–
Not contracted for	**–**	59	**–**	–
	14	81	**–**	–

(ii) Operating lease arrangements – as lessee

(a) As at 31st December, 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases as follows:

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Land and buildings:				
Within one year	**1,794**	1,867	**–**	–
In the second to fifth years, inclusive	**5,988**	4,948	**–**	–
Beyond five years	**16,626**	15,563	**–**	–
	24,408	22,378	**–**	–
Plant and machinery:				
Within one year	**431**	444	**–**	–
In the second to fifth years, inclusive	**1,545**	1,738	**–**	–
Beyond five years	**598**	814	**–**	–
	2,574	2,996	**–**	–

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

39. COMMITMENTS (continued)

(ii) Operating lease arrangements – as lessee (continued)

(b) The Group's share of operating lease commitments of the jointly controlled entities was as follows:

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Land and buildings:				
Within one year	**217**	307	**–**	–
In the second to fifth years, inclusive	**565**	1,189	**–**	–
Beyond five years	**2,685**	7,065	**–**	–
	3,467	8,561	**–**	–
Plant and machinery:				
Within one year	**31**	31	**–**	–
In the second to fifth years, inclusive	**125**	125	**–**	–
Beyond five years	**799**	801	**–**	–
	955	957	**–**	–

(iii) Operating lease arrangement – as lessor

As at 31st December, 2004, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases as follows:

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	US$'000	**US$'000**	US$'000
Land and buildings:				
Within one year	**261**	171	**–**	–
In the second to fifth years, inclusive	**851**	953	**–**	–
Beyond five years	**493**	652	**–**	–
	1,605	1,776	**–**	–
Plant and machinery:				
Within one year	**457**	457	**–**	–
In the second to fifth years, inclusive	**1,181**	1,639	**–**	–
	1,638	2,096	**–**	–

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

40. CONTINGENT LIABILITIES

(i) Contingent liabilities in respect of guarantees at the balance sheet date not provided for in the financial statements were as follows:

	GROUP		COMPANY	
	2004	2003	**2004**	2003
	US$'000	*US$'000*	***US$'000***	*US$'000*
Guarantees given to banks in connection with facilities granted to:				
Jointly controlled entities	**11,954**	5,000	**–**	–
Related companies*	**1,687**	5,458	**–**	5,458
In respect of guarantees given to third parties and discounted bills of exchange	**791**	2,651	**–**	–
	14,432	13,109	**–**	5,458

* The prior year's amount was related to a guarantee given by the Company to the bank of a subsidiary of a related party.

(ii) One of the Group's associates (the "Associate") is being investigated by the Hong Kong Inland Revenue Department (the "IRD") regarding the prior years tax computations of certain of its subsidiaries (the "Subsidiaries"). The IRD has requested further information and explanations from the Subsidiaries. As at the date of signing the financial statements, the IRD has not issued any final assessments and there will be a court hearing for the case in May 2005.

The management of the Associate strongly believes that the prior years tax computations of these Subsidiaries were prepared on a proper basis. Accordingly, no additional provision has been recorded in the financial statements of the Associate. However, should the IRD's final assessments or the court hearing in May 2005 be against the Subsidiaries and should the Subsidiaries be required to pay the additional tax, the directors of the Company, based on current information, believe that the amount of the Group's share of the additional tax ultimately payable, would be immaterial to the Group.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

41. RELATED PARTY TRANSACTIONS

(a) A portion of the Group's sales and purchase transactions, together with certain less significant commercial transactions, are with companies in which Messrs. Jaran Chiaravanont, Montri Jiaravanont, Dhanin Chearavanont, Sumet Jiaravanon, Min Tieanworn, Prasert Poongkumarn, Thirayut Phitya-Isarakul, Thanakorn Seriburi and Veeravat Kanchanadul, directors of the Company, have beneficial interests. Details of the major related party transactions in addition to the transactions and balances detailed elsewhere in the financial statements are set out as follows:

		GROUP	
		2004	2003
	Notes	***US$'000***	*US$'000*
Sales of goods to jointly controlled entities and associates	(i)	**16,930**	20,210
Sales of goods to related companies	(i)	**58,852**	53,593
Sales of plant and machineries to a related company	(ii)	**–**	121
Purchases of raw materials from jointly controlled entities and associates	(iii)	**26,923**	20,288
Purchases of raw materials from related companies	(iii)	**19,104**	17,148

Notes:

(i) The sales of goods were made by reference to the published prices and conditions offered to the major customers of the Group, except that a longer credit period was normally granted.

(ii) The plant and machineries were sold at agreed prices as determined between parties.

(iii) The purchases of raw materials were made by reference to the published prices and conditions offered to the major customers of the suppliers, except that a longer credit period was normally granted.

(b) During the year, the Company paid an advisory fee of US$100,000 (2003: US$100,000) to Charoen Pokphand Group Company Limited for the provision of technical and management support services to the Group. The advisory fee was determined by reference to the agreed service fees between the parties.

Messrs. Jaran Chiaravanont, Montri Jiaravanont, Dhanin Chearavanont, Sumet Jiaravanon, Prasert Poongkumarn, Min Tieanworn, Thirayut Phitya-Isarakul, Thanakorn Seriburi and Veeravat Kanchanadul, directors of the Company, have beneficial interests in the share capital of Charoen Pokphand Group Company Limited.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

41. RELATED PARTY TRANSACTIONS (continued)

(c) During the year, Hainan Chia Tai Animal Husbandry Co. Ltd., a wholly-owned subsidiary of the Company, received rental income of approximately US$610,000 from a related party, C.P. Aquaculture (Hainan) Co. Ltd.

(d) During the year, Everwell Developments Limited and Causeway Developments Limited, both of which are indirect wholly-owned subsidiaries of the Company, disposed of all their respective interests in P.T. Surya Hidup Satwa and P.T. Central Proteinaprima, both of which are listed on the Jakarta Stock Exchange, for a total consideration of US$4,800,000. Mr. Sumet Jiaravanon, an executive director, has substantial shareholdings in each of P.T. Surya Hidup Satwa and P.T. Central Proteinaprima.

(e) On 16th December, 2004, Chia Tai (China) Agro-Industrial Ltd., a wholly-owned subsidiary of the Company, entered into a share purchase and sales agreement with a related party, Great Splendid Investments Limited, to purchase its entire 100% interest in Chia Tai Livestock Company Limited for a total consideration of US$50. Further details are set out in note 38(a) to the financial statements.

42. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group is exposed to market risk including, primarily, changes in interest rates and currency exchange rates in connection with its risk management activities. The Group does not hold or issue derivative financial instruments for trading purposes.

(a) Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's debt obligations. The Group does not use derivative financial instruments to hedge its debt obligations.

(b) Concentrations of credit risk

The Group places its cash deposits with major international banks and financial institutions. This investment policy limits the Group's exposure to concentrations of credit risk.

A significant portion of the Group's sales are to customers in the agricultural industry and, as such, the Group is directly affected by the well-being of that industry. However, the credit risk associated with trade receivables is considered relatively minimal due to the Group's large customer base and its geographical dispersion. The Group performs ongoing credit evaluations of its customers' financial conditions and, generally, requires no collateral from its customers. The allowance for doubtful accounts is based upon the expected collectability of all accounts receivable.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

42. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(b) *Concentrations of credit risk (continued)*

For the industrial sector, the majority of cash from sales was maintained with state-owned banks and their subsidiaries in the Mainland China, with a small amount being placed with a local branch of a foreign bank. The jointly controlled entities market their products principally to related parties and independent distributors in the Mainland China.

(c) *Fair value of financial instruments*

(i) Cash and cash equivalents, accounts and bills receivable, and accounts and bills payable

Cash on hand and in banks and short term deposits which are held to maturity are carried at cost because assets either carry a current rate of interest, or have a short period of time between the origination of cash deposits and their expected maturity.

Accounts receivable, which generally have 30-day terms, are recognised and carried at original invoice amount less allowances for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Liabilities for accounts and other amounts payable which are normally settled on 90-day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

The carrying amounts of bills receivable and payable are carried at their fair values because of the immediate or short term maturity of these financial instruments.

(ii) Amounts due from/(to) related companies

Receivables from and payables to related companies are recognised and carried at cost.

(iii) Bank loans

The carrying amounts of bank loans approximate their fair values, based on the borrowing rates currently available for bank loans with similar terms and average maturity.

(iv) Floating rate notes

The carrying amounts of the floating rate notes approximate their fair values, based on current interest rates and remaining maturity.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31st December, 2004

43. FINANCIAL RISK MANAGEMENT STRATEGIES RELATING TO LIVESTOCK

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling price of progeny pigs and chicks and related products, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases. The Group has little or no control over these conditions and factors.

The Group is subject to risks affecting the frozen food industry, generally, including risks posed by food spoilage and contamination. Specifically, the meat industry is regulated by numerous environmental, health and food safety organisations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks.

The Group is subject to risks relating to its ability to maintain animal health status. Livestock health problems could adversely impact production and consumer confidence. The Group monitors the health of its livestock on a daily basis and have procedures in place to reduce potential exposure to infectious diseases. Although policies and procedures have been put into place, there is no guarantee that the Group will not be affected by disease epidemics.

The livestock industry is exposed to risks associated with the supply and price of raw materials. The shortage in the supply of raw materials will result in adverse fluctuations in the price of feeds and will ultimately increase the Group's production costs.

44. SUBSEQUENT EVENTS

On 2nd March, 2005, the Company announced its proposed capital reorganisation and the proposed issue of the subscription shares in relation to the debt restructuring. Further details are included in notes 1 and 34 to the financial statement, and in the public announcement dated 2nd March, 2005.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30th March, 2005.